

2016

Business and Financial
REPORT



2016

Business and Financial
R E P O R T

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MANAGEMENT'S DISCUSSION & ANALYSIS

APPENDIX 2

CONSOLIDATED FINANCIAL STATEMENTS – DECEMBER 31, 2016

A grayscale photograph of three workers in safety gear (hard hats, safety glasses, and heavy jackets) inspecting a large, cylindrical industrial component. The workers are positioned around the component, which has several circular openings. The background shows an industrial setting with various structures and equipment.

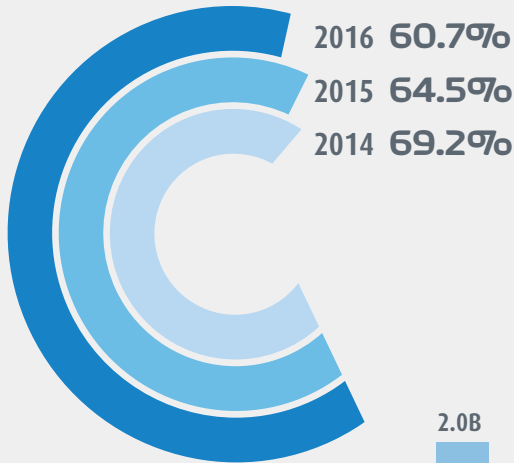
Nalcor Energy is a proud, diverse energy company focused on the sustainable development of Newfoundland and Labrador's energy resources.



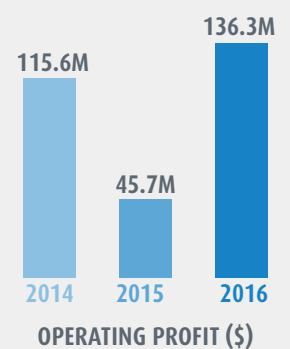
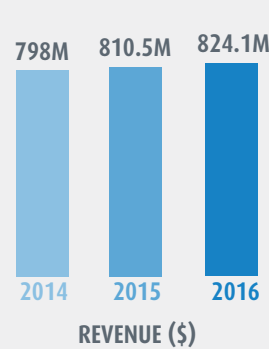
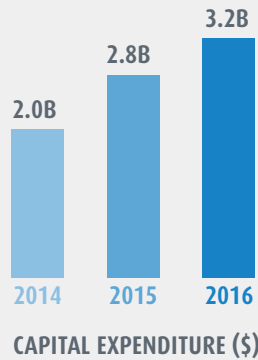
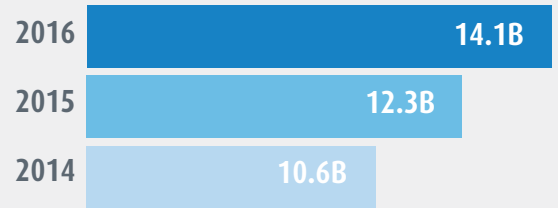
2016 ACHIEVEMENTS

FINANCIAL HIGHLIGHTS

DEBT-TO-CAPITAL



TOTAL ASSETS (\$)



SAFETY

Achieved all corporate safety metrics



- All-injury frequency rate
- Lost-time injury frequency rate
- Lead / lag ratio

15% reduction in recordable injuries over previous year

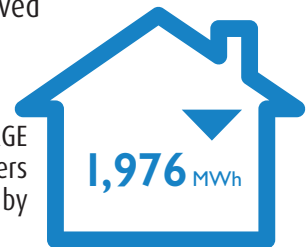
ZERO lost-time injuries maintained in several areas

ENVIRONMENT



of environmental targets achieved

Hydro's activities in the takeCHARGE programs helped its customers reduce electricity use by



COMMUNITY

Nalcor supported more than 40 organizations throughout Newfoundland and Labrador.



HYDRO



COMPLETED

MORE THAN

200

PROJECTS

AND

3,300

KEY ACTIONS

to help ensure the winter readiness of our electricity infrastructure



Over \$85M of overall capital spending in 2016 focused on modernizing transmission line infrastructure



The first year of a five-year breaker replacement program across the province started in 2016



In October 2016, Hydro started extensive rehabilitation work to modernize the dam at the hydroelectric plant in Grand Falls-Windsor



New mobile and web-based platform, myHydro, was launched. Customers can now access their accounts anytime, anywhere, and on any device

OIL & GAS



Since 2011, over **145,000** line kilometres of NEW 2-D multi-client data acquired.

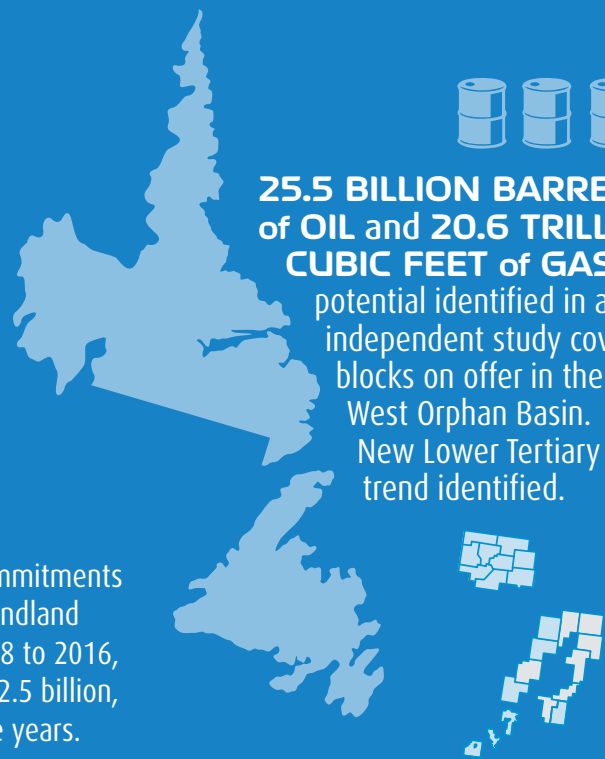


Over \$5 billion in total work commitments have been made in the Newfoundland and Labrador offshore from 1988 to 2016, approximately 50 per cent, or \$2.5 billion, has been made in the last three years.

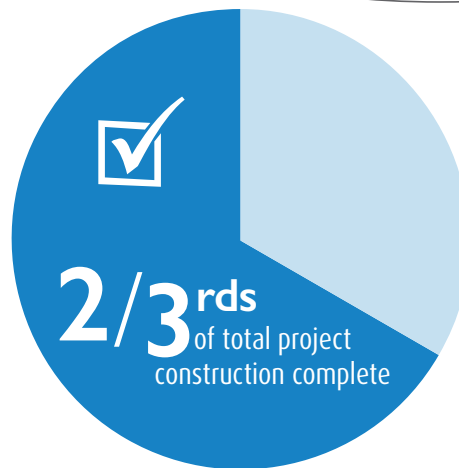


25.5 BILLION BARRELS of OIL and **20.6 TRILLION CUBIC FEET** of GAS

potential identified in an independent study covering blocks on offer in the West Orphan Basin. New Lower Tertiary play trend identified.



MUSKRAT FALLS



100 per cent of the transmission towers and wire stringing was completed on the two **250 KM TRANSMISSION LINES** from Churchill Falls to Muskrat Falls

Muskrat Falls spillway put into operation

Submarine cables installed on the seafloor in the Strait of Belle Isle connect Labrador to the island for the first time in history

BULL ARM



Continued progress on the **HEBRON PROJECT** was made towards a 2017 tow-out of the Hebron Gravity Base Structure to the field

ENERGY MARKETING

99%

of available recapture energy delivered to market



**NEWFOUNDLAND AND
LABRADOR HYDRO**

Hydro generates and delivers safe, reliable electricity supply to meet the needs of utility, industrial, residential and commercial customers in more than 200 communities across the province.



CHURCHILL FALLS

One of the world's largest underground hydroelectric powerhouses with a rated 5,428 megawatts, Churchill Falls provides clean, renewable electricity to millions of consumers across North America.



LOWER CHURCHILL PROJECT

The Lower Churchill River is one of the most attractive hydroelectric resources in North America. Combined, Muskrat Falls and Gull Island have a capacity of more than 3,000 megawatts. The development of the Muskrat Falls Project includes construction of an 824 megawatt hydroelectric dam and more than 1,600 kilometres of transmission lines that will provide long-term, clean, renewable energy.



OIL AND GAS

Nalcor is a partner in the development of the Newfoundland and Labrador offshore including the Hebron oil field, White Rose Growth Project, and Hibernia Southern Extension. With a multi-year exploration strategy, Nalcor is systematically finding and quantifying the province's oil and gas potential to facilitate new exploration investments.



BULL ARM

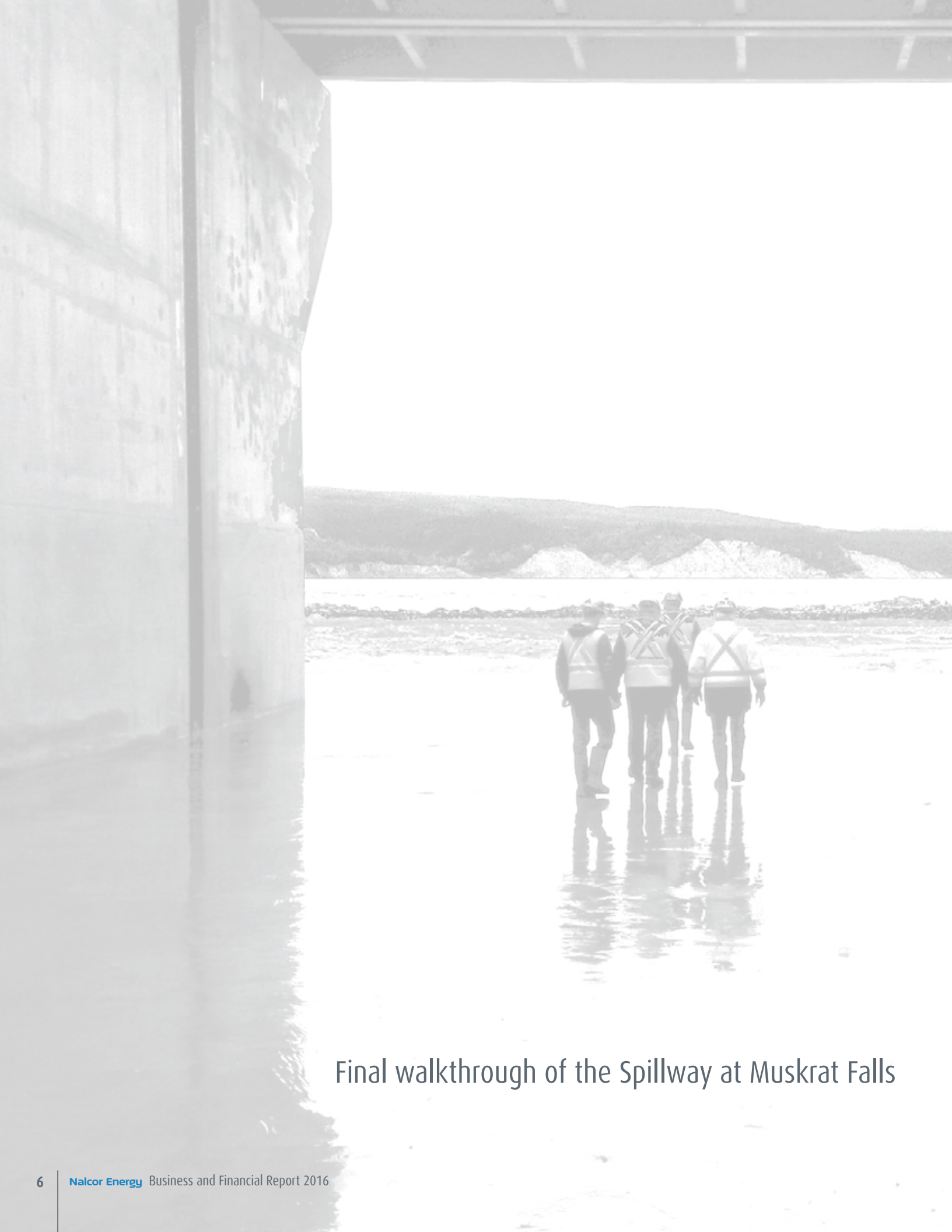
The Bull Arm Fabrication site is a world-class facility with capabilities for steel fabrication and concrete construction, outfitting installation, at-shore hook-up and deep water commissioning. The site is currently leased by ExxonMobil Canada Properties for the Hebron Project.



ENERGY MARKETING

Nalcor actively trades and sells the province's surplus power to customers in external energy markets. The Energy Marketing portfolio includes Churchill Falls recall power, energy sales to industrial customers in Labrador, long-term transmission agreements through Quebec, and power sales from the Menihek hydroelectric station.

Nalcor's business includes the development, generation, transmission and sale of electricity; the exploration, development, production and sale of oil and gas; industrial fabrication; and energy marketing.



Final walkthrough of the Spillway at Muskrat Falls

Message from the Chair

As Chair of the Board of Directors for Nalcor Energy, I am pleased to present the company's annual report.



Although 2016 proved to be an extremely turbulent year for Nalcor, its financial performance improved, marked by enhanced earnings and continued growth in assets. Despite many well-documented challenges with several Lower Churchill development related projects, I believe the company has embarked on a restructuring process that best positions it to realize value from our province's available energy resources in both the near and long term.

I would like to thank the outgoing directors who ended their tenures on the board last year following many years of service to Nalcor and our province. I also want to acknowledge and thank the newly appointed members of the board, all of whom are highly capable and hard-working individuals. Collectively, we bring a diversity of skills, experiences, and expertise to the board from a broad range of industries. Yet we all share a common commitment to pursuing what is best for the future of Newfoundland and Labrador.

Looking ahead, your board will ensure that sound governance guides all of our decisions in overseeing Nalcor and its many subsidiary companies. This includes (i) setting a clear **vision** (including establishing objectives, goals, strategies and plans), (ii) enforcing strong **financial** controls and cost discipline, (iii) ensuring forward-looking **human resource** assessment and capacity building, (iv) managing **enterprise risk**, and (v) acting as brand ambassadors that shape a progressive and high performing **corporate culture**.

In exercising our fiduciary duties, we will also support the CEO and the executive leadership team in fulfilling their mandates and in setting and executing against a renewed corporate strategy. Nalcor's wide range of energy business operations are extremely complex, and by their very nature, challenging to effectively manage. As board members and representatives of your energy company, it is our job to provide strategic direction, to ensure these activities are on strategy, to appropriately balance investments against risk, and to ensure the long-term interests of our province's residents and ratepayers remain at the forefront. We understand that the bar for accountability, transparency and integrity in everything that is Nalcor is set very high, as it should be. We will continuously strive to ensure those standards are met.

On behalf of the board, I would like to thank Chief Executive Officer, Stan Marshall, and the Executive team for their ongoing leadership at an important, challenging and very complex time for Nalcor. As the company moves ahead, its greatest strength will continue to lie within its people. Together, they will remain steadfast in their relentless pursuit of safety, excellence in operations and planning, reliability of service for customers, and shared values of which all of our employees, and every Newfoundlander and Labradorian, can be proud.

Thanks for placing your trust and faith in us. We collectively look forward to sharing more about Nalcor's progress in what we believe will be a very successful and productive 2017.

A handwritten signature in blue ink, appearing to read 'B. Paddick', with a stylized flourish at the end.

Brendan Paddick
Chair, Board of Directors

Message from the CEO



In April 2016, I became CEO of Nalcor Energy, at a time when the company was challenged on many fronts. I was very fortunate to receive immediate support from Nalcor's highly-qualified and dedicated employees. With their assistance I was able to quickly assess the company's structure, operations and strategy, and propose significant changes. The proposed changes have been implemented with the full support of our Board of Directors and our owner, the Government of Newfoundland and Labrador.

In June, we announced a new senior management structure. The Muskrat Falls Project was separated into Generation and Transmission with one Executive Vice President, Gilbert Bennett, responsible solely for development of the generation facilities (Power Development) and a separate Executive Vice President, John MacIsaac, responsible for the transmission facilities (Power Supply). This delineation allowed the company to bring greater focus to priority areas in terms of management oversight, with more effective execution and better management of key risks.

In addition, we announced the management of our regulated utility, Newfoundland and Labrador Hydro, would be separated from Nalcor's unregulated business, with Jim Haynes becoming President of Hydro. While there has been a major management restructuring, Hydro continues to put safe and reliable service for customers at the forefront. Approximately \$219 million was invested in capital improvements last year, and more investments will be made in reliability improvements for customers in 2017. More than 150 capital projects were completed in 2016 to help ensure the readiness of electricity infrastructure. This included the start of construction of a new 230 kilovolt transmission line between Bay d'Espoir and the Avalon Peninsula, which will improve reliability on the Avalon where electricity demand is highest.

With respect to the Muskrat Falls Project, significant progress has been made across all components. For Power Development, approximately 58 per cent of total construction was completed as of the end of 2016. Significant work was done in terms of concrete placement for the powerhouse and intake, the spillway was put into operation, the temporary cofferdams were completed and the river was diverted through the spillway, stabilization work on the North Spur dam was substantially completed, and river impoundment commenced.

We were successful in negotiating an agreement with Astaldi, the main contractor responsible for construction of the powerhouse and intake, for the completion of those major components. With this arrangement in place, we are far better positioned to effectively manage a key risk for the project.

Significant progress has also been made on completion of key transmission

With a renewed focus and an enduring commitment to safety, Nalcor is set up for success and, collectively, we are dedicated to executing on all of our priority projects.

components in Power Supply. At the end of 2016, the transmission line from Churchill Falls to Muskrat Falls was over 91 per cent complete. The Labrador-Island Transmission Link from Muskrat Falls to the Avalon Peninsula was more than 68 per cent complete. All three subsea cables on the seafloor across the Strait of Belle Isle were successfully installed on-time and within budget, connecting Labrador and the island for the first time.

To reduce our requirements for additional funding from the Provincial Government, an additional loan guarantee for the project of \$2.9 billion was secured from the Government of Canada.

With a realigned, fit-for-purpose structure and a very experienced management group, we are focused on effective completion of the project's construction. Adjustments to the schedule and cost projections for the Muskrat Falls Project have been necessary, and we will continue to provide updates to the people of the province.

Across Hydro and at the Churchill Falls facilities, the commitment to maintaining and managing our critical electricity assets for the long-term continues, and we are planning thoroughly to ready the province's electricity network for the integration of Muskrat Falls power and interconnection.

Nalcor's other lines of business continued to make positive contributions last year, including Oil and Gas, where our ongoing strategy for exploration offshore Newfoundland and Labrador was further advanced. The results of the 2016 license round in the West Orphan Basin were very promising and the land sales announced in November by the Offshore Petroleum Board yielded work commitments totalling nearly \$758 million.

Nalcor's financial performance in 2016 was solid, with year-over-year increases in revenues and profit, and an asset base that has grown to \$14.1 billion from \$12.3 billion the previous year.

I look forward to continuing to work with the Board of Directors and with our exceptional team of employees across the company, as well as our IBEW partners. With a renewed focus and an enduring commitment to safety, Nalcor is set up for success and, collectively, we are dedicated to executing on all of our priority projects, for the benefit of ratepayers and our shareholders, the people of the province.



Stan Marshall
President and CEO



The safety of our people is our top priority and it is the measure of success that matters most.

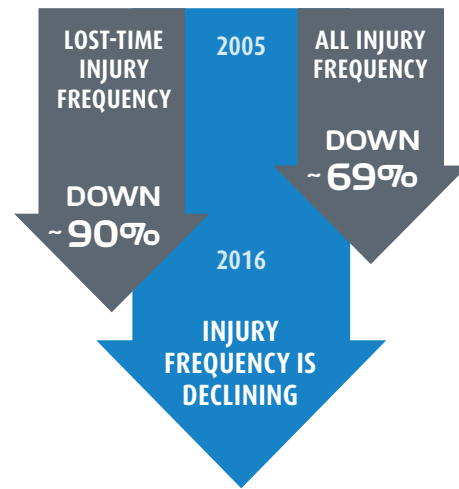
A Clear and Focused Safety Vision

In everything we do, Nalcor is guided by a clear and focused safety vision supported by a strong safety culture that is deeply engrained throughout the company. The goal is to achieve world-class safety performance and an injury-free workplace, and this responsibility and aspiration is embraced by every person in the organization.

Over the last decade, Nalcor has seen steady improvements in its safety performance. Since 2005, there has been a 69 per cent reduction in Nalcor's all-injury frequency rate and a 90 per cent reduction in lost-time injury frequency.

The company is busier than it has ever been. There is an unprecedented amount of work in the field and there are many contractors working on Nalcor's sites. Despite this high volume of activity, the company saw a 97 per cent reduction in lost days in 2016 with many areas sustaining zero lost-time injuries over an extended period.

While these are significant accomplishments, the company knows to achieve safety excellence it must remain focused. Last year, there were 11 on-the-job injuries and another 11 high-potential incidents that could have resulted in injuries. This is a reminder that when it comes to safety the company and employees cannot become complacent.



Nalcor's safety culture encourages and relies upon open reporting through the company's Safe Workplace Observation Program (SWOP). Employees continue to view reporting as important and as a result last year there was a 17 per cent increase in the number of safety incident observations entered into the SWOP database. More than 8,300 observations in total were recorded in 2016, which provide continuous learning, reinforcement and improvement within the Nalcor workforce.

Safety programs and communications aimed at enhancing contractor and public safety progressed over the past year with significant emphasis on power line safety awareness. Newfoundland and Labrador Hydro continued its partnership with Newfoundland Power, the Newfoundland and Labrador Construction Safety Association, and Workplace NL in an ongoing public campaign promoting power line safety to the general public, heavy equipment operators and contractors.

Nalcor remains relentlessly committed to safety across the company; at all levels, from the front lines to the Board of Directors. As the company continues to move forward on its journey to safety excellence, it will embrace every opportunity for continuous improvement.

Nalcor's collective commitment to safety has never been stronger. It is at the heart of the company.

KEY PERFORMANCE INDICATORS

	TARGET	RESULT
All-Injury Frequency	0.80	0.81
Lost-Time Injury Frequency	0.15	0.15
Lead/Lag Ratio	750:1	758:1

2016 SAFETY HIGHLIGHTS

100%
achieved all corporate safety metrics (all-injury frequency rate, lost-time injury frequency rate and lead/lag ratio)



15% reduction in recordable injuries over the previous year



Over 8,300 safety observations reported



IN 2016, NALCOR
ACHIEVED
100%
OF ITS
ENVIRONMENTAL
TARGETS

ENVIRONMENT

Positive Environmental Stewards

In 2016, Nalcor achieved 100 per cent of its environmental leadership targets.

This included the following:

- Continued to expand its Environmental Management System throughout the company
- Carried out air emissions modelling for Hydro's Holyrood Thermal Generating Station and remote diesel generators
- Implemented its Regulatory Compliance Plan
- Developed a corporate waste management strategy that will help Nalcor divert waste from local landfills and recycling facilities throughout Newfoundland and Labrador
- Upgraded sewage treatment facilities in Churchill Falls
- Implemented the corporate environmental awareness strategy to provide environmental tools, tips and resources to employees across the company and in all locations

Throughout the year, key environmental aspects of a number of significant capital projects were advanced. Construction of the new transmission line from Bay d'Espoir to the Avalon Peninsula received Environmental Assessment (EA) release, including the plan for the segment through the Bay du Nord Wilderness Area. A project for critical repairs to Goodyear's dam in Grand Falls-Windsor also received EA release.

Planned environmental management activities for the Muskrat Falls Project were also completed in 2016, and all activities remained compliant with existing environmental permits and regulations.

A total of 3,142 individual Environmental Monitoring Reports and 12 detailed environmental audits were completed across the Muskrat Falls Project.

As well, a program for assessment and recovery of historic resources and archaeological artifacts in the project area for the construction phase continued in 2016. This work is expected to be completed in 2017.

The environment continues to be an important focus at all of Nalcor's work sites. Together Nalcor has met key milestones and targets that exemplify its commitment and Nalcor will continue to be vigilant in managing environmental risks. As Nalcor leads the development of the province's energy resources, the company remains as committed as ever to following sound, responsible environmental practices and being positive environmental stewards.



TAKING CHARGE WITH ENERGY EFFICIENCY

In partnership with Newfoundland Power, the takeCHARGE program promotes energy efficiency to residential and business customers across the province, and provides support to reduce electricity usage and costs through information, tools, and rebate programs.

In 2016, Hydro’s activities in the takeCHARGE programs helped its customers reduce electricity use by 1,976 MWh.

Hydro also pursues internal energy savings from energy efficiency initiatives at its own facilities across the province. In 2016, Hydro’s internal energy efficiency activities achieved 669 MWh of annual energy savings.

Understanding Historical Artifacts on the Lower Churchill River

For decades, the history of the lower Churchill River has been of interest to archaeologists in the province. An area which once served as a travel route to the Canadian interior for nomadic Aboriginal peoples, the Hudson’s Bay Company (HBC) and others, there has long been an effort to assess and recover artifacts, preserving an important time in the area’s history.



In 2012, the Muskrat Falls archaeological program was established to deliver on Nalcor’s commitment to understanding the cultural significance that exists within the footprint of the Lower Churchill Project, assessing and recovering materials before advancing project work in the area.

Building on 40 years of archaeological exploration in the area, Nalcor hired Stassinu Stantec Consulting Ltd. to further assess the lower Churchill River and excavate identified archaeological sites.

The program saw the identification and excavation of more than 245,000 artifacts at different sites along the ancient portage

trails and further upriver. Recovered items date back as far as 3,500 years and include tent structures, stoneware ceramics, metal barrel hoops, components of animal-traps, arrow points and knives from years gone by. Located halfway between the Sandy Banks and Gull Lake, the HBC trading post was also discovered.

Through the Muskrat Falls archaeological program there has been significant understanding gained about past use of the land within the footprint of the Lower Churchill Project. Nalcor will continue to preserve these key artifacts and turn them over to the Provincial Archeological Office.





Muskrat Falls Project

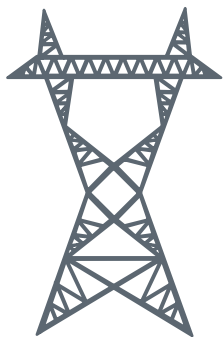
The development of the Muskrat Falls Project includes construction of an 824 megawatt hydroelectric dam and more than 1,600 kilometres of transmission lines that will provide long-term, clean, renewable energy.



- August -
SPILLWAY
became **FULLY**
OPERATIONAL



2/3^{rds}
of total project
construction complete



100 per cent of the transmission towers and wire stringing was completed on the two, 250 km transmission lines from Churchill Falls to Muskrat Falls

Submarine cables installed on the seafloor in the Strait of Belle Isle connect Labrador to the island for the first time in history

BUSINESS EXCELLENCE / MUSKRAT FALLS

Muskrat Falls - Building for our Energy Future

The Muskrat Falls Project includes an 824 MW hydroelectric generating facility, over 1,600 km of transmission lines across the province, and the Maritime Link between Newfoundland and Nova Scotia. The project is an essential component of Nalcor's commitment to sustainability and climate change management. Once in service, power from Muskrat Falls will help meet the province's long-term energy needs by providing clean, renewable energy for future generations.

Construction on all components of the project significantly advanced in 2016, with work ongoing between Churchill Falls and the Avalon Peninsula.

At the Muskrat Falls hydroelectric site in Labrador, a major milestone was achieved as the facility's spillway was put into operation.

In August, the spillway gates were safely and successfully raised, opening the spillway and redirecting the flow of the lower Churchill River at Muskrat Falls for the first time. In addition, following the completion of the temporary cofferdam in the fall, the river impoundment process commenced.

For the transmission projects in Labrador and on the island, 100 per cent of the towers and wire stringing was completed on two, 250 km transmission lines from Churchill Falls to Muskrat Falls. Construction on the 1,100 km Labrador-Island Transmission Link (LIL) also significantly advanced across the province. At the end of 2016, overall construction progress for LIL was 91 per cent complete in Labrador and 48 per cent complete on the island. Work also progressed on the



Advances in construction on the Muskrat Falls Project generated significant contributions to the provincial economy in 2016 through employment and business benefits.





© Alberto Audiosio

photo credit: Alberto Audiosio

switchyards, converters, and synchronous condensers for the Labrador and island portions of the transmission projects.

The Strait of Belle Isle Marine Cable Crossing made history during the year with the first-ever connection between Labrador and the island. Several world records were also reached on this project. The pull-in (as it is referred by industry) broke the current world record for the longest high voltage direct current cable landfall pull-in in the world. Another record was reached when 540,000 tonnes of locally quarried rock was installed over 80 km to create the protective berm over the three subsea cables. To date, this is the largest subsea rock installation campaign that has been performed in a single campaign in Newfoundland and Labrador, and the fastest known fall pipe vessel rock installation campaign of this quantity.

Muskrat Falls: Our Project, Our Benefits

 <p>> 27M hours worked since start of construction</p>	 <p>Approximately 6,000 people working on the project at peak</p> <p>642 women from NL</p>	 <p>4,982 NL residents working on the project at peak in 2016</p> <p>83% of project workforce</p> <p>590 Aboriginal NL residents</p>	 <p>>\$1.8B invested in NL business since start of project construction</p> <p>>\$1.4B in estimated wages to NL residents</p>
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* Figures above for December 2016 and project to date

The Strait of Belle Isle marine cable crossing made history during the year; the pull-in broke the current world record for the longest high voltage direct current cable landfall pull-in in the world.



Stewards of the Province's Electricity System

Newfoundland and Labrador Hydro (Hydro) ensures there is a safe, reliable and cost-effective electricity supply available to meet Newfoundland and Labrador's current demand and future growth.

A STRONG COMMITMENT TO CUSTOMERS

Hydro is strongly committed to serving customers, meeting expectations and providing a service that is reliable and dependable. In 2016, Hydro underwent significant organizational changes designed to ensure a more distinct separation between Hydro and Nalcor and support work on improved safety, reliability, service to customers and operational performance.

Hydro is evolving, and the right steps are being taken now to ensure the company is set up for future success.

The mandate to provide safe, reliable service that is cost-effective remains unchanged. However, the organizational changes implemented this past year have provided an intensified focus on improving performance and reliability.

Significant improvements have been seen with outage frequency and duration improving year-over-year since 2014; and customers are recognizing this with 90 per cent indicating overall satisfaction with their service (up from 84 per cent two years ago).

Hydro is aligning its structure to ensure continued focus on its core business, separate from Nalcor's unregulated business lines, and to ready for interconnection to the North American grid. The result of these organizational changes is a core Hydro team, designed to be functional and effective, with an unwavering focus on customer reliability.

MANAGING ASSETS IN A CAREFUL AND COST-EFFECTIVE MANNER

Hydro, like most other North American utilities, is managing assets that are aging. What this means is focused and strategic investment is required to ensure a safe and reliable supply of electricity.

Hydro has a robust asset management strategy and capital investment program. In 2016, Hydro invested approximately \$219 million in capital improvements and plans to

invest another approximately \$271 million in reliability improvements for customers in 2017.

Hydro's reliability plan is focused on:

- rebuilding the province's aging electricity grid
- ramping up equipment maintenance
- using newer and better software to predict customers' power needs
- refining emergency response protocols

In 2016, more than 150 capital projects were completed to help ensure the winter readiness of electricity infrastructure. This includes preventative and corrective maintenance, upgrades, inspections, testing and capital projects.

One of the key capital projects in 2016 was the start of construction of a new 230 kilovolt transmission line between Bay d'Espoir and the Avalon Peninsula. This is a key project being implemented on an advanced schedule to allow Hydro to bring more power from its generating assets on the island to customers on the Avalon Peninsula where demand is concentrated. This project is currently on schedule to be in service in late 2017 and will mean added stability of the transmission network and a significant improvement to reliability, particularly in the Avalon Peninsula.

Hydro is strongly committed to serving customers, meeting expectations and providing service that is reliable and dependable.

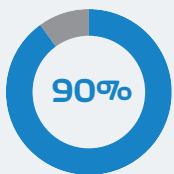
An ongoing priority area for Hydro is the responsible management of costs. In 2016 and moving forward, Hydro will continue to diligently focus on cost management. Hydro implemented a cost challenge initiative in 2016 designed to ensure every person at every level of the organization was committed to prudent cost management practices. This initiative continues as every employee of the company is asked to step-up to this commitment to benefit Hydro's customers.

In the management of the provincial electricity assets, Hydro will never compromise the safety of employees, customers or the public - however aggressive management of assets and work will continue with a careful balance between safe, reliable service and effective management of costs.

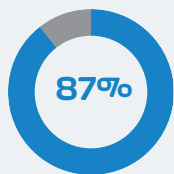
Overall, Hydro's biggest asset continues to be its people. Every person at Hydro is committed to ensuring safe and reliable electricity supply. Customers are counting on Hydro and Hydro's employees have been working hard, with a renewed attention to reliability.

IMPROVING CUSTOMER SERVICE

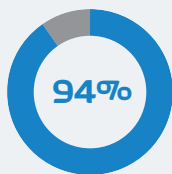
Hydro's customer service satisfaction levels have steadily increased since 2012. In 2016, more than 700 residential customers in Hydro's service areas completed a telephone survey and were asked to rate their satisfaction with Hydro overall. Hydro earned a 90 per cent customer satisfaction rating last year - up from 84 per cent in 2014 .



Vast majority of residential customers are satisfied with Hydro's service



Satisfied with the speed in which Hydro restores power when a problem occurs



Believe Hydro's employees are courteous and friendly



95% of customers are satisfied with Hydro's service in terms of providing reliable power supply

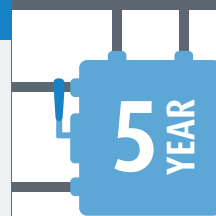
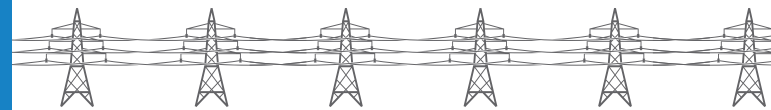
IMPROVING SERVICE FOR CUSTOMERS

Through strategic, responsible investment, Hydro is working hard to strengthen the provincial power grid and boost reliability for customers.

IN 2016,
MORE THAN **200 PROJECTS**
AND **3,300 KEY ACTIONS**  **COMPLETED**

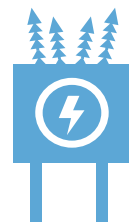


OVER **\$85 MILLION**
on modernizing transmission line infrastructure



BREAKER REPLACEMENT PROGRAM
at terminal stations
and **21 CIRCUIT BREAKERS REPLACED**

SPARE TRANSFORMER INSTALLED in
Happy Valley-Goose Bay
AND **TRANSFORMERS REFURBISHED**
at 6 other terminal stations



2,460 +
transmission wood poles
inspected and
38 poles replaced





CONNECTING THE PROVINCE AND IMPROVING RELIABILITY

Constructing new transmission from Bay d'Espoir to the Avalon Peninsula

In 2016, Hydro initiated development of TL267, the new 230 kilovolt transmission line being built between Bay d'Espoir and the Avalon Peninsula.

The route for the new high voltage line will be approximately 188 km in length running from the Bay d'Espoir Generating Station to the Western Avalon Terminal Station near Chapel Arm. It parallels two existing Hydro transmission lines, which eliminates the need for the creation of a new access corridor, thereby reducing the environmental footprint, and minimizing the impact on communities.

The new line is an important transmission upgrade providing additional capacity into the Avalon Peninsula where population is concentrated and consumer demand for electricity is at its highest in the province. This will relieve line congestion and enhance the long-term resiliency and reliability of the current transmission network, originally built in the late 1960s.

In June 2016, the project was released from the provincial environmental assessment process as an undertaking under the Environmental Protection Act. That process included a series of public consultations and open houses with communities and key stakeholders along the proposed route. Several months were spent in the field analyzing a wide-range of environmental and technical aspects of the project.

The line clearing process and initial construction started during the summer of 2016 and the project is expected to be completed and in service by late 2017.



Bay D'Espoir

Bay Du Nord
Wilderness Reserve

Western Avalon

Holyrood Thermal
Generating Station

Over **145,000**
line kilometres
of NEW 2-D multi-client
data acquired



Investing in Newfoundland and Labrador's Offshore

In 2016, significant milestones were achieved in the province's offshore projects. On December 21, the Hibernia Gravity Base Structure (GBS) produced the one billionth barrel of oil. Since joining the Hibernia Southern Extension (HSE) project in 2010, Nalcor has been a proud co-venturer in this landmark project. Record production was achieved in 2016 from the HSE project thanks to accelerated drilling performance.

In mid-2016 the Transocean Henry Goodrich drill rig returned to Newfoundland and Labrador and resumed operations in the White Rose field. First production from the North Amethyst Hibernia formation well began in September. Additional development drilling was completed at the South White Rose Extension satellite field, bringing another oil producer online in November. An assessment of the development options for the West White Rose field continued throughout 2016, and the project will be considered for sanction in 2017.

Continued progress on the Hebron Project, in both Newfoundland and Labrador and Korea, was made towards a 2017 tow-out of the Hebron GBS to the field. The Utilities and Process Module (UPM) arrived at Bull Arm from Ulsan, Korea in the third quarter of 2016. Mating of the integrated topsides and the GBS was completed prior to year-end. Work continues into 2017 at the Bull Arm deepwater site, with a tow to field targeted by mid-year.

Nalcor's exploration strategy continued in 2016 with geoscience data acquisition, resource assessments, and dissemination of the results to the global exploration and production industry. The resource assessment of the 2016 license round in the West Orphan Basin was completed by Beicip Franlab in Paris, France. Results were publicly-announced in early August, well in advance of the closing of the 2016 Call for Bids in November as part of the Schedule Land Tenure System. The assessment results

indicated in place oil and gas potential of 25.5 billion barrels of oil and 20.6 trillion cubic feet of gas.

Despite a global downturn in the industry, eight land parcels were awarded and a total work commitment of \$758 million was committed in the 2016 Call for Bids, including successful bids (partnered and operated) by three new entrant companies to the Newfoundland and Labrador offshore. There have now been seven new entrant companies to the province's offshore in just over a year. Of the total work commitment bids of \$5.2 billion made in the Newfoundland and Labrador offshore from 1988 to 2016, approximately 50 per cent or \$2.5 billion have been made in the last three years (2014 to 2016).



UNLOCKING OFFSHORE NEWFOUNDLAND AND LABRADOR'S OIL AND GAS POTENTIAL



Since 1997 Hibernia, Terra Nova
and White Rose have produced
OVER 1.6 Billion Barrels of OIL



UNDER CONSTRUCTION
700 MILLION BARREL
HEBRON PROJECT



RECENT DISCOVERY
BAY DU NORD
WORLD'S LARGEST OFFSHORE
DISCOVERY OF 2013

New Oil and Gas Play Trend Presented at the Society of Exploration Geophysicists (SEG) International Annual Meeting

During the SEG International Annual Meeting in Dallas, Nalcor, along with its partners TGS, Petroleum Geo-Services (PGS) and Airbus Defence and Space, presented the findings of a newly-identified oil and gas play trend discovered offshore Newfoundland.

Nalcor has been leading an extensive seismic program that has resulted in the collection of significant quantities of 2D and 3D data. These programs have targeted the underexplored slope and deepwater areas of the province's offshore, providing further insight into the area's potential prospectivity.

The new play trend, which contains geology similar to slope and deepwater regions offshore Brazil, is located in the West Orphan Basin and within the 200 mile limit. This area was the focus of the Canada-Newfoundland and Labrador Offshore Petroleum Board 2016 Eastern Newfoundland Call for Bids and Beicip Franlab's recent independent resource assessment.

Both Nalcor Energy-Oil and Gas papers presented at the meeting were ranked in the **TOP 30** (out of 1,046) by SEG members.

Nalcor's ongoing
SEISMIC PROGRAM
is ONE of the
LARGEST
in the world



OVER 145,000 LINE KM of NEW 2-D multi-client data was acquired by the end of 2016

Resource Assessment

2016

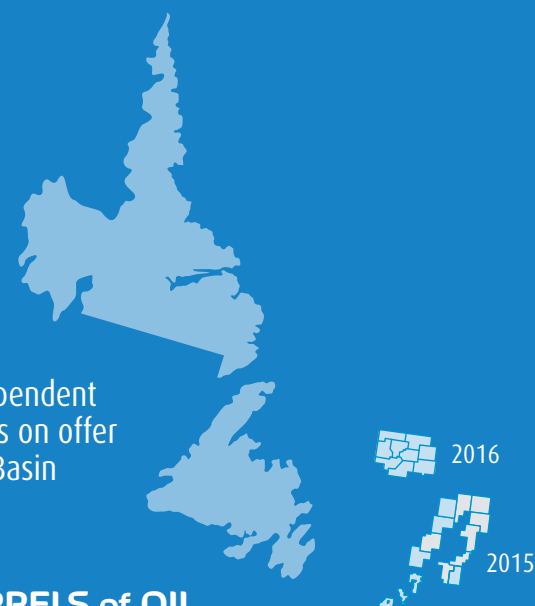
25.5 BILLION BARRELS of OIL and 20.6 TRILLION CUBIC FEET of GAS potential

identified in an independent study covering blocks on offer in the West Orphan Basin

2015

12 BILLION BARRELS of OIL and 113 TRILLION CUBIC FEET OF GAS potential

identified in an independent study covering blocks on offer in 2015 license round





Bull Arm – Atlantic Canada’s Largest Industrial Fabrication Site

Since 2011, Bull Arm Fabrication has been home to the multi-billion dollar Hebron Offshore Oil Project which includes construction of Hebron’s 130,000 cubic metre concrete Gravity Based Structure (GBS) platform, fabrication of the living quarters and integration of its topside modules.

The Hebron Project continued to make progress towards first oil in late 2017. The Utilities and Process Module arrived at Bull Arm from Korea in mid-September. The integration of all modules took place in the fourth quarter of 2016, with mating of the complete topsides with the GBS at the Bull Arm Deepwater Site executed in mid-December. Work continues into 2017 at the Bull Arm Deepwater Site, with a tow to field targeted by mid-year.

Since the arrival of ExxonMobil Canada Properties to the Bull Arm site, significant investments have been made in site upgrades and infrastructure refurbishment. These investments ensure the assets are in good condition to support the site’s long-term operation.

The Bull Arm site is scheduled to become available for use after the Hebron Project has been completed and the tenant returns the site to Nalcor, which is currently scheduled for March 2018. Nalcor is focused on building sustainable business opportunities for Bull Arm Fabrication after the conclusion of the lease agreement with ExxonMobil and will be issuing a Request for Expressions of Interest to solicit input from the local, national and international market places for the potential future use for the benefit of the province.

WORLD-CLASS
YARD ON THE DOORSTEP
OF OUR OFFSHORE 

Bull Arm Fabrication is situated next to three existing offshore projects: Hibernia, Terra Nova, and White Rose.

MARINE FACILITY

5 QUAYS
INCLUDING SOUTH QUAY
172M, 10M DRAFT

40,000M² DRYDOCK
200M IN LENGTH

FABRICATION BUILDING
8,600M²

FABRICATION YARD

39M X 39M
MEGA DOOR

ASSEMBLY PIER
140M LONG

RECEIVING QUAY
165M, 10M DRAFT

5300M²
MODULE HALL

DEEPWATER SITE

WATER DEPTH
OF 160M

ANCILLARY CAPABILITIES

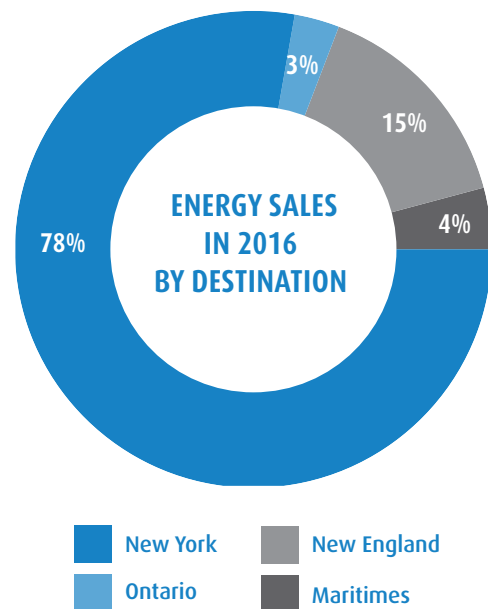


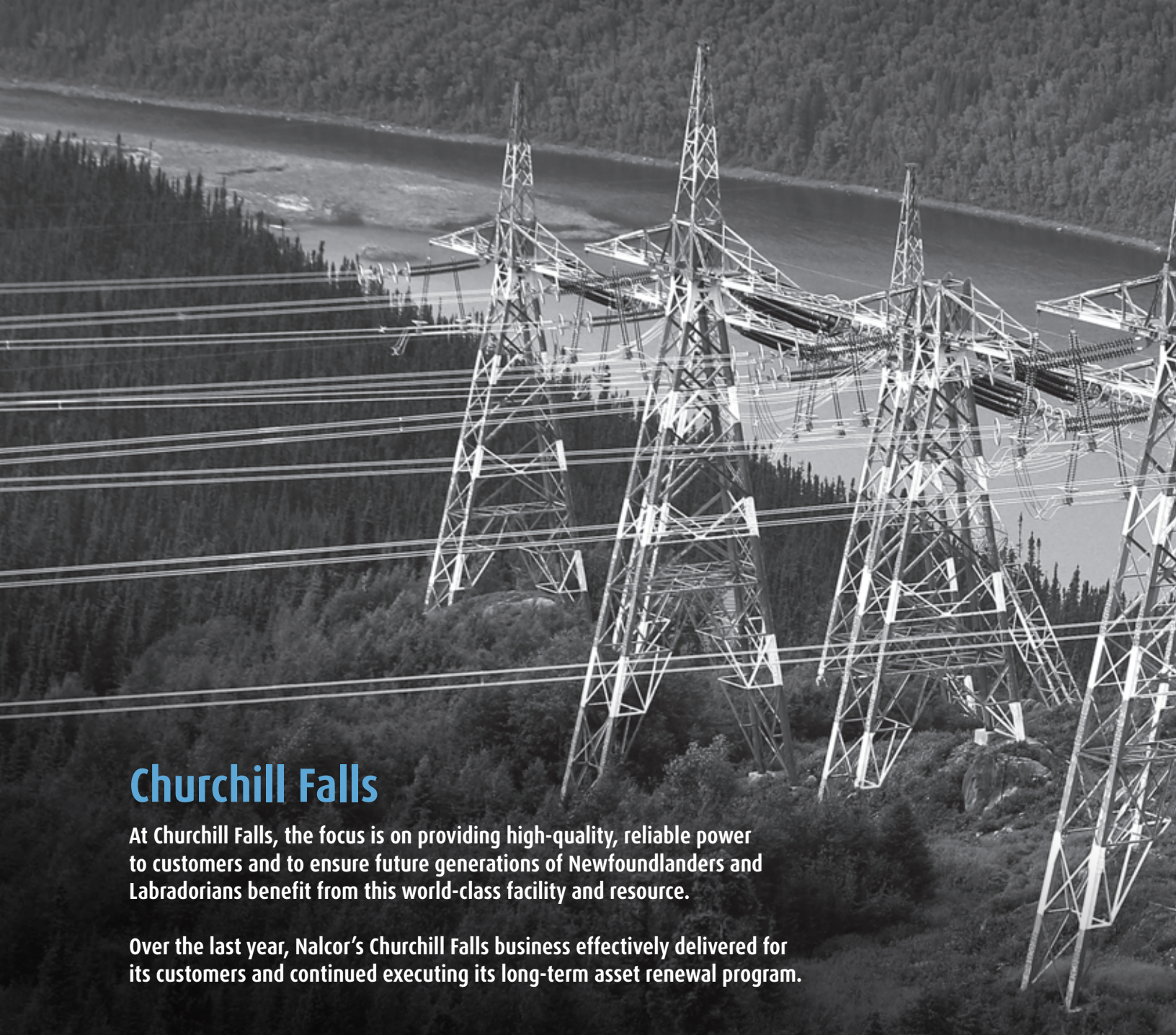
Exporting our Excess Energy Abroad

Nalcor continues to pursue opportunities to optimize the value of the province’s surplus electricity by exporting to other markets in eastern Canada and the United States.

Last year, more than 99 per cent of the province’s available recapture energy was delivered to market. Approximately 1.6 terawatt hours of recapture energy was sold to customers in New York, New England, Ontario and the Maritimes realizing revenues of \$43.5 million CAD, which represented 46 per cent upside against the New York Benchmark.*

*The New York Benchmark is a price indicator against which energy trading performance is measured and evaluated.





Churchill Falls

At Churchill Falls, the focus is on providing high-quality, reliable power to customers and to ensure future generations of Newfoundlanders and Labradorians benefit from this world-class facility and resource.

Over the last year, Nalcor's Churchill Falls business effectively delivered for its customers and continued executing its long-term asset renewal program.





With **5,428 MW** of installed capacity
Churchill Falls is **one of the largest**
hydroelectric generating facilities in the world



The Churchill Falls Generating Station's powerhouse and
11 turbines are more than **1,000 feet underground**

The **second largest underground**
hydroelectric plant in North America



On average, the facility annually generates over
34 terawatt hours of energy
- roughly one per cent of the world's
hydroelectric power



Guiding and supporting the development of youth in the province is essential to Nalcor's continued growth and success. Providing hands-on learning to students through partnerships with Women in Resource Development Corporation's Techsploration Program is a key part of this effort.

PEOPLE

Our Vision for Diversity and Inclusion

Nalcor believes that diversity of backgrounds, ideas and experiences enriches the company and contributes to an innovative, high-performance environment. Nalcor's goal is to embrace individual differences and enable each other to reach their full potential.

Diversity and Inclusion (D&I) is a business imperative for Nalcor. Nalcor's Diversity and Inclusion Council was established in 2011 and has been working on enhancing D&I in the workplace. And while the company has made progress in many areas, there is still work to be done.

Nalcor recognizes that women and other designated groups are under-represented in various occupational groups throughout the organization, particularly in executive, technical roles and skilled trades. The company has set targets to increase the representation of women in its workforce in occupations in which they are under-represented.

Women represented 24 per cent of Nalcor's workforce in 2016. The highest representation of women are in administrative (93%), professional excluding Engineers (53%), semi-professional (62%), and service positions (50%).

In addition to a target-setting initiative, the company is committed to implementing diversity and inclusion strategies to attract, recruit, develop and retain members of designated groups including Aboriginal peoples, persons with disabilities and members of visible minorities. Nalcor is currently undertaking a self-identification census to attain an understanding of the current representation of members of other designated groups within its existing workforce.

This information will allow Nalcor to assess baseline representation and identify targeted strategies and initiatives to increase the representation of other designated groups in the company's workforce to ensure an inclusive work environment. Nalcor recognizes that building a diversity culture and achieving targets is a journey, similar to the journey of building a safety culture, but the company is focused on implementing strategies that will set the organization up for sustained success.

WOMEN IN THE WORKFORCE

OCCUPATION	CURRENT	TARGET
EXECUTIVE	15%	30%
MANAGEMENT	27%	35%
ENGINEERS (incl. Engineers-in-Training)	24%	30%
TECHNICIANS & TECHNOLOGISTS	5%	10%
FIELD SUPERVISOR	3%	6%
SKILLED TRADES (incl. Apprentices)	2%	10%
MANUAL WORKERS	16%	20%

*Current representation as of December 2016.

SUSTAINABILITY

Nalcor understands its operations have an impact on the communities in which it operates. It is Nalcor's responsibility to minimize this impact and ensure the company develops its resources in a sustainable way for the benefit of generations to come.

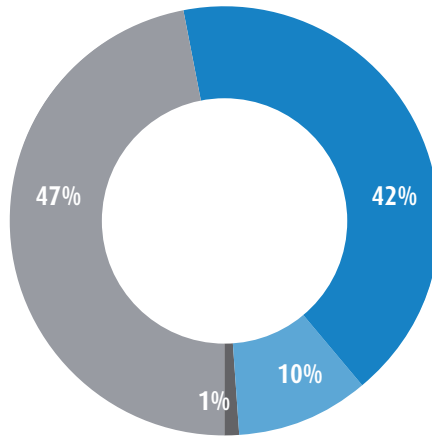
In 2016 Nalcor began development of its first sustainability plan. This plan will look at all aspects of Nalcor operations and eventually report on sustainability performance in the areas of safety and health; environment; business excellence; people; and community.

Reporting its sustainability performance will allow Nalcor to reach out to all its stakeholders and discuss the work it is doing in these areas.

Here for our Communities

At Nalcor, giving back to communities in Newfoundland and Labrador and being an engaged, valued corporate citizen is a priority. This means actively supporting organizations in the communities in which the company operates and where employees and customers live.

Nalcor supported more than 40 organizations throughout Newfoundland and Labrador in 2016, supporting anti-bullying; youth leadership; child and youth health, safety and diversity and inclusion; and other initiatives.



- Child & Youth Health & Safety and Diversity & Inclusion
- Youth Leadership & Anti-Bullying
- Child & Youth Education
- Other



Kids Eat Smart Foundation provides access to nutritious food for school-aged children each and every school day. Through a volunteer-led program, children are able to sit together, in an inclusive environment and fill their bellies to energize their day - at no cost to the children or their families. With the support of Newfoundland and Labrador Hydro, Kids Eat Smart had a very successful 2016.

Over 25,000 healthy breakfasts were served to the children every school day, and more than **three million meals** in the 2015-2016 school year in over 248 Kids Eat Smart Clubs across the province!

2016 COMMUNITY INVESTMENT HIGHLIGHTS

- Hydro employees volunteered more than 30 hours to Ronald McDonald House NL's *Home for Dinner* and *Just Like Nan* programs.



- Hydro partnered with Easter Seals to help fund the first fully accessible playground east of Montreal.
- Nalcor and Hydro employees donated clothing, furniture, food, time and money to over 25 organizations across Newfoundland and Labrador during its Acts of Kindness Week.
- Nalcor partnered with the Canadian Red Cross on their Youth Leadership and Anti-Bullying program called 'Beyond the Hurt' and has implemented training in more than 50 schools across the province.
- Through sponsorship of the Summer Breakfast Program with the Jimmy Pratt Outreach Centre, Nalcor and Hydro employees dedicated three hours per week for 12 weeks to preparing and serving hot and healthy meals to those in need.
- In partnership with the Canadian Red Cross, Nalcor supported Pink Day in Newfoundland and Labrador, reaching approximately 2,000 students.

OPERATING STATISTICS

Years ended December 31	2016	2015	2014	2013	2012
INSTALLED GENERATING CAPACITY (rated megawatts)					
Churchill Falls	5,428	5,428	5,428	5,428	5,428
Hydro - Hydraulic					
Hydraulic	956	956	956	939	939
Thermal	741	741	617	617	617
Diesel	66	66	64	53	52
Menihek	19	19	19	19	19
Total	7,210	7,210	7,084	7,056	7,055
ELECTRIC ENERGY GENERATED, NET (gigawatt hours GWh)					
Churchill Falls	33,806	33,470	32,192	34,536	35,661
Hydro					
Hydraulic	4,380	4,823	4,658	4,688	4,595
Thermal	1,740	1,500	1,316	956	851
Diesel	53	52	54	49	45
Menihek	46	46	48	45	43
Total	40,025	39,891	38,268	40,274	41,195
ELECTRIC ENERGY SALES (GWh)					
Churchill Falls Export	29,011	28,693	27,568	29,787	30,805
Hydro					
Utility	5,845	6,072	5,852	5,606	5,359
Rural	1,099	1,092	1,089	1,017	998
Industrial	2,300*	2,231*	535	559	607
Export	1,649	1,645	1,545	1,514	1,559
Menihek Export	45	45	45	44	42
Twin Falls Industrial	-	-	1,607	1,683	1,740
Total	39,949	39,778	38,241	40,210	41,110
TRANSMISSION LINES (kilometres)					
Churchill Falls					
735 kV	608	608	608	608	608
230 kV	471	471	471	471	471
Hydro					
230 kV	1,609	1,609	1,609	1,609	1,609
138 kV	1,500	1,500	1,500	1,500	1,500
69 kV	634	634	634	634	634
Menihek					
69 kV	39	39	39	39	39
Total	4,861	4,861	4,861	4,861	4,861
PEAK ELECTRICITY DEMAND (megawatts)					
Churchill Falls	5,670	5,610	5,620	5,658	5,671
Hydro System	1,521	1,550	1,535	1,501	1,385
Island System	1,673	1,705	1,687	1,640	1,531
PETROLEUM AND NATURAL GAS PROPERTIES					
Oil Production (Thousands Barrels of Oil Equivalent (BOE)/day)					
White Rose Growth Lands	0.86	0.98	1.52	1.59	1.20
Hibernia Southern Extension	5.22	0.46	0.29	0.21	0.44
Remaining Reserves (Proven and Probable) (Millions BOE)					
White Rose Growth Lands	5.66	2.85	3.63	4.50	3.84
Hibernia Southern Extension	23.53	24.98	25.10	21.35	20.52
Hebron	34.35	33.17	33.17	33.17	31.80
STAFFING LEVELS					
Full-time equivalents	1,490	1,460	1,394	1,334	1,305

* Includes sales from Former Twinco Bloc.

FINANCIAL STATISTICS

Years ended December 31 (millions of dollars)	2016	2015	2014	2013	2012 ²
OPERATING RESULTS	(Restated)				
Revenue					
Energy sales	778.9	760.7	755.6	755.3	710.4
Other	45.2	49.8	42.4	29.6	15.7
	824.1	810.5	798.0	784.9	726.1
Expenses					
Fuels and power purchased	228.3	254.1	336.4	253.9	243.2
Operating costs ¹	207.3	243.5	248.7	212.0	206.9
Oil production, marketing and transportation costs ¹	26.3	12.1	-	-	-
Transmission rental and market fees ¹	22.1	21.4	-	-	-
Depreciation, depletion, amortization and impairment	135.0	159.2	92.7	89.9	79.3
Exploration and evaluation	1.5	1.0	1.2	7.4	-
Net finance (income) expense	72.1	73.5	67.3	73.8	73.6
Other (income) expense	(4.0)	3.2	2.8	3.5	0.4
Share of loss (profit) in joint arrangement	-	0.3	(0.4)	(0.4)	-
Regulatory adjustments	(0.8)	58.2	(66.3)	57.1	30.0
	687.8	826.5	682.4	697.2	633.4
Profit (loss) for the year	136.3	(16.0)	115.6	87.7	92.7
Contributions to net income					
Hydro Regulated	19.0	(25.8)	17.6	0.5	17.1
Energy Marketing	17.5	22.5	38.0	33.3	21.2
Churchill Falls	40.7	44.6	20.2	26.1	28.3
Oil and Gas	57.6	(48.5)	37.1	26.2	32.7
Bull Arm Fabrication	19.9	16.9	17.3	15.5	4.2
Phase 1 Lower Churchill Project	0.3	(3.3)	(2.4)	(2.0)	-
Corporate and Other Activities	(18.1)	(21.9)	(12.2)	(11.9)	(10.8)
FINANCIAL POSITION					
Total current assets	2,097.6	3,395.4	3,357.4	922.4	218.6
Total current liabilities	1,749.6	1,338.8	740.4	542.4	508.9
Net working capital	348.0	2,056.6	2,617.0	380.0	(290.3)
Property, plant and equipment, cost	12,413.6	9,202.1	6,307.2	4,304.4	3,384.3
Accumulated depreciation, depletion and impairment	997.1	877.6	648.4	561.8	573.3
Property, plant and equipment, net	11,416.5	8,324.5	5,658.8	3,742.6	2,811.0
Sinking funds (long-term portion)	230.3	282.0	267.1	237.9	302.8
Long-term investments	34.1	90.6	1,115.8	4,477.4	-
Regulatory deferrals (net)	(184.6)	(185.7)	(127.9)	(194.2)	-
Other assets	119.2	84.9	119.8	79.0	114.5
Long-term debt	5,872.8	6,008.1	6,240.5	6,047.9	1,125.9
Other liabilities	1,828.0	1,169.5	688.1	665.6	247.2
Shareholder's equity	4,262.7	3,475.3	2,722.0	2,267.8	1,564.9
CAPITAL EXPENDITURES	3,249.9	2,759.8	2,018.3	1,037.4	449.4

¹ Comparative figures have been reclassified to conform to the basis of presentation adopted during the current reporting period.

² Financial statistics for the year ended 2012 have been reported in accordance with Canadian generally accepted accounting principles and have not been restated to reflect International Financial Reporting Standards transitional adjustments.

EXECUTIVE, DIRECTORS AND OFFICERS

NALCOR ENERGY EXECUTIVE

Stan Marshall
President and CEO

Derrick Sturge
Executive Vice President, Finance and Chief Financial Officer

Gilbert Bennett
Executive Vice President, Power Development

John MacIsaac
Executive Vice President, Power Supply

Jim Keating
Executive Vice President
Corporate Services & Offshore Development

NALCOR ENERGY BOARD OF DIRECTORS

Brendan Paddick
Chairperson
CEO, Columbus Capital Corp.

John Green²
Lawyer
McInnes Cooper

Ann Marie Hann^{2, 4}
Vice President External Relations
Atrium Coal

Christopher Hickman^{1, 4}
CEO
Marco Group of Companies

Jack Hillyard^{1, 3}
Retired BMO Executive

Mark Macleod^{2, 3}
Retired Chevron Executive

Stan Marshall
President and CEO

Brian Maynard^{1, 3}
President, Marathon Oil Canada Corp.

Debbie Molloy^{2, 4}
Vice President, Corporate Services
Eastern Health

David Oake^{1, 3}
President, Invenio Consulting Inc.

Edna Turpin⁴
Psychologist/Corporate Director

1/ Audit Committee 2/ Corporate Governance Committee 3/ Compensation Committee 4/ Safety, Health, Environment and Community Committee

NALCOR ENERGY OFFICERS

Stan Marshall
President and CEO

Derrick Sturge
Executive Vice President, Finance and Chief Financial Officer

Gilbert Bennett
Executive Vice President, Power Development

John MacIsaac
Executive Vice President, Power Supply

Jim Keating
Executive Vice President, Corporate Services
and Offshore Development

Peter Hickman
Vice President, General Counsel and Corporate Secretary

Chris Kieley
Vice President, Strategic Planning & Business Development

Robert Henderson
Vice President, Transition to Operations

Mike Roberts
Chief Human Resources Officer and
Vice President Safety, Health and Sustainability

Carla Russell
General Manager, Finance

Auburn Warren
General Manager, Financial and Risk Management

Meredith Baker
Assistant Corporate Secretary

NEWFOUNDLAND AND LABRADOR HYDRO LEADERSHIP TEAM

Jim Haynes
President

Lisa Hutchens
Vice President, Finance

Dawn Dalley
Vice President, Regulatory Affairs & Corporate Services

Terry Gardiner
Vice President, Engineering Services

Jennifer Williams
Vice President, Production

Geoff Young
Corporate Secretary and General Counsel

NEWFOUNDLAND AND LABRADOR HYDRO BOARD OF DIRECTORS

John Green
Chairperson
Lawyer, McInnes Cooper

Donna Brewer
Deputy Minister of Finance
Government of Newfoundland and Labrador

Heather Jacobs
Deputy Minister of Justice
Government of Newfoundland and Labrador

Chris Loomis
Professor (Retired)
Memorial University of Newfoundland and Labrador

Stan Marshall
President and CEO
Nalcor Energy

NEWFOUNDLAND AND LABRADOR HYDRO OFFICERS

Stan Marshall
Chief Executive Officer

Jim Haynes
President

Lisa Hutchens
Vice President, Finance

Dawn Dalley
Vice President, Regulatory Affairs & Corporate Services

Terry Gardiner
Vice President, Engineering Services

Jennifer Williams
Vice President, Production

Geoff Young
Corporate Secretary and General Counsel

Scott Pelley
Corporate Treasurer

Michael Ladha
Assistant Corporate Secretary

BOARD OF DIRECTORS

The principal functions of Nalcor Energy's Board of Directors include:

- (a) developing Nalcor's approach to corporate governance;
- (b) reviewing and approving the business, financial, strategic and other plans to enable Nalcor to execute its strategy;
- (c) adopting processes for monitoring the company's progress toward its strategic and operational goals;
- (d) approving the audited financial statements and Management's Discussion and Analysis;
- (e) ensuring that Management has a process for identifying the principal business risks;
- (f) overseeing the integrity of the internal control systems;
- (g) ensuring that Nalcor has processes for operating within applicable laws and regulations;
- (h) ensuring the company has a compensation philosophy and framework;
- (i) ensuring a process is in place to measure the performance of senior executives of Nalcor;
- (j) ensuring Management creates a culture of integrity throughout the organization; and
- (k) ensuring that succession plans are in place for senior Management, including the President and CEO.

The Board also has four committees:

1. Audit
2. Corporate Governance
3. Compensation
4. Safety, Health, Environment and Community

In April 2016, the members of the standing Nalcor board resigned their positions as directors. The Government of Newfoundland and Labrador appointed the following interim Board of Directors, effective 5:00 p.m. April 22: John Green, Q.C. (Chair), Donna Brewer, Heather Jacobs, Q.C., Dr. Chris Loomis, and H. Stan Marshall (President and CEO of Nalcor Energy).

In November, the Provincial Government announced the following appointments to the Board of Directors to replace the above noted members of the Board, effective December 1, 2016.

- Brendan Paddick, Chair
- John Green, QC
- Ann Marie Hann
- Christopher Hickman
- Jack Hillyard
- Mark MacLeod
- Brian Maynard
- Debbie Molloy
- David Oake
- Dr. Edna Turpin
- Stan Marshall

This Board met once in 2016.

Nalcor has the following subsidiary companies (in addition to Newfoundland and Labrador Hydro), each with its own Board of Directors (listed as at Dec. 31, 2016).*

* Excludes currently inactive legal entities Gull Island Power Company Limited and Lower Churchill Development Corporation Limited

CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED

John Green
Chairperson
Lawyer, McInnes Cooper

Richard Cacchione
President
Hydro-Québec Production

Pierre-Luc Desgagne
Vice President Corporate Affairs & Secretary General
Hydro-Québec

John MacIsaac
Executive Vice President, Power Supply
Nalcor Energy

Stan Marshall
President and CEO
Nalcor Energy

Bob Warr
Managing Director
Nor-Lab Limited

NALCOR ENERGY – OIL & GAS INC.

Brendan Paddick
CEO
Columbus Capital Corp.

Justin Ladha
Vice President
KMK Capital Inc.

Mark Macleod
Retired Chevron Executive

Stan Marshall
President and CEO
Nalcor Energy

Brian Maynard
President
Marathon Oil Canada Corp.

NALCOR ENERGY – BULL ARM FABRICATION INC.

Edna Turpin
Psychologist/Corporate Director

Mark Macleod
Retired Chevron Executive

Stan Marshall
President and CEO
Nalcor Energy

Debbie Molloy
Vice President, Corporate Services
Eastern Health

David Oake
President
Invenio Consulting Inc.

TWIN FALLS POWER CORPORATION LIMITED

Chris Kieley
President
Vice President, Strategic Planning & Business Development
Nalcor Energy

Maurice McClure
Vice President Finance and Strategy
Iron Ore Company of Canada

Oral Burry
Manager, Planning and Business Services
Nalcor Energy

Patrick Ryan
Manager of Site
Cliffs Natural Resources

Van Alexopoulos
Director, Commercial Services
Iron Ore Company of Canada

Clifford Smith
Executive Vice President
Seaborne Iron Ore

Derrick Sturge
Executive Vice President, Finance and Chief Financial Officer
Nalcor Energy

Mike Roberts
Chief Human Resources Officer
Vice President Safety, Health & Sustainability
Nalcor Energy

Robert Hull
General Manager, Commercial Management and Integration
Nalcor Energy

LOWER CHURCHILL MANAGEMENT CORPORATION

John MacIsaac
Executive Vice President, Power Supply
Nalcor Energy

Gilbert Bennett
Executive Vice President, Power Development
Nalcor Energy

Stan Marshall
President and CEO
Nalcor Energy

June Perry
President and CEO
Pilot Communications

Mike Roberts
Chief Human Resources Officer
Vice President Safety, Health & Sustainability
Nalcor Energy

Donna Stone
Investment Advisor
CIBC Wood Gundy

LABRADOR-ISLAND LINK GENERAL PARTNER CORPORATION (general partner of Labrador-Island Link Limited Partnership)

John Green
Chairperson
Lawyer, McInnes Cooper

Libby Burnham
Lawyer

Ron Ellsworth
Business Person

Stan Marshall
President and CEO
Nalcor Energy

Edna Turpin
Psychologist/Corporate Director

LABRADOR-ISLAND LINK HOLDING CORPORATION

Jack Hillyard
Retired BMO Executive

Sheila Kelly-Blackmore
Business Person

John MacIsaac
Executive Vice President, Power Supply
Nalcor Energy

Ann Marie Hann
Vice-President, External Relations
Atrium Coal

Derrick Sturge
Executive Vice President, Finance and Chief Financial Officer
Nalcor Energy

LABRADOR-ISLAND LINK OPERATING CORPORATION

Brendan Paddick
CEO
Columbus Capital Corp.

Ann Marie Hann
Vice President, External Relations
Atrium Coal

Christopher Hickman
CEO
Marco Group of Companies

Chris Loomis
Professor (Retired)
Memorial University of Newfoundland

David Oake
President
Invenio Consulting Inc.

Desmond Whalen
Medical Student, Faculty of Medicine
Memorial University of Newfoundland

LABRADOR TRANSMISSION CORPORATION

Ann Marie Hann
Vice President, External Relations
Atrium Coal

John MacIsaac
Executive Vice President, Power Supply
Nalcor Energy

Stan Marshall
President and CEO
Nalcor Energy

Derrick Sturge
Executive Vice President, Finance and Chief Financial Officer
Nalcor Energy

Chris Woodford
Architect
Woodford Sheppard Architecture

MUSKRAT FALLS CORPORATION

Christopher Hickman
Chairperson
CEO, Marco Group of Companies

Richard Daw
Chartered Accountant

Jack Hillyard
Retired BMO Executive

Stan Marshall
President and CEO
Nalcor Energy

John Quaiocoe
Professor, Faculty of Engineering and Applied Science
Memorial University of Newfoundland

NALCOR ENERGY MARKETING CORPORATION

Brian Maynard
President
Marathon Oil Canada Corp.

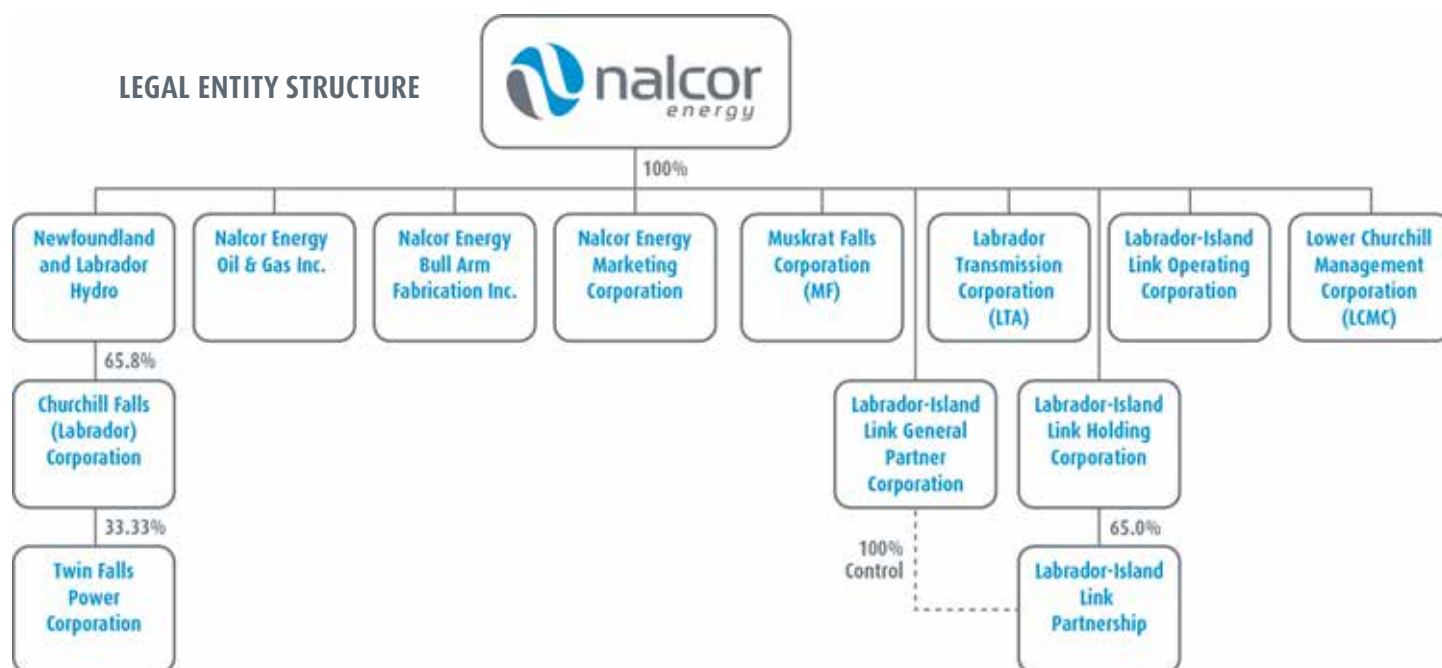
Dennis Clarke
Lawyer
Goodland Buckingham

John Green
Lawyer
McInnes Cooper

Stan Marshall
President and CEO
Nalcor Energy

Debbie Molloy
Vice President, Corporate Services
Eastern Health

CORPORATE GOVERNANCE



AUDIT COMMITTEE

The Audit Committee's primary duties and responsibilities are to:

- serve as an independent and objective party to monitor the integrity of Nalcor's financial statements, financial reporting process and systems of internal controls regarding finance, accounting, and legal compliance;
- identify and monitor the management of the principal risks that could impact the financial reporting of the Company;
- appoint, approve compensation, and monitor the independence and performance of Nalcor's external auditors;
- monitor the compliance by Nalcor with legal and regulatory requirements;
- provide an avenue of communication among the external auditors, management, and the Board; and
- encourage continuous improvement of, and foster adherence to, Nalcor's policies, procedures and practices at all levels.

CORPORATE GOVERNANCE COMMITTEE

The Corporate Governance Committee is responsible for:

- a) Developing governance principles for the Corporation and its subsidiaries that are consistent with high standards of corporate governance and reviewing and assessing on an ongoing basis the Corporation's system of corporate governance;
- b) Identifying and recommending candidates for appointment to the Board to be put before the Shareholder in the event of a vacancy on the Board;
- c) Reviewing and recommending a process for Director orientation, assessment, and compensation; and
- d) Enterprise Risk Management with respect to the Corporation and its subsidiaries.

COMPENSATION COMMITTEE

The primary responsibilities of the Committee are to:

- a) Consider and recommend for approval by the Board of Directors the appointment of the President and CEO and all other Officers of Nalcor and its subsidiaries.
- b) With the chair of the Board of Directors, undertake an annual performance review of the President and CEO of Nalcor and report and/or make recommendations to the Board of Directors.
- c) Review and assess annually Nalcor's succession planning policies and practices, and report and/or make recommendations to the Board of Directors.
- d) Establish and maintain a compensation philosophy and framework for Nalcor and its subsidiaries.
- e) Review and assess annually compensation and benefit policies and programs and pension plans of Nalcor for Executive, Management and all employees and recommend any changes or new policies or programs, where appropriate, to the Board of Directors.
- f) Review compensation and benefits mandates for collective bargaining mandates and any proposed tentative settlement and recommend to the Board of Directors.
- g) Review annually the Corporation's performance management practices and procedures, and report and recommend any changes, as appropriate, to the Board of Directors.
- h) As necessary, provide guidance and direction to the Boards of subsidiary companies with respect to compensation and human resource policies and issues as outlined in this mandate.

SAFETY, HEALTH, ENVIRONMENT AND COMMUNITY COMMITTEE

The Safety, Health, Environment and Community Committee's primary responsibilities include:

- a) reviewing and reporting to the Board of Directors on Nalcor's maintenance of safety, environment and health policies, procedures and practices and in the conduct of its operation, directed to prevent injury to its employees, the public and the environment;
- b) reviewing with Management whether Nalcor's safety, environment and health policies are effectively implemented and in compliance with statutory and regulatory requirements and report to the Board of Directors, at least annually, on Nalcor's compliance with current industry, legislative, regulatory and corporate standards for safety, environmental and health;
- c) reviewing the findings of reports arising from internal and external audits and assessments of safety, environment and health issues, together with Management's response thereto and oversee to ensure that there is an agreed course of action leading to the resolution of any concerns, deficiencies or outstanding issues and timely follow-up on any unresolved matters;
- d) reviewing with Management the impact of proposed legislation in matters of safety, environment and health on the operations of Nalcor and make recommendations to the Board of Directors on the appropriate responses and action for Nalcor;
- e) reviewing and reporting to the Board of Directors Nalcor's safety and environmental emergency response planning policies and procedures;
- f) reviewing and approving annually the safety and environmental audit plans by Nalcor and external auditors and review of an annual Corporate report on safety and environmental issues identified by Management;
- g) reviewing with Management and make recommendations to the Board of Directors as appropriate on the Corporation's safety, environment, health and community programs, policies and procedures and any other matters relating to safety, environment, health and community that it considers relevant;
- h) reviewing and approving the appointment, compensation and retention of external safety and environment auditors;

CORPORATE GOVERNANCE

- i) meeting with the Vice-President responsible at least annually to review safety, environmental, health or community matters that could have a material impact on Nalcor's reputation, business or financial position and report to the Board of Directors thereon in a timely manner; and
- j) Reviewing and understanding the safety, health and environment policies and practices of Nalcor's oil & gas partners.

INDEPENDENCE

Nalcor Energy has a Director Independence Policy consisting of:

1. A majority of the Board of Directors, including the Board Chair shall be independent in accordance with the criteria established by the Corporation.
2. All of the members of the Audit Committee, Compensation Committee, Corporate Governance Committee, and Safety, Health and Environment Committee shall be independent Directors.
3. Annually, the Directors will be required to provide a formal declaration indicating that they satisfy the Corporation's Independence Criteria.
4. Directors have a responsibility to discuss any potential conflicts that might impact their independence with the Board Chair or the Chair of the Corporate Governance Committee. If, based on these discussions, it is determined that the independence of the Director has been impacted, the Board should be advised.
5. If Directors do not satisfy the Independence Criteria, they should not participate in any discussion or voting relating to matters that contribute to the Independence issue.

POLICY ON INDEPENDENCE OF EXTERNAL AUDITORS

Nalcor Energy has an Auditor Independence Policy that governs all aspects of Nalcor's relationship with the external auditor, including:

- (a) establishing a process for determining whether various audit and other services provided by the external auditor affects their independence;
- (b) identifying the services that the external auditor may and may not provide to Nalcor;
- (c) pre-approving all services to be provided by the external auditor to the company; and
- (d) establishing a process for hiring current or former personnel of the external auditor in a financial oversight role to ensure auditor independence is maintained.

EXTERNAL AUDITOR'S FEES

The external auditor of Nalcor and its subsidiaries is Deloitte LLP. Deloitte has been the external auditor since 2003. Professional fees incurred in 2016 in connection with audit and audit-related services were \$0.9 million (2015 - \$0.8 million) and fees related to non-audit services were \$0.2 million (2015 - \$0.1 million).

ENERGY PORTFOLIO

LEGEND

- Hydroelectric Generation Station

- Thermal Plant/Combustion Turbine

- ▲ Diesel Plant

- ✈ Wind Generation

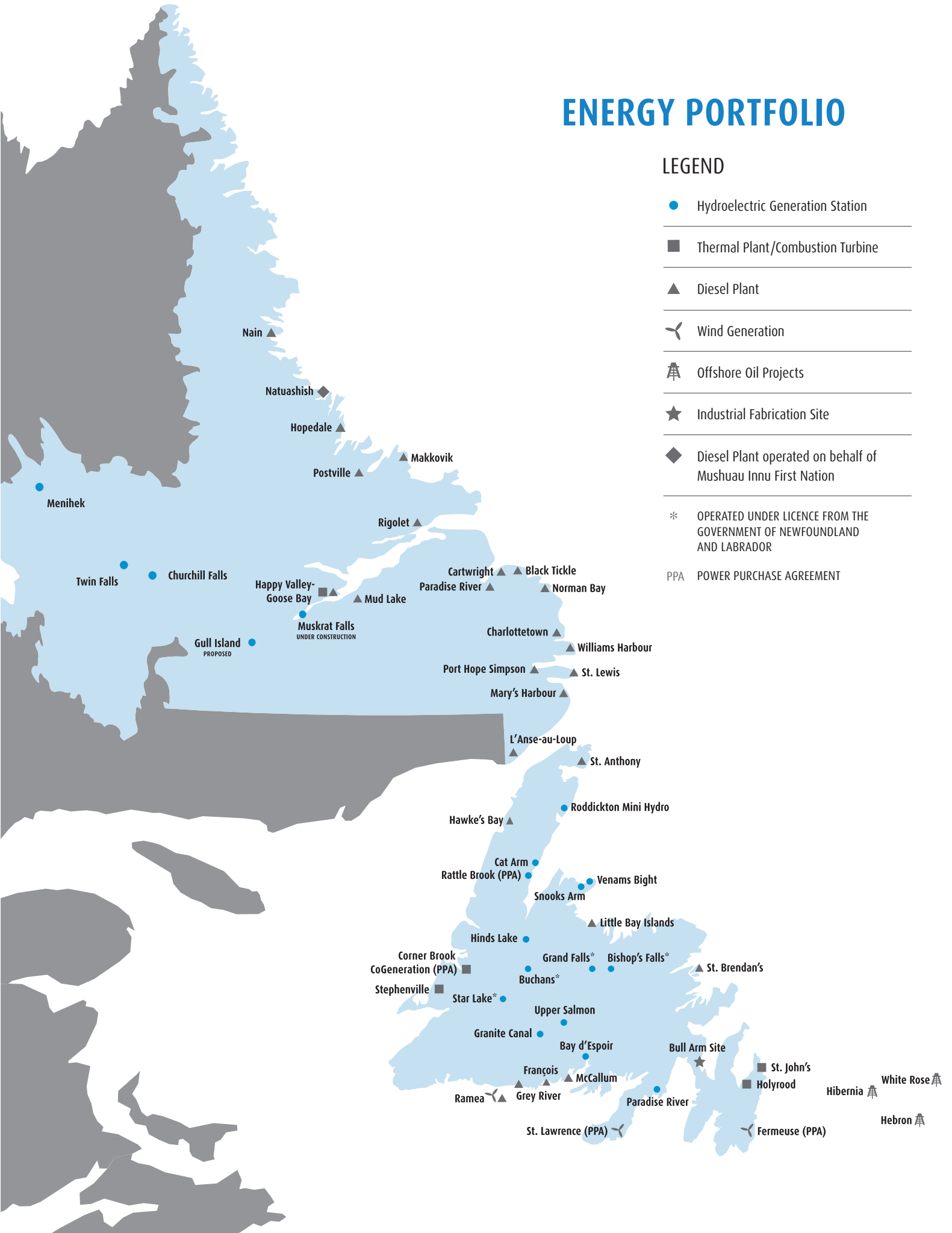
- ⚓ Offshore Oil Projects

- ★ Industrial Fabrication Site

- ◆ Diesel Plant operated on behalf of Mushuau Innu First Nation

* OPERATED UNDER LICENCE FROM THE GOVERNMENT OF NEWFOUNDLAND AND LABRADOR

PPA POWER PURCHASE AGREEMENT



APPENDIX 1

Management's Discussion & Analysis

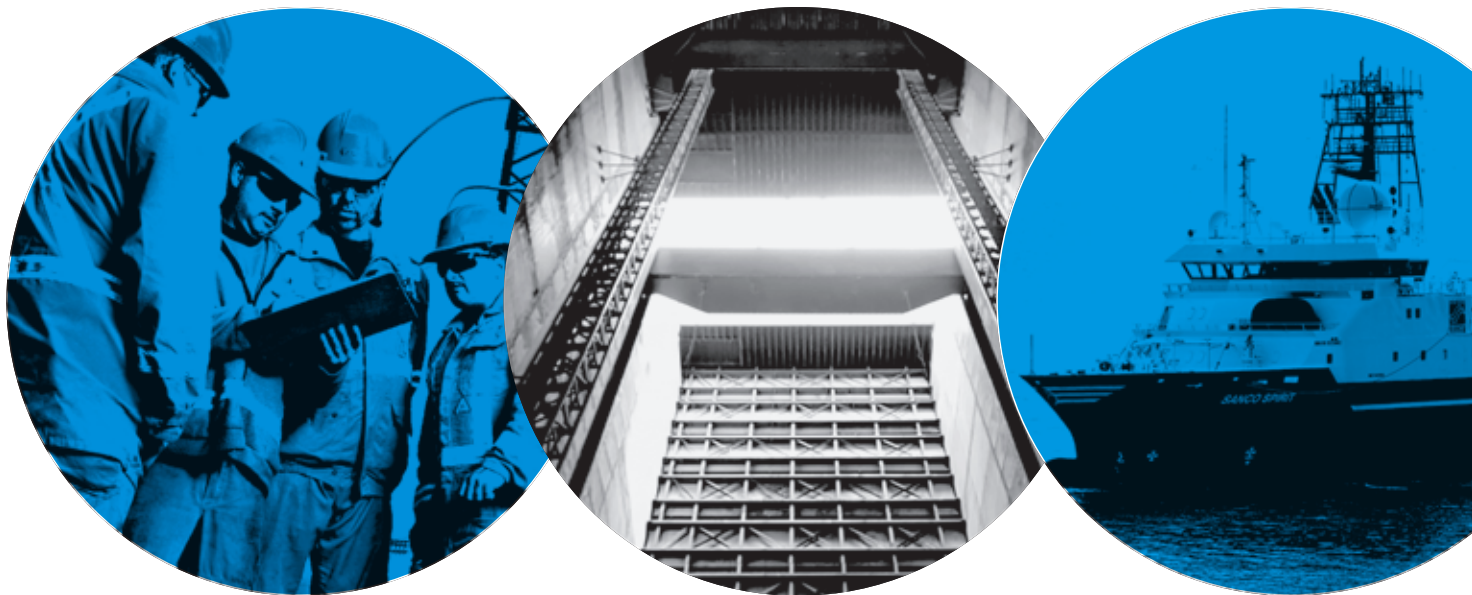


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MANAGEMENT'S DISCUSSION & ANALYSIS

FOR THE THREE AND TWELVE MONTHS ENDED DECEMBER 31, 2016

SECTION 1: CORPORATE OVERVIEW

Nalcor Energy (Nalcor or the Company) is a Crown corporation established in 2007 under a special act of the Legislature of the Province of Newfoundland and Labrador (the Province). Nalcor's business includes the development, generation, transmission and sale of electricity; the exploration, development, production and sale of oil and gas; energy marketing; and industrial fabrication site management. Nalcor's legal structure as at December 31, 2016 included the entities listed below:

Entity Name	Description of Interest
Newfoundland and Labrador Hydro (Hydro)	Wholly owned subsidiary
Nalcor Energy – Oil and Gas Inc. (Oil and Gas)	Wholly owned subsidiary
Nalcor Energy – Bull Arm Fabrication Inc. (Bull Arm Fabrication)	Wholly owned subsidiary
Nalcor Energy Marketing Corporation (Energy Marketing)	Wholly owned subsidiary
Muskrat Falls Corporation (Muskrat Falls)	Wholly owned subsidiary
Labrador Transmission Corporation (Labrador Transco)	Wholly owned subsidiary
Labrador-Island Link Holding Corporation (LIL Holdco)	Wholly owned subsidiary
Labrador-Island Link General Partner Corporation (LIL GP)	Wholly owned subsidiary
Labrador-Island Link Operating Corporation (LIL OpCo)	Wholly owned subsidiary
Lower Churchill Management Corporation (LCMC)	Wholly owned subsidiary
Churchill Falls (Labrador) Corporation Limited (Churchill Falls)	65.8% owned joint operation of Hydro
Twin Falls Power Corporation Limited (Twin Falls)	33.3% owned joint venture of Churchill Falls
Labrador-Island Link Limited Partnership (LIL LP)	Limited partnership in which Nalcor, through LIL Holdco, owns 100% of the 75 Class A limited partnership units
Gull Island Power Corporation (GIPCo)	Wholly owned subsidiary (inactive)
Lower Churchill Development Corporation (LCDC)	51% owned subsidiary of Hydro (inactive)

Nalcor has segregated its business into seven reporting segments. Segregation of business segments allows Management to evaluate operational performance and assess the overall contribution of each segment to Nalcor's long-term objectives. The designation of segments has been based on a combination of regulatory status and management accountability. The following summary provides a brief overview of the nature of the operations included in each of the Company's business segments.

1. **Hydro Regulated** generates, transmits and distributes electricity to customers within Newfoundland and Labrador.
2. **Churchill Falls** owns and operates the Churchill Falls Generating Station, one of the largest power generation plants in the world.
3. **Oil and Gas** holds and manages both onshore and offshore oil and gas interests and conducts exploration in Newfoundland and Labrador.
4. **Energy Marketing** markets and trades the province's surplus energy in markets in Canada and the United States (US).
5. **Bull Arm Fabrication** consists of an industrial fabrication site which is currently leased for a major construction project.
6. **Phase 1 Lower Churchill Project** (Lower Churchill Project, LCP) includes construction of the Muskrat Falls hydroelectric plant, the Labrador Transmission Assets, the Labrador-Island Link and the Maritime Link between the island of Newfoundland and Nova Scotia.
7. **Corporate and Other Activities** encompasses corporate support functions, shared services, business development activities and certain development projects not yet sanctioned, including Phase 2 of the Lower Churchill Project (Gull Island).

Nalcor maintains appropriate systems of internal control, policies and procedures which provide Management with reasonable assurance that assets are safeguarded and its financial information is reliable. The following discussion and analysis is the responsibility of Management, has been approved by the Board of Directors, and is as at March 6, 2017. The Board of Directors carries out its responsibility for review of this disclosure principally through its Audit Committee, comprised exclusively of independent directors. The Audit Committee has reviewed this Management's Discussion and Analysis (MD&A).

This MD&A should be read in conjunction with the annual audited consolidated financial statements for the year ended December 31, 2016.

MANAGEMENT'S DISCUSSION & ANALYSIS

FOR THE THREE AND TWELVE MONTHS ENDED DECEMBER 31, 2016

Basis of Presentation

Unless otherwise noted, all financial information has been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

All financial information is reported in Canadian dollars (CAD), unless otherwise noted.

Non-GAAP Financial Measures

Certain financial measures in this MD&A are not prescribed by IFRS as contained within Part I of the Chartered Professional Accountants of Canada Handbook. These non-generally accepted accounting principles (Non-GAAP) financial measures are defined in Section 8 - Non-GAAP Financial Measures.

Forward-Looking Information

Certain statements in this MD&A are forward-looking statements, based on Nalcor's current expectations, estimates, projections and assumptions, which are subject to risks and uncertainties. Statements containing words such as "could", "expect", "may", "anticipate", "believe", "intend", "estimate", "plan" and similar expressions constitute forward-looking statements. By their nature, forward-looking statements require Management to make assumptions and are subject to important unknown risks and uncertainties, which may cause actual results in future periods to differ materially from forecasted results. While Management considers these assumptions to be reasonable and appropriate based on information currently available, there is a risk that they may not be accurate. Nalcor assumes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or any other reason.

MANAGEMENT'S DISCUSSION & ANALYSIS

FOR THE THREE AND TWELVE MONTHS ENDED DECEMBER 31, 2016

SECTION 2: FINANCIAL HIGHLIGHTS AND RECENT DEVELOPMENTS

<i>For the period ended December 31 (millions of dollars)</i>	Three months ended			Twelve months ended		
	2016	2015	2014	2016	2015	2014
Revenue (millions of dollars)	227.4	218.7	208.2	824.1	810.5	798.0
Profit (loss) (millions of dollars)	62.4	(36.3)	70.5	136.3	(16.0)	115.6
Operating profit (millions of dollars) ¹	62.4	25.4	70.5	136.3	45.7	115.6
Funds from operations (FFO) (millions of dollars) ¹	102.6	55.5	94.3	278.9	148.8	213.7
Earnings before interest, taxes, depreciation, depletion, amortization and accretion (EBITDA) (millions of dollars) ¹	117.0	73.1	37.6	343.4	216.7	275.6
Return on capital employed (ROCE) ^{1,2}				7.93%	4.46%	7.50%
Capital expenditures (millions of dollars) ³	838.5	755.8	673.3	3,249.9	2,759.8	2,018.3
Oil production (bbls)	732,698	225,499	116,110	2,226,440	524,534	660,715
Realized oil price (CAD/bbl)	68.86	71.17	95.87	63.66	82.90	115.26
Electricity sales (GWh):						
Regulated	2,128	2,202	2,048	7,786	8,041	7,682
Export - Hydro Québec	7,302	8,099	8,346	27,995	28,692	27,568
Export - other markets	378	373	353	1,627	1,569	1,474
Realized electricity price - Other Export Markets (CAD/MWh)	27.95	28.93	24.53	28.81	35.58	41.42

¹See Section 8 - Non-GAAP Financial Measures

²Rolling 12 month average

³Including Maritime Link

FINANCIAL HIGHLIGHTS

Key Profit Drivers

Key profit drivers vary across each of Nalcor's seven business segments as there is a combination of regulated operations, operations with long-term and medium-term supply contracts and operations in markets where revenues are driven entirely by commodity prices (electricity and oil). In addition to the effect that oil prices have on Oil and Gas' operations, Oil and Gas may incur impairment expenses and future reversal of such expenses due to changes in projected future cash flows. Certain factors impacting future cash flows include fluctuations in oil price, discount rate and reserves. Any impairment expense or reversal of such expense is reflected in Nalcor's results, and can lead to large fluctuations in profit or loss between financial reporting periods. Also, in the case of the Oil and Gas segment, cash flow and results of operations are significantly influenced by oil production levels in offshore developments in which Nalcor holds equity interests. As a result, it is necessary to consider the underlying key profit drivers and performance of each business segment to understand Nalcor's consolidated performance.

Nalcor profitability is also impacted by exchange rate fluctuations for a number of foreign currencies, the most significant being the CAD/United States Dollar (USD) exchange rate. Nearly all revenue generated by the Oil and Gas, Energy Marketing and Bull Arm business segments are denominated in USD. Volatility is partially mitigated through USD hedging. However, in general, any fluctuations in the USD exchange rate have a direct impact on Nalcor's profit. Various expenses, capital expenditures and Statement of Financial Position balances include amounts denominated in USD, particularly Hydro's fuel purchases for the Holyrood Thermal Generating Station (HTGS). Cost variances for these fuel purchases as a result of exchange rate fluctuations are captured in the Rate Stabilization Plan (RSP) and do not impact Nalcor's profit. The average exchange rate for 2016, before the impact of Nalcor's foreign exchange hedging program, was \$1.35 CAD per USD as compared to \$1.26 CAD per USD for 2015.

Hydro Regulated is regulated by the Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB) and operates under a cost of service regulation, whereby it is entitled to the opportunity to recover, through customer rates, all reasonable and prudent costs incurred in providing electricity service to its customers, in addition to a just and reasonable return on rate base, in accordance with Section 80 of the Public Utilities Act. Failure to obtain acceptable rate orders on a timely basis as applied for may adversely affect the profit of Hydro Regulated.

MANAGEMENT'S DISCUSSION & ANALYSIS

FOR THE THREE AND TWELVE MONTHS ENDED DECEMBER 31, 2016

Profit (Loss)

Nalcor's 2016 profit was \$136.3 million, which represents an increase in profit of \$152.3 million over 2015. Key drivers of the increase included lower operating costs across all lines of business, primarily due to decreased professional service costs, materials and maintenance costs and salaries and benefits; impairment expense of \$61.7 million related to Oil and Gas in the prior year; increased revenue, largely due to increased oil sales as a result of higher production at Hibernia Southern Extension (HSE); and, the reduction of a claim settlement previously accrued for a higher amount, as well as favourable changes in Hydro's regulatory deferrals. These increases in profit were partially offset by increased oil production costs and higher depletion associated with increased production at HSE; higher depreciation and amortization; lower gains on the settlement of commodity contracts; lower energy sales in Churchill Falls as a result of the impact of the Renewal Contract; and, lower realized export prices in Energy Marketing, partially offset by higher volumes of export sales.

Nalcor's profit for the three months ended December 31, 2016 was \$62.4 million, an increase of \$98.7 million for the quarter compared to 2015. Key drivers of the increase included lower operating costs across all lines of business, primarily due to decreased professional service costs, materials and maintenance costs and salaries and benefits; an impairment expense of \$61.7 million related to Oil and Gas in the prior year; increased revenue, largely due to increased oil sales as a result of higher production at HSE; higher volumes of export sales in Energy Marketing, partially offset by lower realized export market prices; and, favourable changes in Hydro's regulatory deferrals. These increases in profit were partially offset by increased oil production costs and higher depletion associated with increased production at HSE; lower gains on the settlement of oil commodity contracts; and, lower energy sales in Churchill Falls as a result of the impact of the Renewal Contract.

A detailed discussion of the performance of each of Nalcor's segments is contained in Section 4 – Segmented Results and Analysis.

FFO and EBITDA

FFO year-to-date of \$278.9 million was \$130.1 million higher than the prior year, and EBITDA year-to-date of \$343.4 million was \$126.7 million higher than the prior year. FFO for the quarter of \$102.6 million was \$47.1 million higher than the prior year, and EBITDA for the quarter of \$117.0 million was \$43.5 million higher than prior year. Key drivers for these increases included higher profit and increased depletion, partially offset by a \$61.7 million impairment recognized in 2015.

ROCE

2016 ROCE of 7.93% is higher than 2015 ROCE of 4.46%, primarily due to increased profit, as a result of the drivers noted above.

Capital Expenditures

2016 capital expenditures, excluding Maritime Link, of \$2.8 billion were \$0.4 billion higher than prior year, primarily due to increases in capital related to LCP and Hydro Regulated. Additional details on Nalcor's capital expenditures are provided in Section 5 – Liquidity and Capital Resources.

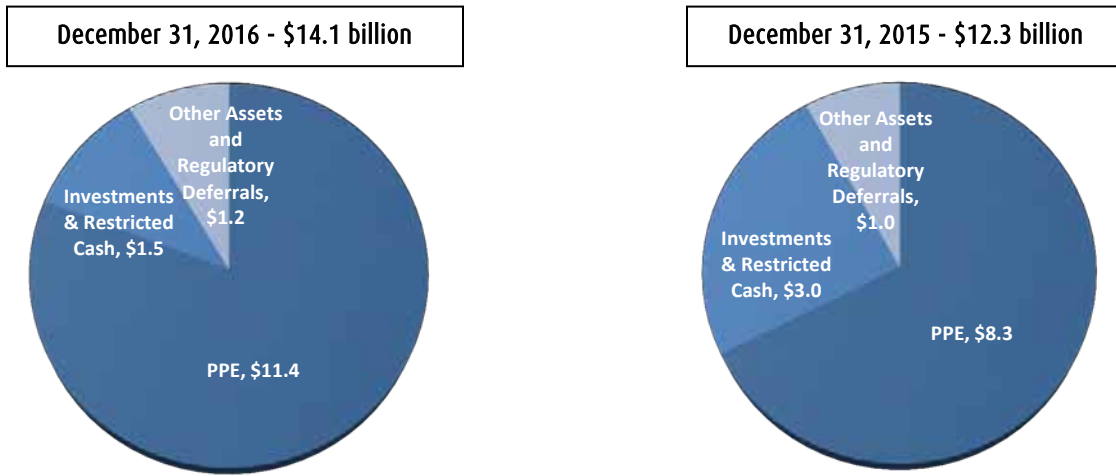
Statement of Financial Position

<i>As at December 31 (millions of dollars)</i>	2016	2015	2014
Total assets	14,061.5	12,321.7	10,643.1
Capital assets, net	11,416.5	8,324.5	5,658.8
Long-term debt (net of sinking funds)	5,872.8	6,008.1	6,240.5
Shareholder's equity	4,262.7	3,475.3	2,722.0
Debt to capital (%)	60.7%	64.5%	69.2%

MANAGEMENT'S DISCUSSION & ANALYSIS

FOR THE THREE AND TWELVE MONTHS ENDED DECEMBER 31, 2016

Total Assets



Nalcor's total assets as at December 31, 2016 were \$14.1 billion, an increase of \$1.8 billion from December 31, 2015. The composition of the Company's assets as at December 31, 2016 included property, plant and equipment of \$11.4 billion (December 31, 2015 - \$8.3 billion), investments and restricted cash from the proceeds of the Lower Churchill Project financing of \$1.5 billion (December 31, 2015 - \$3.0 billion), and other assets and regulatory deferrals totaling \$1.2 billion (December 31, 2015 - \$1.0 billion). The change in assets during 2016 was primarily the result of increases in capital expenditures related to LCP and Hydro Regulated, partially offset by a reduction in investments and restricted cash used to fund these expenditures. Additional details on Nalcor's capital expenditures are provided in Section 5 – Liquidity and Capital Resources.

Total Liabilities and Equity

Total liabilities increased by \$934.0 million primarily due to a \$485.2 million increase in Maritime Link costs that are recognized as deferred credits in the Consolidated Statement of Financial Position. Short-term borrowings increased by \$338.0 million due to an increase in promissory notes related to Hydro's funding requirements. Class B limited partnership unit liabilities increased by \$191.7 million as a result of contributions and accrued interest. Trade and other payables increased by \$164.6 million as a result of increased capital accruals related to the construction costs for LCP and Hydro.

Equity has increased by \$787.4 million, resulting primarily from the additional equity contributions of \$656.4 million from the Government of Newfoundland and Labrador (the Shareholder) combined with an increase in profit during the year of \$136.3 million.

Further details on changes in the Consolidated Statement of Financial Position are included in Section 3 – Consolidated Financial Results.

Debt to Capital

Debt to capital decreased from 64.5% in the prior year to 60.7% for 2016, primarily due to increased shareholder contributions and profit, partially offset by an increase in net debt, primarily associated with higher Class B limited partnership unit contributions.

MANAGEMENT'S DISCUSSION & ANALYSIS

FOR THE THREE AND TWELVE MONTHS ENDED DECEMBER 31, 2016

RECENT DEVELOPMENTS

HYDRO REGULATED

General Rate Application

Hydro filed a GRA in July 2013, using a 2013 Test Year, requesting a rate adjustment effective January 1, 2014. Due to the length of time the GRA process required and the delay in obtaining a rate change, in November 2014 Hydro filed an amended GRA based on 2014 and 2015 Test Years. The amended GRA filing requested new rates for Industrial Customers effective January 1, 2015 and the remainder of customer rates effective February 1, 2015.

The PUB approved interim rates effective July 1, 2015. The public hearing of Hydro's GRA concluded in early December 2015 and final arguments were filed at the end of January 2016. Hydro received Board Order No. P.U. 49(2016) (the GRA Order) on December 1, 2016. Hydro has recorded its best estimate of the impact of the GRA Order in its financial results, based upon Management's interpretation. In January 2017, Hydro filed an application with the PUB seeking approval of final customer rates in compliance with the GRA Order (the GRA Compliance Application). It is anticipated that final customer rates will be in effect in the first half of 2017 however, regulatory risk remains around the timing and approval of Hydro's GRA Compliance Application.

As a result of the timing of the GRA Order in late 2016, Hydro filed an application for a 2016 Cost Deferral in the amount of \$38.8 million on December 9, 2016 to give Hydro the opportunity to earn a reasonable return in 2016. The PUB approved Hydro's application as filed on December 22, 2016 in Order No. P.U. (56) 2016.

Prudence Review

In 2015, the PUB informed Hydro that they would be conducting a "prudence" review of certain Hydro expenditures as part of the PUB's review of Hydro's GRA. The review addressed issues that were initially part of an investigation and hearing into supply issues and power outages on the Island Interconnected system (the Supply Outage Inquiry), as well as outstanding rate base and cost recovery requests.

On April 28, 2016, Hydro received Order No. P.U. 13 (2016) which outlines the results of a Prudence Review of certain projects and expenditures of Hydro. Hydro filed its Prudence Compliance Application with the PUB on May 25, 2016. The GRA Order accepted Hydro's Prudence Compliance Application as filed. As such, Hydro's GRA Compliance Application for final customer rates in 2017 reflects the impacts from the Prudence Compliance Application.

Standby Fuel Deferral

On June 22, 2016, the PUB issued Order No. P.U. 24 (2016) which denied Hydro's requested 2016 Standby Fuel Deferral, which sought to defer additional fuel costs as a result of an increase in combustion turbine generation. However, in the GRA Order, the PUB approved three of Hydro's proposed cost variance deferral accounts, effective January 1, 2015: the Energy Supply Cost Variance Deferral; the Holyrood Conversion Rate Deferral; and the Isolated Systems Supply Cost Variance Deferral. The Energy Supply Cost Variance Deferral permits the deferral of many of the costs proposed to be included in the 2016 Standby Fuel Deferral, as well as other supply cost variances and is intended to capture annual energy supply cost variations on the Island Interconnected System. The Holyrood conversion rate deferral is intended to stabilize costs related to the conversion of barrels of No. 6 fuel consumed at Holyrood. The Isolated Systems Supply Cost variance deferral account is intended to cover variances in price of supply sources for isolated systems.

Management's best estimate of the financial impact of the approval of these three deferral accounts is \$38.8 million for both 2015 and 2016, which was the basis for Hydro's 2016 Cost Deferral. Hydro will apply for recovery of these costs in the first half of 2017, however, timing and recovery will be subject to regulatory risk.

RSP Surplus Refund

In July 2016, Hydro filed an application with the PUB for approval of a plan to refund the balance in the RSP Surplus to Newfoundland Power and Hydro's Island Interconnected Rural customers. Newfoundland Power also filed an application to refund their portion of the RSP Surplus balance to their customers. The RSP Surplus to be refunded is approximately \$140.0 million. The PUB has approved both applications. Disposition will begin in February 2017.

MANAGEMENT'S DISCUSSION & ANALYSIS

FOR THE THREE AND TWELVE MONTHS ENDED DECEMBER 31, 2016

Supplemental Capital

Hydro filed seven supplemental capital applications in 2016. The largest related to the replacement of lower reheater boiler tubes on Units 1 and 2 of the HTGS for \$11.8 million. All applications were approved by the PUB.

In October, Hydro identified two additional unforeseen capital projects, one related to the Bay d'Espoir Penstock in the amount of \$6.6 million and a project relating to the refurbishment of Bay d'Espoir Access Roads for \$2.7 million due to damage sustained from Hurricane Matthew. Both projects were completed in December 2016. Hydro relied upon the Allowance for Unforeseen account to initiate this work. Hydro subsequently applied to have the Allowance for Unforeseen replenished and \$1.0 million was approved by the PUB. The Allowance for Unforeseen is intended to permit a utility to act expeditiously to deal with events affecting the electrical system which cannot wait for specific approval by the PUB due to the urgent nature of the work and the serious negative consequences associated with any delays in repairing the electrical system.

Other Regulatory Activity

The Phase Two investigation and hearing into supply issues and power outages on the Island Interconnected System is ongoing. The focus of this proceeding is the impact of the interconnection with Muskrat Falls on the reliability and adequacy of the Island Interconnected System. The schedule for the proceeding has not yet been finalized and the timing of the hearing has not been determined.

CHURCHILL FALLS

The initial term of the 1969 Power Contract between Churchill Falls and Hydro-Québec expired in 2016. A Renewal Contract commenced September 1, 2016 and expires August 31, 2041.

In August 2016, Churchill Falls received judgment from the Québec Court of Appeal upholding the 2014 Québec Superior Court ruling on the motion filed by Churchill Falls to address the inequities of the pricing terms of the 1969 Power Contract between Churchill Falls and Hydro-Québec. The Court ruled against Churchill Falls and the ruling requires Churchill Falls to pay court costs of \$1.4 million to Hydro-Québec. Churchill Falls has filed an Application for Leave to Appeal with the Supreme Court of Canada.

In addition, Churchill Falls received judgment from the Quebec Superior Court regarding a Motion for Declaratory Judgment filed by Hydro-Québec relating to the interpretation of the 1969 Power Contract between Churchill Falls and Hydro-Québec and the associated Renewal Contract, which commenced September 1, 2016. The Court ruled in favour of Hydro-Québec and the ruling requires Churchill Falls to pay costs of \$0.4 million to Hydro-Québec. Churchill Falls has filed a Notice of Appeal with the Québec Court of Appeal.

As a result of the expiration of the sub-lease between Twin Falls and Churchill Falls regarding the right to develop hydroelectric power on the Unknown River, a further sub-lease was signed between Hydro and Churchill Falls, naming Hydro as the lessee of the transmission lines and related assets. The lease term was originally for a six-month period but has been subsequently extended to March 31, 2017.

OIL AND GAS

Drilling at the White Rose (WR) field resumed in 2016 with the Henry Goodrich drill rig. This included completion of the North Amethyst producer in the Hibernia formation and the continuation of the South WR Extension scope. Nalcor and partners continue to evaluate options for the WR Extension Project, including both subsea and wellhead platform concepts. At HSE, drilling and completion operations focused on water injectors to support production from new and existing oil producers.

Acquisition of data for the 2D seismic programs continued with approximately 41,800 km completed by the end of the year. During 2016, Nalcor invested \$28.1 million related to the seismic program.

BULL ARM FABRICATION

On August 31, 2016, the existing sublease between ExxonMobil Canada Properties and Bull Arm Fabrication for the use of the Bull Arm Fabrication site and assets was extended one year with termination in March 7, 2018.

In preparation for the conclusion of the Hebron project and ExxonMobil Canada Properties exit from the site, Bull Arm is planning to issue an Expression of Interest to assess and quantify the opportunities for the site post-Hebron.

MANAGEMENT'S DISCUSSION & ANALYSIS

FOR THE THREE AND TWELVE MONTHS ENDED DECEMBER 31, 2016

LOWER CHURCHILL PROJECT

On November 3, 2016 the Government of Canada announced a commitment to provide an additional loan guarantee of up to \$2.9 billion to support additional borrowings for the components of the Lower Churchill Project led by Nalcor Energy. The specific conditions of this support are expected to be finalized by the Government of Canada, the Government of Newfoundland and Labrador and Nalcor in Q1 2017.

On December 21, 2016 Muskrat Falls Corporation and Astaldi Canada announced they had negotiated terms for an agreement to complete construction of the powerhouse and intake civil works for the Muskrat Falls generation facility. The terms of the completion contract were subject to customary approvals and conditions with final execution expected in Q1 2017. The increase in contract value associated with this agreement will result in an increase in the capital cost estimate for the Project from the \$9.1 billion announced in June 2016 to \$9.4 billion.

SECTION 3: CONSOLIDATED FINANCIAL RESULTS

CONSOLIDATED STATEMENT OF PROFIT (LOSS) AND COMPREHENSIVE INCOME (LOSS) HIGHLIGHTS

<i>For the period ended December 31 (millions of dollars)</i>	Three months ended			Twelve months ended		
	2016	2015	Variance	2016	2015	Variance
Revenue	227.4	218.7	8.7	824.1	810.5	13.6
Fuels	49.9	54.9	5.0	167.5	192.8	25.3
Power purchased	14.4	14.8	0.4	60.8	61.3	0.5
Operating costs	52.2	63.8	11.6	207.3	243.5	36.2
Oil production, marketing and transportation costs	8.5	1.9	(6.6)	26.3	12.1	(14.2)
Transmission rental and market fees	5.6	5.5	(0.1)	22.1	21.4	(0.7)
Depreciation, depletion, amortization and impairment	38.3	90.4	52.1	135.0	159.2	24.2
Exploration and evaluation	1.3	0.1	(1.2)	1.5	1.0	(0.5)
Net finance (income) expense	16.3	19.0	2.7	72.1	73.5	1.4
Other (income) expense	5.0	4.9	(0.1)	(4.0)	3.2	7.2
Share of loss of joint arrangement	-	0.2	0.2	-	0.3	0.3
Profit (loss) before regulatory adjustments	35.9	(36.8)	72.7	135.5	42.2	93.3
Regulatory adjustments	(26.5)	(0.5)	26.0	(0.8)	58.2	59.0
Profit (loss) for the period	62.4	(36.3)	98.7	136.3	(16.0)	152.3
Other comprehensive (loss) income for the period	(11.1)	4.6	(15.7)	(5.3)	4.2	(9.5)
Total comprehensive income (loss) for the period	51.3	(31.7)	83.0	131.0	(11.8)	142.8

Non-GAAP Operating Profit (Loss) Disclosure

Reconciliation of Nalcor's profit (loss) to operating profit for the three and twelve months ended December 31 is as follows:

<i>For the period ended December 31 (millions of dollars)</i>	Three months ended			Twelve months ended		
	2016	2015	Variance	2016	2015	Variance
Profit (loss) for the period	62.4	(36.3)	98.7	136.3	(16.0)	152.3
Impairment of property, plant and equipment	-	61.7	(61.7)	-	61.7	(61.7)
Operating profit for the period	62.4	25.4	37.0	136.3	45.7	90.6

Revenue

The increase in revenue for the quarter was primarily due to an increase in Oil and Gas revenues due to increased HSE production volumes as a result of continued increases in water injection support, partially offset by decreases in Hydro Regulated revenues resulting from customer rate reductions associated with normal operation of the RSP and lower utility energy sales. The impact of decreased revenue related to the RSP and lower utility energy sales is primarily offset in the regulatory adjustments line.

MANAGEMENT'S DISCUSSION & ANALYSIS

FOR THE THREE AND TWELVE MONTHS ENDED DECEMBER 31, 2016

The increase in revenue year-to-date was due primarily to an increase in Oil and Gas revenues due to increased HSE production volumes and a full year of interim rates that were implemented in July 2015 in Hydro Regulated. The increases were partially offset by customer rate reductions associated with normal operation of the RSP and lower utility sales in Hydro Regulated, lower export energy sales in Energy Marketing as a result of lower export prices and lower energy sales in Churchill Falls as a result of the impact of the Renewal Contract.

Fuels

The decrease in fuel costs for the quarter was primarily due to a lower price per barrel of No. 6 fuel in Hydro Regulated as a result of lower oil prices. The decrease on a year-to-date basis is primarily due to a reduction in price, partially offset by an increase in volume of fuel consumed. This decrease was partially offset by increased combustion turbine fuel costs related to the operation of the Holyrood Combustion Turbine (CT). The majority of variances in No. 6 fuel are offset through the RSP in the regulatory adjustments line.

Power purchased

The decrease in power purchased for the quarter was due to decreased wind production costs compared to the same quarter in the prior year and fewer purchases from Exploits generation, partially offset by costs associated with curtailable load arrangements. Year-to-date, power purchased costs are lower than 2015 due to reduced purchases from Exploits and lower wind production, partially offset by increases in costs related to Corner Brook Pulp and Paper Limited co-generation and curtailable load arrangements.

Operating costs

The decrease in operating costs for the quarter and year-to-date is primarily due to a reduction in professional services, salaries and benefits costs and materials and maintenance costs.

Oil production, marketing and transportation costs

The increase in oil production, marketing and transportation costs for the quarter and year-to-date was primarily due to an increase in oil production volumes and project operating costs at HSE.

Transmission rental and market fees

Transmission rental and market fees for the quarter were comparable with prior year. The increase year-to-date was primarily due to an increase in transmission purchased to deliver energy to additional export markets, partially offset by a decrease in energy marketing fees.

Depreciation, depletion, amortization and impairment

The decrease in depreciation, depletion and amortization for the quarter and year-to-date was primarily due the impairment of the WR asset recognized in 2015. The decrease was partially offset by higher depreciation and amortization as well as depletion associated with higher HSE production volumes.

Exploration and evaluation

The increase in exploration and evaluation costs for the quarter and year-to-date related to additional exploration expenditures, which are funded through two government-sponsored programs, the Petroleum Exploration Enhancement Program (PEEP) and the Offshore Geoscience Data Program (OGDP).

Net finance (income) expense

The favourable variance in net finance (income) expense for the quarter and year-to-date was primarily due to additional capitalized interest, a reduction in interest rates related to net debt issuances and interest earnings on sinking fund investments in Hydro Regulated, partially offset by an increase in accretion expense associated with higher decommissioning liabilities.

Other (income) expense

Other (income) expense for the quarter was comparable to prior year. The favourable variance year-to-date is primarily related to more favourable settlements of foreign exchange contracts in Energy Marketing, the reduction of a claim settlement previously accrued at a higher amount in Hydro Regulated and lower foreign exchange losses, partially offset by lower gains on the settlement of commodity contracts and additional losses on asset disposals.

MANAGEMENT'S DISCUSSION & ANALYSIS

FOR THE THREE AND TWELVE MONTHS ENDED DECEMBER 31, 2016

Regulatory adjustments

Regulatory adjustments for the quarter were favourable primarily due to RSP amortization, adjustments to rural rates, deferred fuel costs as a result of the normal operation of the RSP and an increase in cost deferrals approved by the PUB which was partially mitigated by an allowance for the impact of the GRA Order. Year-to-date, regulatory adjustments were favourable primarily due to RSP amortization, adjustments to rural rates, and an increase in cost deferrals approved by the PUB, partially offset by RSP interest and deferred fuel costs as a result of the normal operation of the RSP and an allowance for the impact of the GRA Order on the 2014 to 2016 cost deferrals.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION HIGHLIGHTS

Significant changes in the Consolidated Statement of Financial Position between December 31, 2016 and December 31, 2015 include:

<i>(millions of dollars)</i>	Increase (Decrease)	Explanation
ASSETS		
Restricted cash	(458.3)	Decreased due to LCP funding activity from cash held in accounts administered by the Collateral Agent. The balance of these accounts vary on a monthly basis as cash is drawn down to fund construction costs and replenished with monthly funding requests.
Short-term investments	(934.7)	Decreased primarily due to redemptions and reclassifications of structured deposit notes to restricted cash related to LCP.
Property, plant and equipment	3,092.0	Increased primarily due to capital expenditures related to LCP and additions to the Maritime Link; less depreciation and depletion.
Long-term investments	(56.5)	Decreased as a result of amounts maturing within one year, partially offset by increased investment in Churchill Falls.
LIABILITIES AND EQUITY		
Short-term borrowings	338.0	Increased due to additional promissory notes related to Hydro's funding requirements.
Trade and other payables	164.6	Increased primarily due to increased capital accruals related to construction costs for LCP and Hydro.
Long-term debt, including current portion	(226.1)	Decrease due to \$225.0 million debt retirement in Hydro.
Class B limited partnership units	191.7	Increased due to contributions of \$168.1 million and interest of \$23.6 million on the Class B limited partnership units.
Deferred credits, including current portion	489.4	Increased primarily due to deferred energy sales related to the Maritime Link.
Shareholder contributions	656.4	Increased primarily due to equity injections from the Province to fund capital expenditures in LCP and Oil and Gas.
Retained earnings	136.3	Increased due to profit for the year.

MANAGEMENT'S DISCUSSION & ANALYSIS

FOR THE THREE AND TWELVE MONTHS ENDED DECEMBER 31, 2016

SECTION 4: SEGMENTED RESULTS AND ANALYSIS

The following presents an overview of the Company's profit (loss) for the three and twelve months ended December 31, 2016, by business segment, in comparison to the three and twelve months ended December 31, 2015. This discussion should be read in conjunction with Note 34 of the annual audited financial statements for the year ended December 31, 2016:

<i>For the period ended December 31 (millions of dollars)</i>	Three months ended			Twelve months ended		
	2016	2015	Variance	2016	2015	Variance
Hydro Regulated	21.7	6.6	15.1	19.0	(25.8)	44.8
Churchill Falls	12.0	14.7	(2.7)	40.7	44.6	(3.9)
Oil and Gas	24.9	(54.2)	79.1	57.6	(48.5)	106.1
Energy Marketing	1.4	0.5	0.9	17.5	22.5	(5.0)
Bull Arm Fabrication	5.0	4.1	0.9	19.9	16.9	3.0
Phase 1 Lower Churchill Project	-	(2.8)	2.8	0.3	(3.3)	3.6
Corporate and Other Activities	(2.2)	(4.8)	2.6	(18.1)	(21.9)	3.8
Intersegment	(0.4)	(0.4)	-	(0.6)	(0.5)	(0.1)
Profit (loss) for the period	62.4	(36.3)	98.7	136.3	(16.0)	152.3

HYDRO REGULATED

The operations of Hydro are influenced by many external factors including regulation, performance of the domestic economy, weather patterns and fuel costs. The demand for electricity is met through a combination of hydroelectric generation, thermal generation and power purchases including wind generation. Hydro uses the RSP, as directed by the PUB, to annually adjust customer rates, both as a means to smooth rate impacts for island electricity consumers and to protect Hydro Regulated's profit from the majority of variations related to the HTGS fuel costs. Fuel costs fluctuate as a result of variations in electricity sales, fuel prices and hydraulic production.

The electricity rates in effect for the twelve months of 2016 reflect interim rates which were implemented on July 1, 2015. Hydro's rates are also adjusted annually, on July 1, for the cost of fuel consumed at the HTGS which occurs through the normal operation of the RSP.

Financial Highlights

<i>For the period ended December 31 (millions of dollars)</i>	Three months ended			Twelve months ended		
	2016	2015	Variance	2016	2015	Variance
Revenue	130.6	156.3	(25.7)	515.0	585.5	(70.5)
Fuels	49.9	54.9	5.0	167.5	192.8	25.3
Power purchased	14.4	14.7	0.3	60.2	60.7	0.5
Operating costs	32.4	38.0	5.6	124.5	151.7	27.2
Depreciation and amortization	17.0	17.4	0.4	68.0	63.8	(4.2)
Net finance (income) expense	15.9	18.9	3.0	70.9	73.7	2.8
Other (income) expense	5.8	6.3	0.5	5.7	10.4	4.7
(Loss) profit for the period	(4.8)	6.1	(10.9)	18.2	32.4	(14.2)
Regulatory adjustments	(26.5)	(0.5)	26.0	(0.8)	58.2	59.0
Profit (loss) for the period	21.7	6.6	15.1	19.0	(25.8)	44.8

Revenue

The decrease in revenue for the quarter was primarily due to customer rate reductions associated with the normal operation of the RSP combined with lower utility energy sales. On a year-to-date basis the decrease was primarily due to customer rate reductions associated with the normal operation of the RSP and lower utility energy sales, partially offset by increased revenue as a result of a full year of interim rates that were implemented in July 2015. The impact of decreased revenue related to the RSP and lower utility energy sales is primarily offset in the regulatory adjustments line.

MANAGEMENT'S DISCUSSION & ANALYSIS

FOR THE THREE AND TWELVE MONTHS ENDED DECEMBER 31, 2016

Fuels

The decrease in fuel costs for the quarter was primarily due to a lower price per barrel of No. 6 fuel as a result of lower oil prices. The decrease on a year-to-date basis is primarily due to a reduction in price, partially offset by an increase in volume of fuel consumed. This decrease was partially offset by increased combustion turbine fuel costs related to the operation of the Holyrood CT. The majority of variances in No. 6 fuel are offset through the RSP in the regulatory adjustments line.

The following tables summarize fuel consumed and average price:

<i>For the period ended December 31 (millions of dollars)</i>	Three months ended			Twelve months ended		
	2016	2015	2014	2016	2015	2014
No. 6 fuel consumption: Millions of barrels	0.8	0.8	0.7	2.7	2.4	2.3
Average price (CAD/bbl)	55.08	60.39	97.84	46.40	67.21	108.54
Gas Turbine fuel consumption: Millions of liters	6.2	8.0	0.9	50.1	20.5	7.2
Average price (CAD/liter)	0.64	0.66	0.89	0.58	0.75	0.96
Diesel fuel consumption: Millions of liters	4.2	4.3	4.2	16.1	16.1	16.9
Average price (CAD/liter)	0.92	0.96	1.10	0.89	1.01	1.15

Fuel costs are summarized below:

<i>For the period ended December 31 (millions of dollars)</i>	Three months ended			Twelve months ended		
	2016	2015	2014	2016	2015	2014
No. 6 fuel and other	42.1	45.4	59.2	124.0	161.0	241.8
Gas Turbine Fuel	4.0	5.3	0.7	29.2	15.4	6.9
Diesel	3.8	4.2	4.5	14.3	16.4	19.4

Energy supply is summarized below:

<i>For the period ended December 31 (GWh)</i>	Three months ended			Twelve months ended		
	2016	2015	2014	2016	2015	2014
Generation:						
Hydraulic generation ¹	1,215.7	1,274.3	1,251.7	4,380.4	4,823.4	4,658.0
Holyrood generation	460.1	465.6	355.0	1,620.9	1,458.5	1,315.3
Standby generation ^{1,2,4}	13.2	19.9	(1.2)	120.0	40.8	2.5
Thermal diesel generation	13.4	13.4	13.2	51.3	51.5	51.7
Purchases ³	425.9	428.7	428.8	1,613.3	1,666.4	1,654.8
	2,128.3	2,201.9	2,047.5	7,785.9	8,040.6	7,682.3

¹ Includes Hydro generation only.

² Includes Gas Turbine and Diesel generation.

³ Purchases include generation from Exploits, recall energy for use in Labrador, wind and other sources.

⁴ Negative standby generation is a result of higher energy consumption at the unit/plant relative to production in times of lower generation requirements.

Energy sales are summarized below:

<i>For the period ended December 31 (GWh)</i>	Three months ended			Twelve months ended		
	2016	2015	2014	2016	2015	2014
Newfoundland Power	1,582.7	1,667.0	1,529.0	5,844.7	6,072.0	5,852.0
Hydro Rural	316.0	283.0	299.3	1,105.0	1,099.8	1,113.8
Industrials	133.7	135.1	120.4	510.9	499.1	391.9
Losses	95.9	116.8	98.8	325.3	369.7	324.6
	2,128.3	2,201.9	2,047.5	7,785.9	8,040.6	7,682.3

Power purchased

The decrease in power purchased for the quarter was due to decreased wind production costs compared to the same quarter in 2015 and fewer purchases from Exploits generation partially offset by generation from curtailable load arrangements. Year-to-date, power purchased costs are lower than 2015 due to reduced purchases from Exploits and lower wind production, partially offset by increases in costs related to Corner Brook Pulp and Paper Limited co-generation and curtailable load arrangements.

MANAGEMENT'S DISCUSSION & ANALYSIS

FOR THE THREE AND TWELVE MONTHS ENDED DECEMBER 31, 2016

Operating costs

The decrease in operating costs for the quarter and year-to-date is primarily due to a reduction in salaries and benefits costs, system equipment maintenance costs as well as professional services, largely associated with higher GRA costs recognized in 2015.

Depreciation and amortization

The decrease in depreciation and amortization for the quarter is primarily due to depreciation adjustments related to a revision to the decommissioning liabilities associated with the HTGS, partially offset by increased levels of investment in property, plant and equipment. The increase in depreciation and amortization year-to-date is due to increased levels of investment in property, plant and equipment, partially offset by depreciation adjustments associated with the HTGS.

Net finance (income) expense

The favourable variance in net finance (income) expense for the quarter and year-to-date was primarily due to additional capitalized interest, a reduction in interest rates related to net debt issues and additional interest earnings on sinking fund investments.

Other (income) expense

The favourable variance in other (income) expense for the quarter and year-to-date is primarily related to a settlement claim accrued in 2015 which was subsequently settled for a lesser amount in 2016 and favourable foreign exchange, partially offset by increases in costs associated with asset retirements. Foreign exchange variances associated with No. 6 fuel are offset through the RSP in the regulatory adjustments line.

Regulatory adjustments

Regulatory adjustments for the quarter were favourable primarily due to RSP amortization, adjustments to rural rates, deferred fuel costs as a result of the normal operation of the RSP and an increase in cost deferrals approved by the PUB which was partially mitigated by an allowance for the impact of the GRA Order. Year-to-date, regulatory adjustments were favourable primarily due to RSP amortization, adjustments to rural rates, and an increase in cost deferrals approved by the PUB, partially offset by RSP interest and deferred fuel costs as a result of the normal operation of the RSP and an allowance for the impact of the GRA Order on the 2014 to 2016 cost deferrals.

CHURCHILL FALLS

Churchill Falls is the owner and operator of the Churchill Falls Generating Station, with a rated capacity of 5,428 MW. The 1969 Power Contract, and a Renewal Contract that commenced September 1, 2016 and expiring August 31, 2041, provide for the sale of electricity from this facility to Hydro-Québec. In addition, two power purchase agreements effective March 9, 1998 and January 1, 2015, provide for the sale of electricity to Hydro for use domestically and for resale in export markets.

Churchill Falls earns revenue from Hydro-Québec under the Guaranteed Winter Availability Contract (GWAC). The GWAC was signed with Hydro-Québec in 1998 and expires on August 31, 2041, and provides revenue from the sale of up to 682 MW of seasonal availability to Hydro-Québec during the months of November through March.

For the three months ended December 31, 2016, Churchill Falls derived 35.4% of its revenue from sales to Hydro-Québec under the Power Contract and Renewal Contract (2015 - 44.0%), 36.7% from the GWAC (2015 - 31.8%) and 27.9% from other revenue (2015 - 24.2%). Other revenue includes the sale of energy to Hydro.

For the twelve months ended December 31, 2016, Churchill Falls derived 44.8% of its revenue from sales to Hydro-Québec under the Power Contract and Renewal Contract (2015 - 47.4%), 24.7% from the GWAC (2015 - 23.8%) and 30.5% from other revenue (2015 - 28.8%). Other revenue includes the sale of energy to Hydro.

MANAGEMENT'S DISCUSSION & ANALYSIS

FOR THE THREE AND TWELVE MONTHS ENDED DECEMBER 31, 2016

Financial Highlights

<i>For the period ended December 31 (millions of dollars)</i>	Three months ended			Twelve months ended		
	2016	2015	Variance	2016	2015	Variance
Revenue	27.2	30.8	(3.6)	96.9	101.3	(4.4)
Operating costs	11.6	12.1	0.5	44.4	45.2	0.8
Depreciation and amortization	4.6	4.3	(0.3)	16.7	15.1	(1.6)
Net finance (income) expense	(0.3)	(0.3)	-	(1.0)	(1.1)	(0.1)
Other (income) expense	0.4	1.0	0.6	0.4	1.9	1.5
Share of loss of joint venture	-	0.2	0.2	-	0.3	0.3
Preferred dividends	(1.2)	(1.2)	-	(4.3)	(4.7)	(0.4)
Profit for the period	12.1	14.7	(2.6)	40.7	44.6	(3.9)

Revenue

The decrease in revenue for the quarter and year-to-date was largely due to lower energy sales to Hydro-Québec, primarily associated with a 20% decrease in the power rate effective September 1, 2016 as a result of the Renewal Contract. This decrease is partially offset by higher energy sales to Hydro.

Operating costs

The decrease in operating costs for the quarter is primarily due to a decrease in professional fees, partially offset by an increase in system equipment maintenance costs and lower recoveries associated with the Wabush Terminal Station. The decrease in operating costs year-to-date is related to lower professional services, training and travel costs, partially offset by higher salary and benefit expenses and lower recoveries associated with the Wabush Terminal Station.

Depreciation and amortization

The increase in depreciation and amortization for the quarter and the year-to-date was due to increased levels of investment in property, plant and equipment.

Net finance (income) expense

Net finance (income) expense for the quarter and year-to-date was comparable to prior year.

Other (income) expense

The favorable variance in other (income) expense for the quarter and year-to-date is primarily a result of increased capitalization of asset removal and disposal costs in 2016.

Share of loss of joint venture

The decrease in the share of loss of joint venture for the quarter and year-to-date was a result of Twin Falls disposing of the Wabush Terminal Station capital assets and associated environmental liabilities.

Preferred dividends

The decrease in preferred dividends year-to-date is due to lower profit compared to the same period in the prior year as well as a decrease in the overall preferred dividend rate as a result of the Renewal Contract.

OIL AND GAS

Nalcor Oil and Gas is currently a joint venture working interest partner in three developments in the Newfoundland and Labrador offshore. It owns a 4.9% working interest in the Hebron oil field, the Province's fourth offshore oil project which was sanctioned for development on December 31, 2012; a 5.0% working interest in the WR Extension, which produced first oil from the North Amethyst field in May 2010; and a 10.0% working interest in the HSE, which produced first oil in June 2011.

MANAGEMENT'S DISCUSSION & ANALYSIS

FOR THE THREE AND TWELVE MONTHS ENDED DECEMBER 31, 2016

Financial Highlights

<i>For the period ended December 31 (millions of dollars)</i>	Three months ended			Twelve months ended		
	2016	2015	Variance	2016	2015	Variance
Revenue	52.5	15.6	36.9	140.2	45.2	95.0
Operating costs	2.1	2.6	0.5	8.1	10.2	2.1
Production, marketing and transportation costs	8.5	1.9	(6.6)	26.3	12.1	(14.2)
Depreciation, depletion, amortization and impairment	15.5	68.5	53.0	48.5	79.7	31.2
Exploration and evaluation	1.3	0.1	(1.2)	1.5	1.0	(0.5)
Net finance (income) expense	0.8	0.2	(0.6)	3.2	0.7	(2.5)
Other (income) expense	(0.5)	(3.5)	(3.0)	(5.0)	(10.0)	(5.0)
Profit (loss) for the period	24.8	(54.2)	79.0	57.6	(48.5)	106.1

<i>For the period ended December 31 (millions of dollars)</i>	Three months ended			Twelve months ended		
	2016	2015	Variance	2016	2015	Variance
Profit (loss) for the period	24.8	(54.2)	79.0	57.6	(48.5)	106.1
Impairment of property, plant and equipment	-	61.7	(61.7)	-	61.7	(61.7)
Operating profit for the period	24.8	7.5	17.3	57.6	13.2	44.4

Revenue

The increase in revenue for the quarter and year-to-date was primarily due to an increase in HSE production volumes as a result of continued increases in water injection support. Oil production for the quarter increased by 507,199 barrels compared to 2015 and oil production for the year increased by 1,701,906 barrels compared to 2015. Higher average Dated Brent price per barrel also contributed to the increase in revenue for the quarter. For the year, the increase in production was partially offset by a decrease in seismic revenue and lower average Dated Brent price per barrel.

Oil price data for the quarter and year with 2014 and 2015 comparatives are summarized in the table below. The average Dated Brent price reflects prices available in the market. The Realized Price (USD) includes the impact of oil commodity price hedges, and Realized Price (CAD) also includes the impact of foreign exchange.

<i>For the period ended December 31</i>	Three months ended			Twelve months ended		
	2016	2015	2014	2016	2015	2014
Average Dated Brent Price (USD/bbl)	51.37	38.90	67.48	46.46	47.53	101.54
Realized Price (USD/bbl)	51.46	53.78	84.64	47.95	64.55	104.60
Realized Price (CAD/bbl)	68.86	71.17	95.87	63.66	82.90	115.26
Oil Production (bbls)	732,698	225,499	116,110	2,226,440	524,534	660,715

Operating costs

The decrease in operating costs for the quarter was primarily due to capitalization of exploration salaries and benefits which were expensed prior to July 2016. The decrease in operating costs year-to-date was primarily due to capitalization of exploration salaries since July 2016 and a decrease in professional service costs, partially offset by an increase in insurance premiums.

Production, marketing and transportation costs

The increase in production, marketing and transportation costs for the quarter and year-to-date was primarily due to an increase in production volumes and project operating costs at HSE.

Depreciation, depletion, amortization and impairment

The decrease in depreciation, depletion, amortization and impairment for the quarter and year-to-date was primarily due to the impairment of the WR asset recognized in prior year. This decrease was partially offset by an increase in depletion associated with higher HSE production volumes.

MANAGEMENT'S DISCUSSION & ANALYSIS

FOR THE THREE AND TWELVE MONTHS ENDED DECEMBER 31, 2016

Exploration and evaluation

The increase in exploration and evaluation costs for the quarter and year-to-date related to additional exploration expenditures, which are funded through two government-sponsored programs, the PEEP and the OGDG.

Net finance (income) expense

The unfavourable variance in net finance (income) expense for the quarter and year-to-date was primarily due to an increase in accretion expense associated with higher decommissioning liabilities.

Other (income) expense

The unfavourable variance in other (income) expense for the quarter was primarily related to lower gains on settlement of oil commodity contracts compared to prior year; partially offset by favourable exchange on USD transactions. The unfavourable variance year-to-date was due to lower gains on the settlement of oil commodity contracts along with unfavourable foreign exchange fluctuations.

CAPITAL EXPENDITURES

During 2016, exploration costs capitalized as intangible assets totaled \$28.1 million (2015 - \$27.6 million). Costs capitalized as petroleum and natural gas properties totaled \$207.3 million (2015 - \$221.2 million) and include pre-development, development and drilling costs.

Nalcor contracted independent reserve evaluators, Sproule Associates Limited, to evaluate and prepare reports on oil reserves according to the Canadian Oil and Gas Evaluation Handbook reserve definitions and standards.

Reserves as at December 31 are as follows:

<i>As at December 31 (thousands of barrels - Mbbls)</i>	2016		2015	
	Gross	Net	Gross	Net
Developed	11,385	8,271	8,667	6,148
Undeveloped	11,120	10,243	11,905	10,971
Total Proved	22,505	18,514	20,572	17,119
Probable	41,034	32,986	40,426	30,607
Total Proved Plus Probable	63,539	51,500	60,998	47,726

Gross reserves represent Oil and Gas' working interest in remaining reserves, while net reserves represent remaining reserves less royalties. Total Gross Proved reserves at December 31, 2016 are 22,505 Mbbls, an increase of 1,933 Mbbls from December 31, 2015 reserve levels. Total Gross Proved plus Probable reserves at December 31, 2016 are 63,539 Mbbls, an increase of 2,541 Mbbls over December 31, 2015 reserve levels. The increase is primarily a result of additional data gathering and analysis to further our understanding of the producing fields.

ENERGY MARKETING

The revenue and profit in this segment are derived primarily from the sale of available Recapture, the block of 300MW of firm energy and capacity pursuant to the Power Contract which Churchill Falls has agreed to sell and deliver to Hydro, as well as 225MW of power and energy available from the PPA between Hydro and Churchill Falls. The Recapture is sold to markets in eastern Canada and the northeastern United States, as well as to the iron ore industry in Labrador. The energy available under the PPA between Hydro and Churchill Falls is sold in Labrador West at rates determined by the Labrador Industrial Rates policy. In addition, revenue is generated through the 18.7 MW Menihok Generating Station.

MANAGEMENT'S DISCUSSION & ANALYSIS

FOR THE THREE AND TWELVE MONTHS ENDED DECEMBER 31, 2016

Financial Highlights

<i>For the period ended December 31 (millions of dollars)</i>	Three months ended			Twelve months ended		
	2016	2015	Variance	2016	2015	Variance
Revenue	22.0	20.3	1.7	89.3	95.2	(5.9)
Power purchased	11.0	10.6	(0.4)	42.9	42.1	(0.8)
Operating costs	4.7	5.1	0.4	11.8	12.3	0.5
Transmission rental and market fees	5.6	5.5	(0.1)	22.1	21.4	(0.7)
Depreciation and amortization	0.1	0.1	-	0.4	0.1	(0.3)
Net finance (income) expense	-	0.1	0.1	0.2	0.1	(0.1)
Other (income) expense	(0.8)	(1.6)	(0.8)	(5.6)	(3.3)	2.3
Profit for the period	1.4	0.5	0.9	17.5	22.5	(5.0)

Revenue

The increase in revenue for the quarter is due to higher volumes and average export electricity prices on export market sales and favourable foreign exchange on USD sales. Revenue for the year is lower due to lower average export electricity prices on export market sales. The decrease in price was partially offset by increased volumes as mild weather in Labrador increased available energy for export. This was further offset by the favourable impact of foreign exchange on USD sales.

For the year ended December 31, 2016, approximately 48.7% of revenue related to export (2015 – 53.1%), 44.6% related to sales to industrial customers (2015 – 40.5%) and 6.7% of revenues were derived from other sources (2015 – 6.4%).

Prices and volumes for the quarter for sales in export markets are summarized in the table below.

<i>For the period ended December 31</i>	Three months ended			Twelve months ended		
	2016	2015	2014	2016	2015	2014
Average Export Electricity Price (USD/MWh) ³	20.83	18.53	22.35 ¹	20.25	25.23	39.28 ¹
Realized Export Electricity Price (USD/MWh) ⁴	20.83	25.57	22.50	21.79	30.67	37.93 ¹
Realized Export Electricity Price (CAD/MWh) ⁵	27.95	28.93	24.53	28.81	35.58	41.42 ¹
Export sales (GWh)	378	373	353 ²	1,627	1,569	1,474 ²

¹ Colder than usual winter temperatures resulted in higher 2014 export market prices.

² Year-to-date export sales were lower in 2014 due to higher consumption of recapture energy by industrial customers, reducing availability for export.

³ The Average Export Electricity Price reflects prices realized in the export market.

⁴ The Realized Export Price (USD) includes the impact of electricity commodity price hedges.

⁵ The Realized Export Electricity Price (CAD) includes the impact of electricity commodity price hedges and foreign exchange.

The following table depicts the prices and volumes for energy sales related to industrial customers:

<i>For the period ended December 31</i>	Three months ended		Twelve months ended	
	2016	2015	2016	2015
Average Industrial Customer Price (CAD/MWh)	22.58	22.45	22.69	22.54
Industrial Customer sales (GWh)	468	417	1,756	1,709

Power purchased

The increase in power purchased for the quarter and year-to-date was primarily due to increases in the volume and price of power purchased under the Churchill Falls – Hydro PPA which was subsequently sold to Labrador West customers.

Operating costs

The decrease in operating costs for the quarter and year-to-date was primarily due to a decrease in professional services, system equipment and maintenance related to Menihek, and travel, partially offset by an increase in customer costs. Operating costs related to Menihek are recovered in the other revenue line.

MANAGEMENT'S DISCUSSION & ANALYSIS

FOR THE THREE AND TWELVE MONTHS ENDED DECEMBER 31, 2016

Transmission rental and market fees

Transmission rental and market fees for the quarter were comparable with prior year. The increase year-to-date was primarily due to an increase in transmission purchased to deliver energy to additional export markets, partially offset by a decrease in energy marketing fees.

Depreciation and amortization

Depreciation and amortization for the quarter was comparable to the prior year. The increase in depreciation and amortization for the year-to-date was primarily due to a full year of amortization relating to intangible assets.

Net finance (income) expense

Net finance (income) expense for the quarter and year-to-date were comparable with prior year.

Other (income) expense

The unfavourable variance for the quarter was primarily due the absence of commodity contracts and lower returns on financial transmission rights, partially offset by foreign exchange gains compared to losses in the prior period. The favourable variance year-to-date relates to favourable fluctuations in foreign exchange, partially offset by costs associated with the settlement of commodity contracts during the year.

BULL ARM FABRICATION

Revenue related to Bull Arm Fabrication is primarily generated through leasing arrangements associated with large construction projects. The site is currently under lease to ExxonMobil Canada Properties until completion of the Hebron Project. Site project work consists of construction of the gravity-based structure, fabrication of the Living Quarters module and integration, hook-up and commissioning of all platform components.

Financial Highlights

<i>For the period ended December 31 (millions of dollars)</i>	Three months ended			Twelve months ended		
	2016	2015	Variance	2016	2015	Variance
Revenue	5.4	5.4	-	21.3	20.5	0.8
Operating costs	0.4	0.5	0.1	1.2	1.3	0.1
Other (income) expense	-	0.8	0.8	0.2	2.3	2.1
Profit for the period	5.0	4.1	0.9	19.9	16.9	3.0

Revenue

Revenue for the quarter was comparable to the prior year. The increase in revenue year-to-date was due to favourable foreign exchange on USD lease revenue.

Operating costs

Operating costs for the quarter and year-to-date were comparable with the prior periods.

Other (income) expense

The favourable variance in other (income) expense for the quarter is primarily due to gains associated with the settlement of foreign exchange hedge contracts. The favourable variance year-to-date is primarily due to a decrease in losses associated with the settlement of hedge contracts in 2016.

PHASE 1 LOWER CHURCHILL PROJECT

The Lower Churchill Project was sanctioned on December 17, 2012. The costs included in the Lower Churchill Project comprise costs incurred by Nalcor's subsidiaries in the construction of the Muskrat Falls Generation Facility, the Labrador-Island Link and the Labrador Transmission Assets. The current capital cost estimate is \$9.4 billion plus capitalized interest, financing and other costs, for a total of \$11.7 billion, excluding Maritime Link costs (the latter figure excludes the impact of the additional debt financing that will be associated with the additional loan guarantee currently being finalized). The costs of the Maritime Link, which is owned and financed by a subsidiary of Emera Inc. (for 35 years at which time ownership will transfer to Nalcor), is also included as capital expenditures in Nalcor's audited consolidated annual financial statements.

MANAGEMENT'S DISCUSSION & ANALYSIS

FOR THE THREE AND TWELVE MONTHS ENDED DECEMBER 31, 2016

Financial Highlights

<i>For the period ended December 31 (millions of dollars)</i>	Three months ended			Twelve months ended		
	2016	2015	Variance	2016	2015	Variance
Operating costs	0.4	0.4	-	1.3	1.4	0.1
Net finance (income) expense	(0.5)	(0.2)	0.3	(1.9)	(0.6)	1.3
Other (income) expense	0.1	2.5	2.4	0.3	2.5	2.2
Profit (loss) for the period	-	(2.7)	2.7	0.3	(3.3)	3.6

Operating costs

Operating costs for the quarter and year-to-date are comparable with prior year.

Net finance (income) expense

The favourable variance in net finance (income) expense for the quarter and year-to-date is primarily due to interest earned on cash contributions to meet pre-funded equity requirements associated with the Project Finance Agreements.

Other (income) expense

The favourable variance in other (income) expense for the quarter and year-to-date is due to increased gains on foreign exchange transactions.

Capital expenditures

Of the anticipated \$11.7 billion (excluding the impact of the additional loan guarantee and Maritime Link costs), \$6.7 billion has been incurred to date. The breakdown is as follows:

<i>For the period ended December 31 (millions of dollars)</i>	Three months ended		Twelve months ended		Total To Date
	2016	2015	2016	2015	
Muskrat Falls	201.3	222.6	897.0	788.9	2,940.6
Labrador Transmission Assets	32.2	89.5	154.0	289.1	747.9
Labrador-Island Link	305.4	214.7	1,040.0	791.9	2,405.4
Nalcor facilities capital costs	538.9	526.8	2,091.0	1,869.9	6,093.9
Capitalized interest and financing costs ¹	45.6	40.9	173.0	151.4	507.6
Class B Limited Partnership Unit Interest	7.4	3.8	23.6	9.6	44.8
Transition to Operations	0.8	-	3.7	-	3.7
Total capital costs for Nalcor project components	592.7	571.5	2,291.3	2,030.9	6,650.0
Maritime Link	91.1	70.8	485.2	329.0	1,146.5
Total capital expenditures	683.8	642.3	2,776.5	2,359.9	7,796.5

¹Total to date excludes \$67.4 million of allowance for funds used during construction on Nalcor's Class A limited partnership units in the LIL LP that are eliminated upon consolidation.

CORPORATE AND OTHER ACTIVITIES

Financial Highlights

<i>For the period ended December 31 (millions of dollars)</i>	Three months ended			Twelve months ended		
	2016	2015	Variance	2016	2015	Variance
Revenue	-	0.1	(0.1)	-	0.1	(0.1)
Operating costs	0.8	5.1	4.3	16.0	21.4	5.4
Depreciation and amortization	1.1	0.1	(1.0)	1.4	0.5	(0.9)
Net finance (income) expense	0.5	0.3	(0.2)	0.7	0.7	-
Other (income) expense	(0.2)	(0.6)	(0.4)	-	(0.6)	(0.6)
Loss for the period	(2.2)	(4.8)	2.6	(18.1)	(21.9)	3.8

Revenue

Revenue for the quarter and year-to-date is comparable with the prior year.

MANAGEMENT'S DISCUSSION & ANALYSIS

FOR THE THREE AND TWELVE MONTHS ENDED DECEMBER 31, 2016

Operating costs

The decrease in operating costs for the quarter is primarily due to lower professional services, salaries and benefits, travel, corporate donations and increased cost recoveries. The decrease in operating costs year-to-date is largely due to lower professional services, director fees, travel, bad debt expense, and increased cost recoveries. These decreases were partially offset by increased salaries and benefits, primarily due to severance costs incurred in 2016.

Depreciation and amortization

The increase in depreciation for the quarter and year-to-date is due to increased levels of property, plant and equipment.

Net finance (income) expense

Net finance (income) expense for both the quarter and year-to-date is comparable with prior year.

Other (income) expense

The unfavourable variance in other (income) expense for the quarter and year-to-date was primarily due to a prior period adjustment related to Nalcor's investment in a subsidiary company.

MANAGEMENT'S DISCUSSION & ANALYSIS

FOR THE THREE AND TWELVE MONTHS ENDED DECEMBER 31, 2016

SECTION 5: LIQUIDITY AND CAPITAL RESOURCES

Nalcor's capital resources consist primarily of cash and cash equivalents, short-term investments, long-term investments and equity from the Province. These capital resources are used to fund the Company's consolidated capital resource requirements, which continue to include working capital needs, capital expenditures, development costs and the servicing and repayment of consolidated debt. Additional liquidity is available through a \$250.0 million committed credit facility that Nalcor maintains with its primary banker. As at December 31, 2016, there were no amounts drawn on the facility (2015 - \$nil), however \$34.1 million of the borrowing limit has been used to issue 14 irrevocable letters of credit (2015 - \$12.0 million), two on behalf of Oil and Gas and another 12 on behalf of Energy Marketing.

While cash from operations depends on a number of factors, including commodity prices, regulated electricity prices, foreign exchange rates and oil production volumes, Management believes existing capital resources and credit lines will be sufficient to fund all capital expenditures and working capital requirements in 2017.

CASH FLOW HIGHLIGHTS

<i>For the year ended December 31 (millions of dollars)</i>	2016	2015	Variance
Cash and cash equivalents, beginning of period	148.5	60.8	87.7
Net cash provided from operating activities	221.5	229.4	(7.9)
Net cash used in investing activities	(1,624.5)	(327.3)	(1,297.2)
Net cash provided from financing activities	1,397.4	185.6	1,211.8
Cash and cash equivalents, end of period	142.9	148.5	(5.6)

Operating activities:

<i>For the year ended December 31 (millions of dollars)</i>	2016	2015	Variance
Net cash provided from operating activities	221.5	229.4	(7.9)

Cash provided from operating activities year-to-date was \$221.5 million, representing a decrease of \$7.9 million compared to the same period in 2015. The decrease was due to unfavourable working capital variances, and decreases in non-cash items including regulatory adjustments and depreciation, depletion, amortization and impairment expense, partially offset by increased profit.

Investing Activities:

<i>For the year ended December 31 (millions of dollars)</i>	2016	2015	Variance
Additions to property, plant and equipment and intangible assets	(2,777.5)	(2,452.4)	(325.1)
(Increase) decrease in long-term receivables	(23.8)	33.6	(57.4)
Decrease in investments (including short-term)	991.2	1,789.0	(797.8)
Changes in non-cash working capital balances	177.6	306.2	(128.6)
Other	8.0	(3.7)	11.7
Net cash provided used in investing activities	(1,624.5)	(327.3)	(1,297.2)

Cash used in investing activities during 2016 was largely due to additions to property, plant and equipment and intangible assets and a long-term advance to a supplier related to LCP, partially offset by increases in capital accruals related to LCP. Investments also decreased significantly, primarily due to redemptions and reclassifications of structured deposit notes to restricted cash related to LCP.

MANAGEMENT'S DISCUSSION & ANALYSIS

FOR THE THREE AND TWELVE MONTHS ENDED DECEMBER 31, 2016

Financing Activities:

<i>For the year ended December 31 (millions of dollars)</i>	2016	2015	Variance
Retirement of long-term debt	(225.1)	-	(225.1)
Decrease (increase) in restricted cash	458.3	(705.7)	1,164.0
Class B limited partnership unit contributions	168.1	118.4	49.7
Increase in short-term borrowings	338.0	44.0	294.0
Increase in shareholder contributions	656.4	734.7	(78.3)
Other	1.7	(5.8)	7.5
Net cash provided from financing activities	1,397.4	185.6	1,211.8

During 2016, \$1,397.4 million was provided from financing activities, compared to \$185.6 million used during the same period in 2015. The increase was primarily due to a decrease in restricted cash during 2016 compared to an increase in the prior year, increased Class B limited partnership unit contributions and higher short-term borrowings, partially offset by the retirement of debt and lower shareholder contributions.

CAPITAL STRUCTURE

Nalcor's consolidated capital structure and associated performance indicators are shown in the table below:

<i>As at December 31 (millions of dollars)</i>	2016	2015
Short-term borrowings	435.0	97.0
Current portion of long-term debt	142.6	233.4
Long-term debt (net of sinking funds)	5,605.8	5,765.5
Class B limited partnership units	399.1	207.4
Total debt	6,582.5	6,303.3
Total shareholder's equity	4,262.7	3,475.3
Debt to capital ¹	60.7%	64.5%
Fixed rate debt as a percentage of total indebtedness ¹	87.3%	95.2%

¹The above noted ratios are Non-GAAP financial measures. Please refer to Section 8: Non-GAAP Financial Measures.

Capital structure is managed at the subsidiary level. As a result, Nalcor's consolidated capital structure is driven largely by the long-term funding decisions made at the subsidiary level. When capital resource requirements exceed cash from operations for a particular subsidiary, the difference is funded with long-term debt and/or equity contributions from Nalcor. The use of long-term debt to fund capital resource requirements is limited to cases where there is reasonable certainty that operating cash flows will be sufficient to service the debt while maintaining an appropriate level of stand-alone creditworthiness.

MANAGEMENT'S DISCUSSION & ANALYSIS

FOR THE THREE AND TWELVE MONTHS ENDED DECEMBER 31, 2016

As at December 31, 2016 and December 31, 2015, total consolidated liquidity is as follows:

<i>As at (millions of dollars)</i>	December 31, 2016				December 31, 2015			
	Credit Facilities	Borrowings Outstanding	Letters of Credit Outstanding	Total Liquidity	Credit Facilities	Borrowings Outstanding	Letters of Credit Outstanding	Total Liquidity
Hydro Regulated:								
Cash and cash equivalents/Short-term investments				26.5				4.0
Promissory notes program	300.0	210.0	-	90.0	300.0	97.0	-	203.0
Demand operating facility	50.0	-	0.3	49.7	50.0	-	0.3	49.7
				166.2				256.7
Churchill Falls:								
Cash and cash equivalents/Short-term investments				87.3				54.9
Demand operating facility	10.0	-	1.0	9.0	10.0	-	1.0	9.0
				96.3				63.9
Oil and Gas:								
Cash and cash equivalents/Short-term investments				29.7				17.3
Demand operating facility	30.0	-	0.5	29.5	5.0	-	-	5.0
				59.2				22.3
Energy Marketing:								
Cash and cash equivalents/Short-term investments				5.8				3.4
Demand operating facility	20.0	-	-	20.0	20.0	8.2	-	11.8
				25.8				15.2
Bull Arm:								
Cash and cash equivalents/Short-term investments				3.1				1.1
				3.1				1.1
LCP:								
Cash and cash equivalents/Short-term investments				29.3				20.7
MFLTA working capital reserve account ¹	61.6	-	-	61.6	75.0	-	-	75.0
LIL working capital revolving facility ²	29.0	-	-	29.0	75.0	-	-	75.0
				119.9				170.7
Nalcor:								
Cash and cash equivalents/Short-term investments				49.4				75.1
Revolving term facility	250.0	-	34.1	215.9	250.0	-	12.0	238.0
				265.3				313.1
Total consolidated liquidity				735.8				843.0

¹\$13.4 million of the \$75.0 million reserve has been reclassified to restricted cash.

²\$46.0 million of the \$75.0 million facility has been reclassified to restricted cash.

MANAGEMENT'S DISCUSSION & ANALYSIS

FOR THE THREE AND TWELVE MONTHS ENDED DECEMBER 31, 2016

HYDRO REGULATED

Capital resource requirements for Hydro Regulated consist primarily of working capital needs, capital expenditures and debt servicing and repayment. Hydro funds capital resource requirements through a combination of cash from operations, sinking funds and long-term debt issuances.

Capital expenditures in excess of cash from operations are funded with proceeds from short-term debt issued under Hydro's \$300.0 million promissory note program. Management will refinance promissory notes with proceeds from long-term debt as required. As at December 31, 2016, there were \$210.0 million in promissory notes outstanding (2015 - \$97.0 million). In addition, Hydro has a \$50.0 million demand operating facility with its primary bank. As at December 31, 2016, there were no amounts drawn on the facility (2015 - \$nil), however, \$0.3 million of the borrowing limit has been used to issue irrevocable letters of credit (2015 - \$0.3 million).

During 2016, Hydro retired its AE debt series with a par value of \$225.0 million. Five debt issues remain with par values of \$1,075.0 million; sinking funds have been established for four of these issues, and the remaining debt issue will be refinanced in the capital markets at maturity.

CHURCHILL FALLS

Capital resource requirements for Churchill Falls consist primarily of working capital needs and capital expenditures, which Churchill Falls funds mainly through cash from operations. Churchill Falls also has a \$75.0 million reserve fund which can be drawn upon in certain circumstances to fund capital expenditures, subject to the terms and conditions as established in the Shareholders' Agreement. As at December 31, 2016, \$51.8 million (2015 - \$28.4 million) has been withdrawn from the reserve fund and will be replaced in future periods in accordance with Article 5.6 of the Shareholders' Agreement.

To ensure sufficient liquidity, Churchill Falls targets a minimum cash balance of \$22.0 million (2015 - \$20.0 million) and has a \$10.0 million demand operating facility with its primary banker. As at December 31, 2016, there were no amounts drawn on the facility (2015 - \$nil), however \$1.0 million of the borrowing limit has been used to issue irrevocable letters of credit (2015 - \$1.0 million).

OIL AND GAS

Cash from operations is sufficient to meet Oil and Gas capital resource requirements, which consist of capital expenditures for sanctioned projects and working capital needs. Equity contributions from the Province totaled \$176.5 million for the year-ended December 31, 2016 (2015 - \$192.7 million). Liquidity is provided through a \$30.0 million demand operating facility Oil and Gas has with its primary banker (2015 - \$5.0 million). As at December 31, 2016, there were no amounts drawn on the facility (2015 - \$nil), however \$0.5 million of the borrowing limit has been used to issue one irrevocable letter of guarantee (2015 - \$nil).

ENERGY MARKETING

Capital resource requirements for Energy Marketing are limited to working capital needs. Energy Marketing has a \$20.0 million demand operating facility with its primary banker. As at December 31, 2016, there were no amounts drawn on the facility (2015 - \$8.2 million).

BULL ARM FABRICATION

Capital resource requirements for Bull Arm Fabrication are limited to working capital needs, which will continue to be funded through cash from operations. Historically, cash from operations has exceeded Bull Arm's working capital requirements. Under the existing dividend policy, cash and cash equivalents in excess of \$1.0 million are distributed to Nalcor as a dividend at Management's discretion.

LOWER CHURCHILL PROJECT

Capital resource requirements for LCP consist primarily of capital expenditures in connection with construction of the Lower Churchill Project. The primary source of financing for Muskrat Falls, Labrador Transco and LIL LP will continue to be the credit facilities, equity contributions from the Province and partnership unit contributions from Emera Newfoundland and Labrador-Island Link Inc. relating to its limited partnership interest in the LIL LP. Muskrat Falls and Labrador Transco have access to a \$75.0 million working capital reserve account which can be used to meet any short-term funding requirements that may arise between drawdowns under the MF/LTA Project Finance Agreement. LIL LP has access to a \$75.0 million working capital revolving facility which can be used to meet any short-term funding requirements that may arise between drawdowns under the LIL Project Finance Agreement.

MANAGEMENT'S DISCUSSION & ANALYSIS

FOR THE THREE AND TWELVE MONTHS ENDED DECEMBER 31, 2016

CAPITAL EXPENDITURES

Capital expenditures increased by \$82.7 million for the quarter and \$490.1 million year-to-date as compared with the same period in 2015.

<i>For the period ended December 31 (millions of dollars)</i>	Three months ended			Twelve months ended		
	2016	2015	Variance	2016	2015	Variance
Hydro Regulated	96.0	44.0	52.0	218.8	135.1	83.7
Churchill Falls ¹	6.4	11.4	(5.0)	40.9	36.0	4.9
Oil and Gas	51.6	57.5	(5.9)	208.2	221.2	(13.0)
Energy Marketing	-	0.1	(0.1)	-	0.2	(0.2)
LCP	592.7	571.5	21.2	2,291.3	2,030.9	260.4
Corporate and Other	0.2	0.5	(0.3)	5.5	7.4	(1.9)
Inter-segment	0.5	-	0.5	-	-	-
Total Capital Expenditures before the following:	747.4	685.0	62.4	2,764.7	2,430.8	333.9
Maritime Link - Non-Cash Additions	91.1	70.8	20.3	485.2	329.0	156.2
Total Capital Expenditures	838.5	755.8	82.7	3,249.9	2,759.8	490.1

¹ Reflects Nalcor's 65.8% ownership interest

OBLIGATIONS AND COMMITMENTS

Outstanding commitments for capital projects total approximately \$2.2 billion as at December 31, 2016 (2015 - \$2.9 billion). Outstanding commitments related to pre-funded equity requirements associated with the Project Finance Agreements total approximately \$3.3 billion as at December 31, 2016 (2015 - \$0.7 billion).

SECTION 6: RISK MANAGEMENT PROCESS

KEY BUSINESS RISKS

The following information describes certain significant risks inherent to Nalcor's activities. This section does not describe all applicable risks and is intended only as a summary of certain significant risks. If any such risks materialize, the business, financial condition or operating results could differ materially from the plans and other forward-looking statements discussed in this MD&A. The nature of risk is such that no list can be comprehensive, other risks may arise or risks not currently considered to be material may become material in the future. The risks presented herein are grouped by category and detail material strategic, operational, financial, regulatory and compliance risks.

STRATEGIC RISKS

Strategic risk management focuses on the most consequential and significant risks to enterprise value. Nalcor has identified key risks which could have significant potential financial impacts, including:

Key Estimates Risk

Nalcor is subject to uncertainty pertaining to key estimates and assumptions including, but not limited to, changes in crude oil production and electricity generation and/or sales levels and prices, particularly relating to revenue, and potentially impacting all affiliated companies. Weather conditions, including abnormally warm or cold weather that causes higher or lower than expected energy usage for heating or cooling purposes or periods of low rainfall that impact economic operation of hydro assets, can have a material impact on cash flows and financial results, in particular for Hydro and Churchill Falls. Energy Marketing, which exists to optimize excess power, may also be affected where seasonality patterns differ from normal ranges to an extent that it impacts demand and pricing in target sales markets.

The Company partially mitigates the risks associated with market price movements through its financial hedging strategy, which is explained in more detail within the financial risk section, and by continuous monitoring of market conditions. Utility assets are maintained in a manner that accounts for the age of the infrastructure and for the extreme weather conditions that are inherent to our climate. Hydro in particular executes a focused winter readiness plan with the objective of protecting assets, which are considered critical during winter months when domestic demand for electricity is highest.

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Transmission constraints are relevant to the lines of business that operate in electricity markets either generating or selling power, and can result from high demand on transmission assets into key markets. For energy marketing activities, risks relating to transmission constraints are managed to the extent possible through firm contractual arrangements securing the use of transmission infrastructure, combined with the purchase of financial products mitigating the risk due to line congestion into key markets. Transportation constraints resulting from damage to infrastructure or other factors can result in an inability to deliver critical supplies required to operate generation facilities, such as fuel or construction material, as well as contractual or market disputes.

Financial results and operating conditions may be materially impacted in periods where these, and other, external factors are outside the normal expected range.

Offshore Oil Development Risk

The demand for, and pricing of, oil and natural gas has a direct impact on the level of exploration, development and production activity in Newfoundland and Labrador's offshore region. This, and numerous other market conditions over which Nalcor has no control, may also impact results including commodity prices, expectations about future prices, levels of consumer demand, severe weather events, policy or regulatory change, economic conditions, and the ability of oil and gas companies to raise capital.

Nalcor plays a role by encouraging additional exploration in the province through its annual pre-competitive geoscience program which generates new and marketable seismic data. Early indications show the potential for further significant offshore oil projects. These findings are presented globally to exploration companies to solicit interest, however, the decision to invest and the timing of any investment remains with those companies.

Given these uncertainties, the level of activity in the oil and natural gas industry is uncertain. No assurance can be given that oil and natural gas exploration and production activities will continue at current levels. Any prolonged substantial reduction in oil and gas prices may slow the current pace of offshore oil exploration and development until market conditions are more favourable, and a prolonged and substantial increase may spur higher than expected interest and development.

Electricity System Integration Risk

The Lower Churchill Project is under construction and the interconnection of the isolated island grid to North America is approaching. The integration of Muskrat Falls and related transmission assets into the existing asset base is complex and involves a high degree of coordination.

As such, the Company is focused on completion of the Lower Churchill Project, system integration efforts and planning for the implementation of new operating procedures and commercial agreements. Delays in project construction could lead to a delay in the interconnection to the North American grid or the completion of Muskrat Falls. This could affect planned sales of energy into export markets, as well as other key assumptions, such as continued dependence on the HTGS for longer than planned. Resources have been dedicated to the integration, and transition teams have been tasked with managing key work streams in coordination with the companies affected. These efforts are overseen by a Steering Committee comprised of Management and senior representatives of the Newfoundland and Labrador Department of Natural Resources.

Any challenges encountered during technical integration could disrupt power supply to customers until resolved, and have the potential to increase costs and cause delays past planned delivery dates. Policy and regulatory decisions outside the control of the Company can impact the recovery of capital and may impact operating and financial assumptions relating to revenue, income, energy consumption and demand.

Catastrophic Event Risk

Other external factors exist where their occurrence would be sudden and the impact catastrophic. This includes, but is not limited to, an act of terrorism against key generation or transmission infrastructure, a major cyber-attack targeting key systems, including those that operate generation and transmission assets, and a catastrophic natural disaster, such as a major hurricane or tsunami.

To mitigate the risk of a sudden and catastrophic incident, Nalcor has business recovery and other emergency preparedness measures, and controls governing physical and information technology (IT) security threats.

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To the extent that coverage is available, certain risks are transferred through the placement of insurance. Such events are unlikely, but could have severe, sudden and potentially long-term impacts on the Company.

Carbon and Climate Change Risk

The uncertainty surrounding the exact future effects of climate change globally and locally create risk for Nalcor and its affiliated companies. The results of the scientific community are widely accepted and it is recognized that emissions from human activities are resulting in climate change. Looking forward, scientists are predicting further changes that may occur, and the Company is actively monitoring this research and its potential to affect regulation, policy, energy consumption patterns and operations in the future. Locally, and of particular interest to hydro generation facilities, are predictions of potential increases in extreme precipitation and weather events and the unknown effects this may have on water levels, wind patterns, ice conditions and other operating parameters. Although physical utility and other assets have been constructed and are maintained to withstand severe weather, they may be negatively affected if weather and precipitation patterns do significantly change. Unforeseen capital investments may be required to respond, forecasts of water reservoir volumes and assumptions regarding design and engineering for extreme weather may change. Unforeseen changes to energy consumption from changing temperature swings could affect expected seasonality and demand assumptions. These factors may affect the Company's service areas and operating model in future periods.

The consideration of Federal and Provincial carbon taxes may create financial opportunities and risks for the Company going forward, as taxes are reasonably expected to increase for fuel burning facilities but having a generation mix that is predominantly hydro power may make our renewable electricity more desirable as it is not expected to be taxed. Environmental teams liaise with Federal, Provincial, municipal and state regulators and the potential impacts on operations and infrastructure are considered within the established environmental risk management framework.

Maintaining Effective Relationships with Key Partners and Customers

In certain instances Nalcor works with a number of key partners in the development, operation, and delivery of energy products to customers. These key partners play an integral role in Nalcor's success and maintaining strong effective working relationships with these key partners is critical. In addition, Nalcor is focused on providing reliable, cost effective energy solutions to customers in the various energy markets where it operates. If Nalcor is not able to provide reliable and cost effective energy solutions, then customers may seek out alternative energy solutions that could have a negative financial impact on Nalcor and its customer base.

OPERATIONAL RISKS

Broadly, operational risks include risks to assets, other property, people and systems. This includes uncertainties relating to asset condition, maintenance, and asset availability within the generation and transmission facilities that are maintained by Hydro and Churchill Falls, operational risks related to Nalcor's interests in oil and gas assets, risks related to the availability of transmission assets that Nalcor utilizes but does not own, as well as risks to other property and assets owned by Nalcor, such as office buildings, data, and system infrastructure.

Operational and Maintenance Risk

Nalcor maintains a comprehensive corporate insurance program typical for such a company. Insurance is subject to coverage limits and exclusions, as well as time-sensitive claims discovery and reporting provisions, and will not be available for all the risks and hazards to which the Company is exposed. In addition, no assurance can be given that such insurance will be adequate to cover the Company's liabilities or will be generally available in the future, or if available, that premiums will be commercially justifiable.

Generation and Transmission Assets

Hydro and Churchill Falls operations are subject to normal risks inherent to operating generation and transmission assets. Certain assets are approaching the end of their service lives and are becoming more costly to maintain. The occurrence of significant unforeseen equipment failures could have a material adverse effect on operations in these entities, as well as the cash flows and financial position of Nalcor, particularly considering the isolated nature of the provincial electrical system and growing demand on the Avalon Peninsula.

Hydro and Churchill Falls maintain integrated annual work plans which consolidate and monitor the activities within operating, capital, winter readiness and preventative and corrective maintenance programs. These plans are dynamic and actively managed throughout the year. The objective is to ensure continued reliability for customers through a sustained focus on competing high priorities and responding

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to unplanned operational conditions.

Material and unexpected asset failures or degradation may result in safety or environmental incidents, interruptions to power supply to customers, emergency and unplanned work, and/or the reallocation of capital budgets and resources. For material uninsured losses within Hydro, it is expected that regulatory relief would be sought, however, there is no assurance that this relief would be received. Such unforeseen events may have a material impact on the Company's financial condition.

Joint Venture Interest in Oil and Gas Assets

Oil and Gas is subject to the operational risks of participation in offshore oil production, including equipment defects, malfunctions, failures, unplanned shut downs, safety or environmental incidents and external factors, such as hurricanes and other extreme weather. These risks and hazards create exposure to events such as workplace incidents, business interruption, property damage or destruction, or environmental liabilities.

These operational risks are managed by the operator of projects in which Nalcor is a minority joint venture partner. The approach and performance of the operator with respect to addressing these areas is monitored actively by reviewing project status reports and risk registers, participation in meetings with co-venturers, and the exercise of Oil and Gas voting rights within operating agreements.

The occurrence of events described above could materially impact revenue assumptions, and/or unplanned capital work, or lead to other expenses requiring increased equity investment from partners.

Safety Risk

Several of Nalcor's lines of business have material inherent safety risks. Notably within utility operations, this includes risks relating to working around energized equipment and operating dams and dikes. There are additional unique hazards associated with certain facilities, such as the underground powerhouse at Churchill Falls. Construction sites, such as the Lower Churchill Project workplaces and those relating to various capital projects for Hydro and Churchill Falls, carry risks relating to working from heights, dropped objects, and management of contractors onsite.

Nalcor's safety program is based on elements of internationally recognized safety management systems, and includes safety reporting, incident investigation, and the establishment of certain specific programs and controls relating to hazards such as energized equipment and working at heights. In addition to a Corporate team which provides standards and monitoring, safety professionals are embedded throughout operations with various areas of focus, including dam safety, emergency response and oversight of contractors.

Based on the industry and the nature of work performed, there are many hazards and risks that could result in workplace incidents that could cause serious injury or death to employees, contractors or members of the public. Safety events can lead to disruption of the business, regulatory actions, and other measures, which could have an adverse impact on the Company. Unsafe work conditions can lead to workplace incidents that may result in increased turnover, increased project and operating costs, and lead to additional unforeseen expenses to investigate and respond to such events.

Environmental Risk

Nalcor is subject to various municipal, provincial and federal requirements, and given the industry and nature of the work performed, there are a number of environmental risks that may adversely affect Nalcor's financial position in any given year. There is a potential for environmental liability with existing assets or from assets assumed from another operator, or the presence or release of hazardous or other harmful substances. It is also possible that planned work is affected by the lack or absence of government approvals, permits, or renewals of existing approvals and permits related to construction or operating facilities. Environmental events may cause significant environmental damage, lead to claims by third parties and/or governmental fines, disruption to operations, increased project or operating costs, orders or directives requiring specific actions with associated costs or cause long-term impairment to asset values.

Nalcor applies the principles of ISO 14001 Environmental Management System standard to its relevant lines of business, which is a risk based framework for managing significant environmental risks and reducing the frequency and severity of incidents. To ensure material environmental risks are managed, Nalcor has implemented a Contaminated Sites Management Program for all properties it owns, leases, operates or acquires. Compliance with applicable legal and other requirements is monitored through conducting environmental

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compliance audits. Nalcor and its affiliated companies have developed Environmental Emergency Response Plans to deal with any accidental releases which may occur in order to provide a quick and effective response so that any impacts are minimized.

Information Technology Infrastructure and Security Risk

Information technology affects all aspects of Nalcor's operations. The Company's success is in part dependent on developing, maintaining and managing complex IT systems which are employed to operate transmission and generation facilities, financial, and other business systems. If such systems are not robust or do not support the needs of the business, performance may be negatively impacted due to errors, poor efficiency and/or loss of system stability. To respond to aging business systems and changes in the needs of the Company, Nalcor is undergoing a comprehensive review of all corporate business systems, which will result in the upgrade or replacement of certain applications.

Increasing reliance on information systems and expanding data networks creates exposure to information security threats. Major risk exposures in this environment relate to information security, availability of information, and risk of corporate data loss. It also may include the loss of processing capability due to hardware and/or software failure or virus attacks, the loss of communication across the wide area network, the loss of data through cybercriminal malware, or similar events. There are unique risks relating to the industrial control systems and other operational technologies that control the electricity grid and certain physical assets. External threats are mitigated through the use of firewalls, anti-virus tools and detection and intrusion prevention appliances. Internet access is controlled and, where devices are connected, this is managed by a web-filtering device. Nalcor maintains a disaster recovery plan that details recovery procedures and processes, and is updated and tested on a periodic basis.

A serious incident involving the loss of corporate data or access to critical business systems would result in unplanned costs to contain, investigate, and remediate the incident and may result in unplanned investments to change systems or processes. It could also result in the loss of control over physical assets, or inability to access corporate systems and data.

Human Resource Management Risk

The future success of Nalcor is tied to attracting and retaining sufficient qualified staff to replace those retiring. Approximately 20% of full time equivalent employees will be eligible for the earliest unreduced pension within the next five years. Nalcor is focused on workforce planning, recruitment and employee development to identify and mitigate related challenges across the Company. Apprenticeship and other programs are continued focus areas and effectively utilized to grow specific skills in-house and to shadow long-term employees nearing retirement. The collective agreement with Churchill Falls IBEW Local 2351 is for the period from January 1, 2014 to December 31, 2018, and Newfoundland and Labrador Hydro IBEW Local 1615 is for the period from April 1, 2014 to March 31, 2018.

The integration of Lower Churchill Project assets creates increased risk of attracting and retaining adequate numbers of specialized and experienced staff to manage the HTGS, various rural operations, and to staff the transition and integration teams required. This challenge in Hydro is compounded by the demographics of the Company and the numbers of experienced staff who are expected to retire in the timeframe in which the Lower Churchill Project assets will be integrated and operational.

Hydro and Churchill Falls are focused on workforce planning and long-term deployments for staff affected by integration activities and the use of external resources where appropriate to ensure the continued safe and reliable operation of critical assets. There are ongoing discussions with IBEW locals regarding impacts of new assets and as part of integration activities are preparing for collective bargaining in advance of contracts expiring in 2018.

Oil and Gas Production Volume Risk

As a partner in three offshore developments, Nalcor is largely dependent on the operators to manage the risks that are associated with production and development. In addition to operating risks, commodity price and foreign exchange risk, Oil and Gas is subject to volume risk, or fluctuations in production levels. Decisions may be made by the operator that may adversely affect project production levels if they are in the best interest of the life of specific development projects. Given the early stage of Nalcor's growth in the oil and gas sector, Nalcor is not yet diversified, holding interests in only two producing projects.

Nalcor maintains a very close working relationship with the operator of each of these ventures, has influence over key decisions made through joint venture rights and obligations, and actively participates in the various executive and operating committees.

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The impact of unanticipated declining production in one well in either project could have a significant adverse effect on Nalcor's results and financial position.

Lower Churchill Project Execution Risk

As is the case with any mega project, there are a variety of uncertainties relating to execution. There is a risk that costs increase over original estimates due to the numerous factors including contractor perception of risk, inflation or materials cost increases. The schedule can be impacted by the performance of contractors and the workforce, the availability of resources and materials, unexpected problems experienced during commissioning and startup, weather, productivity, safety and other incidents onsite causing work interruption, and changes to the original project plan to enhance quality, reliability, or some other objective. The quality of the work done onsite is of paramount importance, and issues with components not meeting the standards set can cause increases to cost or schedule.

Lower Churchill Project has controls over cost, schedule and quality. Competitive contracting was achieved by creating interest in the project from Canadian, North American and international contractors and contractor oversight is a key priority. Staff from both Nalcor and various contractors are onsite and have presence at the Corporate office to ensure coordination, integration and oversight, and to facilitate addressing any issues that arise. Project capital costs are closely monitored, and changes impacting cost must meet certain criteria. Recent organizational and structural changes have been made to separate the generation and transmission elements of the project and to allow for more focus on the completion of each scope of work.

Lower Churchill Project maintains an owner controlled insurance program. Insurance is subject to coverage and limits and exclusions, as well as time sensitive claims discovery and reporting provisions. In addition, no assurance can be given that such insurance will be adequate to cover liabilities.

Schedule delays could impact the timing of interconnection to the North American grid and the delivery of power to Hydro and export markets which may impact future revenue assumptions.

Internal Control System Risk

Management is responsible to ensure that risks are controlled by putting in place and monitoring processes and systems designed to reduce such risks as detailed above. Internal control systems are intended to provide reasonable assurance with respect to the achievement of objectives, and those controls deemed to be effective do not eliminate the risk altogether. They may not always prevent or detect misstatements with respect to financial statement preparation and presentation, or prevent material financial losses from occurring.

FINANCIAL RISK

Nalcor's operations create exposure to various forms of financial risk, including commodity price, foreign exchange, credit, and liquidity risk. Financial risks are managed in accordance with a Board-approved Financial Risk Management Policy, which requires affiliated companies to review key financial risks and develop comprehensive strategies to address those risks, including the use of derivative instruments.

Commodity Price Risk

Commodity price risk is present where a fluctuation in the market price of a commodity has an unexpected impact on the entity that purchases or sells the commodity. Exposure relates primarily to oil sales through Oil and Gas, as well as purchases of No. 6 fuel, gas turbine fuel, and diesel fuel for Hydro thermal facilities, and sales of recall power at market rates. Within Hydro, regulatory recovery mechanisms are available which provide certainty that profit will not be affected by movements in commodity price relating to the purchase of No. 6 fuel. For production and electricity export volumes, however, profit is sensitive to price fluctuations. Assuming no risk mitigation, with all other variables and assumptions held constant and regarding anticipated volumes sold in 2017, a change of \$1 in the average price (USD/bbl) for oil represents an annual increase or decrease in profit of \$2.8 million. A change of \$1 in average electricity export price (USD/MWh) from expected levels translates to an impact of \$1.8 million to profit.

When considered appropriate in the context of market conditions and financial management objectives, the Company uses fixed price commodity price swaps to manage the impact of market price volatility. At the beginning of 2017, swap contracts with a notional value of USD \$32.3 million were in place representing 25% of anticipated 2017 oil production, at an average fixed price of USD \$52.09 per

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barrel. Hedging strategies are developed leveraging the best available information regarding the movement of market prices, and may perform better or worse than expected given actual market results. The effect of uncertain market prices remains against 75% of anticipated production. There were no contracts in place for anticipated electricity sales.

Hydro's exposure to the impact of commodity price fluctuations through the purchase of No. 6 fuel is mitigated by the operation of the RSP which passes commodity price risk on fuel purchases to customers. Hydro has obtained approval from the Public Utilities Board (PUB) to defer fluctuations in the price of diesel and gas turbine fuel which reduces the impact of this volatility on net income. The deferral account does not remove the effect of such volatility on cash flows, which is managed by ensuring sufficient short term liquidity is available to address unexpected and significant increases in fuel purchases.

Foreign Exchange Rate Risk

Foreign exchange risk exists when a financial transaction is denominated in a currency other than that of the base currency of the Company, being CAD. Nalcor's primary exposure to foreign exchange risk arises from exposure to USD through Hydro's purchases of No. 6 fuel for consumption at the HTGS; the sale of recall power at USD market rates; USD denominated sales of crude oil by Oil and Gas; USD denominated capital expenditures in Oil and Gas; USD denominated lease revenue in Bull Arm; and USD and EURO denominated capital expenditures for LCP. As is the case for commodity price exposures relating to Hydro's purchase of No. 6 fuel, regulatory recovery is permitted relating to foreign exchange rate impacts as described in further detail below. In Bull Arm, the total exposure is the value of the lease contract annually, and since it is certain, it can be fully hedged to essentially fix revenue for this division annually. Exposure in Oil and Gas and Energy Marketing is tied to total production and sales volumes which are variable. For this reason, it is not possible to fully hedge the impacts of fluctuations in exchange rate or profit. Assuming no risk mitigation, with all other variables and assumptions held constant and regarding anticipated volumes sold in 2017, a change of \$0.01 in the average foreign exchange rate represents an annual increase or decrease in profit of \$1.3 million for the Oil and Gas division. The same change in foreign exchange rate translates to an annual impact of \$0.4 million to the profit of Energy Marketing.

Hydro Regulated's exposure on the purchase of No. 6 fuel is mitigated through the operation of the RSP which transfers the effects of foreign currency changes on fuel purchases to customers. The regulatory framework for the rate-regulated business allows for recovery of prudently incurred costs, including those relating to changes in foreign exchange rates. In Oil and Gas, there is exposure since oil sales are in USD, however, a significant portion of its capital expenditures are also in USD, which creates a natural hedge that partially mitigates this exposure. Additional mitigation against the remaining risk exposure may be undertaken, such as the purchase of additional foreign currency forward contracts, depending on market conditions and available terms. At the beginning of 2017, forward contracts were in place as follows:

- Oil and Gas: Contracts in place with a notational value of USD \$32.3 million, at an average rate of 1.33 CAD per USD, representing approximately 23% of budgeted 2017 oil revenue.
- Energy Marketing: Contracts in place with a notational value of USD \$21.9 million, at an average rate of 1.33 CAD per USD, representing approximately 58% of budgeted electricity export revenue.
- Bull Arm Fabrication: Contracts in place with a notational value of USD \$18.8 million, at an average rate of 1.32 CAD per USD and covering the current lease term to March 2018, representing 100% of budgeted revenue.

Credit Risk

Credit risk represents the financial loss that would be suffered if the Company's counterparties in a transaction fail to meet or discharge their obligation to the company. Nalcor is exposed to credit risk in the event of non-performance by counterparties to its financial instruments or in non-performance of suppliers and/or contractors.

Credit risk relating to the Company's revenues is largely mitigated by the profile of our customers, who are typically regulated utilities or investment grade counterparties, which are designated as low risk. Procedures and practices designed to manage the credit risks include assessment and monitoring of counterparty creditworthiness, setting of credit limits, monitoring collections, and maintenance of various forms of credit assurance, including letters of credit, performance bonds and parental guarantees as part of the terms of final contracts. Credit risk related to the sale of recall power is managed through contractual arrangements with counterparties assessed to be creditworthy, supported by credit enhancements as required.

Investments are similarly restricted to high-quality securities. Investments held within the sinking fund portfolios of Nalcor and Hydro

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and the reserve fund in Churchill Falls and are limited to securities issued by or guaranteed by the Government of Canada, any of the provincial governments and Canadian banks rated A or better by Standard and Poor's. In addition, portfolio investments held within the reserve fund of Churchill Falls do not exceed 10% with any one entity with the exception of the Government of Canada. Long-term investments held by Muskrat Falls, Labrador Transco, and the LIL Construction Project Trust are with a Canadian Schedule 1 Bank with a credit rating of AA- (S&P's). Derivative transactions are executed with only highly rated banking institutions.

Default by a company that Nalcor has extended significant credit to could result in material lost revenue, increases to bad debt expense, and negative impact to Nalcor's balance sheet as receivables are deemed to be uncollectible.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. Nalcor is exposed to liquidity risk with respect to its short-term contractual obligations and financial liabilities. Short-term liquidity is provided by cash and cash equivalents, funds from operations and maintenance of borrowing facilities sufficient to cover both anticipated and unexpected fluctuations within its operations. Cash flows are monitored continuously. The Company maintains a \$250.0 million committed credit facility with its banker to ensure additional liquidity is available to each of the lines of business. In addition, demand operating credit facilities are maintained for Oil and Gas, Hydro, Churchill Falls and Energy Marketing with limits of \$30.0 million, \$50.0 million, \$10.0 million and \$20.0 million respectively.

Long-term liquidity is provided through the issuance of debentures in the capital markets and injections of equity capital from the Nalcor's shareholder in support of the existing large project investments. Long-term liquidity depends on Hydro's continued ability to access the capital markets and on Nalcor's shareholder's ability to provide required equity contributions. The funding obligations associated with the longer-term debentures are managed through a balanced approach to debt maturity and a program of sinking fund investment. Debt maturities are managed to avoid overly demanding funding requirements in any given year.

Diminished liquidity may result in constraints on executing growth plans and carrying out planned investments and acute shortages could negatively affect the organization's ability to operate.

REGULATORY RISK

Hydro Regulated is subject to the normal uncertainties facing entities that operate under cost of service rate regulation, including approvals by the PUB. The PUB approves electricity rates charged to Hydro's customers and ensures that those same rates provide Hydro with a reasonable opportunity to recover the estimated costs of providing electrical services, including a fair rate of return on rate base.

While Hydro can make applications to the PUB for recovery of capital projects, there is no assurance that these projects will be approved in part or in full, or that conditions on such approvals will not be imposed. Capital cost overruns, in excess of predefined thresholds, might not be recoverable and are subject to approval by the PUB. Further, there is no assurance that Hydro will receive regulatory decisions in a timely manner, meaning costs may have to be incurred prior to having approval of recovery from customers. Finally, there is no assurance that rate orders issued by the PUB will permit Hydro to recover all costs actually incurred to provide electricity service. Management works to mitigate these risks by ensuring both compliance with existing regulations and the proactive management of regulatory issues. In total, these factors, along with any changes in regulations applicable to the Energy Marketing and Oil and Gas segments, may negatively affect the timing of capital projects, results of operations and financial position of Nalcor if significant in nature.

COMPLIANCE RISK

Legislative Compliance

In addition to environmental and occupational, health and safety requirements, Nalcor's operations are subject to a variety of other federal, provincial, and local laws, regulations and guidelines, including market rules governing Energy Marketing, provincial royalties and other regulations relating to the province's interest in offshore oil projects, federal aviation regulations concerning the operation of Churchill Falls airport, privacy and other various employment laws. Certain legal issues are managed by Nalcor's corporate legal team, but most compliance risks are managed by the affiliated company they relate to.

As Nalcor grows its Energy Marketing segment and interconnects the island to the North American electrical system, it is subject to

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increasing levels of United States and Canadian regulation and market participant rules. This introduces the risk of loss of authorizations necessary to participate in chosen export markets in reaction to noncompliance. Such occurrences may affect the Company's ability to meet sales and other targets. Management has established dedicated resources to develop and maintain an appropriate compliance framework.

In certain instances, the outcome of noncompliance may have material impacts on revenue assumptions, cash flows or expenses, or may affect the timely delivery of a product, service, or project in a given period.

Contractual Compliance

Nalcor has contracts in place with various related companies and third parties, including but not limited to arrangements relating to federally guaranteed debt and power purchase agreements governing the sale of power. Across all segments, there are agreements relating to revenue generation activities, financing of key investments and projects, the delivery of power and other products and services, the use of Nalcor sites or locations by third parties, and the payment of various contractors and service providers.

To manage the risk of entering into contracts that expose the Company to unacceptable levels of risk, a due diligence process is followed for new contracts above a certain threshold which involves review by representatives from across the Company who have expertise relating to the agreement under negotiation. Contracts are awarded in compliance with provincial purchasing requirements and regulation, as well as Nalcor internal purchasing guidelines, and standard contracts are often used. Contract owners are responsible for overseeing the execution of key terms and ensuring internal processes are created to promote contract compliance and to resolve disputes as they may arise.

Default by Nalcor relating to a material contract, or default of another party to key agreements may affect the Company's ability to meet sales or other targets as well as fund or deliver major capital projects. From time to time, disputes arise between Nalcor and related or third parties which create uncertainty with respect to various financial targets affected by certain contracts with the potential to be material.

SECTION 7: ACCOUNTING POLICIES AND SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

ACCOUNTING POLICIES

Nalcor's significant accounting policies are described in Note 2 of the annual audited consolidated financial statements for the year ended December 31, 2016.

SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

Significant accounting estimates are those that require Management to make assumptions about matters that are highly uncertain at the time the estimate is made. Significant accounting estimates are also those estimates which, where a different estimate could have been used or where changes in the estimate that are reasonably likely to occur, would have a material impact on the Company's financial condition or financial performance. A description of Nalcor's significant accounting judgments, estimates and assumptions are provided in Note 3 of the annual audited consolidated financial statements for the year ended December 31, 2016.

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SECTION 8: NON-GAAP FINANCIAL MEASURES

Certain financial measures in this MD&A are not prescribed by GAAP. These non-GAAP financial measures are included because they provide MD&A users with enhanced understanding and clarity of Nalcor's financial performance, condition, leverage and liquidity. These non-GAAP financial measures do not have any standardized meaning and cannot necessarily be compared to similar measures presented by other companies.

NON-GAAP FINANCIAL MEASURES

Debt to capital	Total debt (promissory notes, Class B limited partnership units and long-term debt including current portion less sinking funds), divided by total debt plus shareholder's equity
EBIT	Profit (loss) excluding interest and taxes
EBITDA	Profit (loss) excluding interest, taxes, depreciation, depletion, amortization, impairment and accretion
Fixed rate debt as a percentage of total indebtedness	Long-term debt divided by total debt
Funds from operations (FFO)	Profit (loss) excluding depreciation, depletion, amortization, impairment and accretion
Return on capital employed (ROCE)	Rolling twelve month average EBIT (excluding non-cash impairment expenses)/Capital Employed (excluding assets that are under development)

Disclosure of Operating Profit (Loss)

The term "operating profit (loss)" is a non-GAAP measure that encompasses profit (loss) excluding extraordinary and non-recurring items that are not indicative of Nalcor's future financial performance. This non-GAAP financial measure provides a more accurate reflection of Nalcor's operating performance and analysis against prior periods.

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SECTION 9: SUMMARY OF QUARTERLY RESULTS

The following table outlines Nalcor's quarterly results for the eight quarters ended March 31, 2015 through December 31, 2016. The quarterly information has been obtained from Nalcor's unaudited condensed consolidated interim financial statements for the periods ended March 31, June 30 and September 30 for 2016 and 2015, and the annual audited consolidated financial statements for the years ended December 31, 2015 and 2016. These financial results are not necessarily indicative of results for any future period and should not be relied upon to predict future performance.

<i>For the period ended (millions of dollars)</i>	Revenue	Profit (loss)	ROCE (%) ¹	FFO	Capital Expenditures ²
December 31, 2016	227.4	62.4	7.93	102.6	747.4
September 30, 2016	154.1	37.5	6.65	74.5	854.7
June 30, 2016	179.6	8.4	5.09	42.3	706.7
March 31, 2016	263.0	28.0	4.40	59.5	455.9
December 31, 2015	219.4	(36.3)	4.17	55.5	685.0
September 30, 2015	130.0	(1.2)	3.18	23.5	736.6
June 30, 2015	176.1	(7.8)	3.21	16.3	614.8
March 31, 2015	286.0	29.3	4.10	53.5	394.4

¹ Excludes assets under development

² Excludes Maritime Link

The financial performance of several of Nalcor's business segments are impacted by seasonality. Specifically, electricity sales in Hydro Regulated and Churchill Falls are typically highest during the first and last quarters and lowest during the summer months. In contrast, Energy Marketing has the highest level of energy available to sell in export markets during the summer months and the least available to sell in winter months. Electricity prices in the export markets tend to peak in winter and summer periods, but can vary by year depending on temperatures, the specific market and other factors. Interim results can also fluctuate due to the timing and recognition of regulatory decisions and the impact of commodity price changes.

December 2016/December 2015

2016 fourth quarter profit increased by \$98.7 million over the same period in 2015 due to lower operating costs across all lines of business, primarily due to decreased professional service costs, materials and maintenance costs and salaries and benefits; an impairment expense of \$61.7 million related to Oil and Gas in the prior year; increased revenue, largely due to increased oil sales as a result of higher production at HSE; higher energy sales in Energy Marketing due to higher volumes of export sales, partially offset by lower realized export market prices; and, favourable changes in Hydro's regulatory deferrals. These increases in profit were partially offset by increased oil production costs and higher depletion associated with increased production at HSE; lower gains on the settlement of oil commodity contracts; and, lower energy sales in Churchill Falls as a result of the impact of continuous energy under the Renewal Contract.

September 2016/September 2015

2016 third quarter profit increased \$38.7 million over the same period in 2015. The largest contributors to the increase were higher oil production, lower operating costs, reduced fuel costs and favourable foreign exchange. Increased levels of depreciation, amortization and depletion and higher production costs offset the increase in profit.

June 2016/June 2015

2016 second quarter profit increased \$16.2 million compared to the same period in 2015. This increase was primarily due to interim rates in Hydro Regulated, higher oil production and lower operating costs. These increases were partially offset by lower commodity prices, higher depreciation, depletion and amortization expense, and a reduction in other income.

MANAGEMENT'S DISCUSSION & ANALYSIS

FOR THE THREE AND TWELVE MONTHS ENDED DECEMBER 31, 2016

March 2016/March 2015

2016 first quarter profit decreased by \$1.3 million compared to the same period in 2015, largely due to increased loss in Hydro Regulated of \$1.2 million as a result of higher costs associated with gas turbine fuel and Prudence Order adjustments and increased depreciation, amortization and depletion. The decrease was partially offset by lower operating costs, increased gains on the settlement of commodity swaps and significant oil production, despite lower oil prices.

SECTION 10: SUBSEQUENT EVENTS

On January 11, 2017, the \$225.0 million promissory note with Nalcor was repaid with a new promissory note, which expires March 31, 2017 and has an interest rate of 0.951%. Hydro intends to refinance this loan in the coming months with a long-term debt issuance in the capital markets.

On January 13, 2017, Hydro re-opened its Series AF debentures and sold \$300.0 million of new debentures to its underwriting syndicate for net proceeds of \$284.0 million.

On January 24, 2017, the irrevocable letter of credit for \$0.3 million, issued as a performance guarantee in relation to the Department of Fisheries and Oceans Fish Habitat Compensation Program, was cancelled by the beneficiary as it was no longer required.

SECTION 11: OUTLOOK

On December 1, 2016, Hydro received its GRA order. Management has recorded its best estimate of the impact of the Order and it is anticipated that final customer rates will be in effect July 1, 2017 however, regulatory risk remains around the timing and approval of Hydro's GRA Compliance Application.

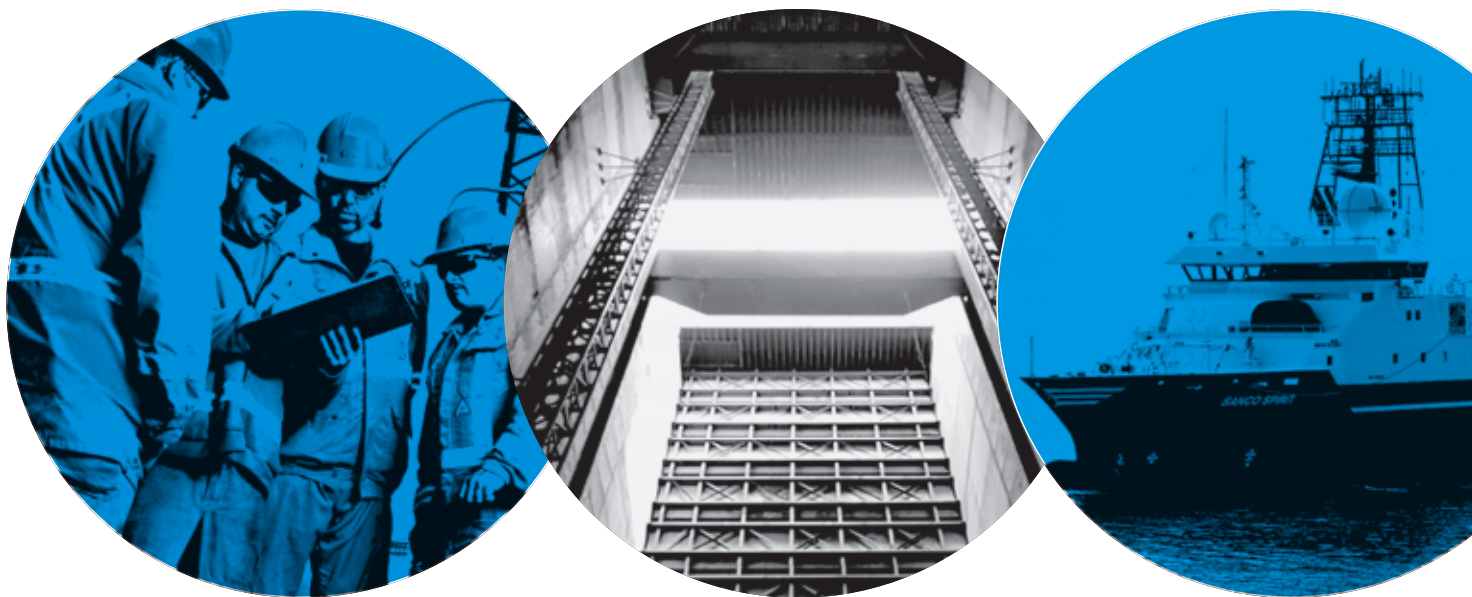
During 2017, the Hebron Gravity Based Structure is planned to be transported from the Bull Arm Fabrication site to the field, with first oil expected in late 2017.

Total forecasted capital expenditures for 2017 (excluding those related to the Maritime Link) are forecasted to be \$2.6 billion. The largest component, \$2.1 billion, relates to the Lower Churchill Project.

During 2017, Nalcor's revenues are anticipated to increase as a result of continued increased oil production, with a forecasted price of \$55 (USD/bbl), however this will be partially offset by lower energy sales in Churchill Falls as a result of the first full year of the Renewal Contract.

APPENDIX 2

Consolidated Financial Statements December 31, 2016



MANAGEMENT REPORT

The accompanying Consolidated Financial Statements of Nalcor Energy, and all information in the Business and Financial Report, are the responsibility of Management and have been approved by the Board of Directors.

The Consolidated Financial Statements have been prepared by Management in accordance with International Financial Reporting Standards. The preparation of financial statements necessarily involves the use of estimates based on Management's judgement, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to March 6, 2017. Financial information presented elsewhere in the Business and Financial Report is consistent with that in the Consolidated Financial Statements.

Management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for the appropriate delegation of authority and segregation of responsibilities. An internal audit department independently evaluates the effectiveness of these internal controls on an ongoing basis, and reports its findings to Management and to the Audit Committee of the Board of Directors.

The responsibility of the external auditor, Deloitte LLP, is to express an independent, professional opinion on whether the Consolidated Financial Statements are fairly presented in accordance with International Financial Reporting Standards. The Auditors' Report outlines the scope of their examination and their opinion.

The Board of Directors, through its Audit Committee, is responsible for ensuring that Management fulfills its responsibility for financial reporting and internal controls. The Audit Committee meets regularly with Management, the internal auditors and the external auditors to satisfy itself that each group has properly discharged its respective responsibility and to review the Consolidated Financial Statements before recommending approval by the Board of Directors. The internal and external auditors have full and free access to the Audit Committee, with and without the presence of Management.



Stan Marshall
President and Chief Executive Officer



Derrick Sturge
Executive Vice President, Finance and Chief Financial Officer

Independent Auditor's Report

To the Lieutenant-Governor in Council, Province of Newfoundland and Labrador

We have audited the accompanying consolidated financial statements of Nalcor Energy, which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated statements of profit (loss) and comprehensive income (loss), changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Managements Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Nalcor Energy as at December 31, 2016 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 35 to the financial statements, which explains that certain comparative information for the year ended December 31, 2015 has been restated.

Deloitte LLP

Chartered Professional Accountants
March 7, 2017

NALCOR ENERGY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

<i>As at December 31 (millions of Canadian dollars)</i>	Notes	2016	2015 (Restated - Note 35,36)
ASSETS			
Current assets			
Cash and cash equivalents	5	142.9	148.5
Restricted cash		1,378.0	1,836.3
Short-term investments		91.5	1,026.2
Trade and other receivables	6	293.5	270.9
Inventories	7	93.1	77.9
Current portion of other long-term assets	11	81.7	12.4
Prepayments		16.2	14.1
Derivative assets		0.7	9.1
Total current assets		2,097.6	3,395.4
Non-current assets			
Property, plant and equipment	8	11,416.5	8,324.5
Intangible assets	9	75.5	49.3
Long-term investments	12	34.1	90.6
Other long-term assets	11	274.0	317.6
Total assets		13,897.7	12,177.4
Regulatory deferrals	10	163.8	144.3
Total assets and regulatory deferrals		14,061.5	12,321.7
LIABILITIES AND EQUITY			
Current liabilities			
Short-term borrowings	14	435.0	97.0
Trade and other payables	13	1,161.7	997.1
Current portion of long-term debt	14	142.6	233.4
Derivative liabilities		5.4	5.2
Current portion of other liabilities	16,17,18	4.9	6.1
Total current liabilities		1,749.6	1,338.8
Non-current liabilities			
Long-term debt	14	5,872.8	6,008.1
Class B limited partnership units	15	399.1	207.4
Deferred credits	16	1,160.9	670.3
Deferred contributions	17	11.1	11.1
Decommissioning liabilities	18	81.7	102.0
Long-term payables	19	58.1	62.6
Employee future benefits	20	117.1	116.1
Total liabilities		9,450.4	8,516.4
Shareholder's equity			
Share capital	22	122.5	122.5
Shareholder contributions	22	2,860.7	2,204.3
Reserves		6.5	11.8
Retained earnings		1,273.0	1,136.7
Total equity		4,262.7	3,475.3
Total liabilities and equity		13,713.1	11,991.7
Regulatory deferrals	10	348.4	330.0
Total liabilities, equity and regulatory deferrals		14,061.5	12,321.7

Commitments and contingencies (Note 31)

Subsequent events (Note 37)

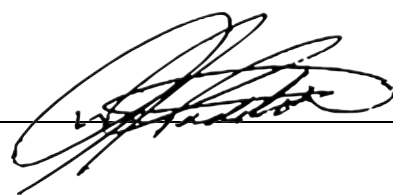
See accompanying notes

On behalf of the Board:

DIRECTOR



DIRECTOR



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

<i>For the year ended December 31 (millions of Canadian dollars)</i>	Notes	2016	2015
			(Restated - Note 35,36)
Energy sales	23	778.9	760.7
Other revenue	23	45.2	49.8
Revenue		824.1	810.5
Fuels		167.5	192.8
Power purchased		60.8	61.3
Operating costs	24	207.3	243.5
Oil production, marketing and transportation costs	25	26.3	12.1
Transmission rental and market fees	26	22.1	21.4
Depreciation, depletion, amortization and impairment	8,9	135.0	159.2
Exploration and evaluation		1.5	1.0
Net finance (income) expense	27	72.1	73.5
Other (income) expense	28	(4.0)	3.2
Share of loss of joint arrangement		-	0.3
Profit before regulatory adjustments		135.5	42.2
Regulatory adjustments	10	(0.8)	58.2
Profit (loss) for the year		136.3	(16.0)
Other comprehensive income (loss)			
Total items that may or have been reclassified to profit or loss:			
Regulatory adjustment		0.2	0.4
Actuarial gain on employee future benefits		0.4	5.6
Net fair value gains on available-for-sale financial instruments		13.0	10.5
Net fair value (losses) gains on cash flow hedges		(2.6)	9.2
Reclassification adjustments related to:			
Available-for-sale financial instruments		(10.0)	(10.0)
Cash flow hedges recognized in profit or loss		(6.3)	(11.5)
Other comprehensive (loss) income for the year		(5.3)	4.2
Total comprehensive income (loss) for the year		131.0	(11.8)

See accompanying notes

NALCOR ENERGY
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

<i>(millions of Canadian dollars)</i>	Notes	Share Capital	Shareholder Contributions	Fair Value Reserve	Employee Benefit Reserve	Retained Earnings	Total
Balance at January 1, 2016		122.5	2,204.3	38.7	(26.9)	1,136.7	3,475.3
Profit for the year		-	-	-	-	136.3	136.3
Other comprehensive income							
Net change in fair value of available-for-sale financial instruments	21	-	-	13.0	-	-	13.0
Net change in fair value of cash flow hedges	21	-	-	(2.6)	-	-	(2.6)
Net change in fair value of financial instruments reclassified to profit or loss	21	-	-	(16.3)	-	-	(16.3)
Actuarial gain on employee future benefits	20,21	-	-	-	0.4	-	0.4
Regulatory adjustment	10,21	-	-	-	0.2	-	0.2
Total comprehensive (loss) income for the year		-	-	(5.9)	0.6	136.3	131.0
Shareholder contributions	22	-	656.4	-	-	-	656.4
Balance at December 31, 2016		122.5	2,860.7	32.8	(26.3)	1,273.0	4,262.7
							(Restated - Note 35)
Balance at January 1, 2015		122.5	1,469.6	40.5	(32.9)	1,152.7	2,752.4
Loss for the year		-	-	-	-	(16.0)	(16.0)
Other comprehensive income							
Net change in fair value of available-for-sale financial instruments	21	-	-	10.5	-	-	10.5
Net change in fair value of cash flow hedges	21	-	-	9.2	-	-	9.2
Net change in fair value of financial instruments reclassified to profit or loss	21	-	-	(21.5)	-	-	(21.5)
Actuarial gain on employee future benefits	20,21	-	-	-	5.6	-	5.6
Regulatory adjustment	10,21	-	-	-	0.4	-	0.4
Total comprehensive (loss) income for the year		-	-	(1.8)	6.0	(16.0)	(11.8)
Shareholder contributions	22	-	734.7	-	-	-	734.7
Balance at December 31, 2015		122.5	2,204.3	38.7	(26.9)	1,136.7	3,475.3

See accompanying notes

NALCOR ENERGY

CONSOLIDATED STATEMENT OF CASH FLOWS

<i>For the year ended December 31 (millions of Canadian dollars)</i>	Notes	2016	2015
Cash provided from (used in)			(Restated - Note 35)
Operating activities			
Profit (loss) for the year		136.3	(16.0)
Adjusted for items not involving a cash flow:			
Depreciation, depletion, amortization and impairment	8,9	135.0	159.2
Amortization of deferred contributions	17	(1.0)	(0.9)
Amortization of deferred credits	16	(4.3)	(2.7)
Accretion	27	7.6	5.6
Employee future benefits		1.4	6.7
Loss on disposal of property, plant and equipment	28	7.2	4.3
Loss on disposal of intangible assets	9	-	1.1
Share of loss of joint arrangement		-	0.3
Regulatory adjustments	10	(1.1)	57.8
Other		(12.6)	(10.4)
		268.5	205.0
Changes in non-cash working capital balances	33	(47.0)	24.4
Net cash provided from operating activities		221.5	229.4
Investing activities			
Additions to property, plant and equipment	34	(2,741.1)	(2,421.2)
Additions to intangible assets	9	(36.4)	(31.2)
(Increase) decrease in long-term receivables	11	(23.8)	33.6
Increase in sinking fund		(6.5)	(6.6)
Additions to financial transmission rights		(1.9)	(1.2)
Withdrawals from reserve fund		15.8	3.3
Decrease in short-term investments		934.7	763.8
Decrease in long-term investments	12	56.5	1,025.2
Proceeds on disposal of property, plant and equipment		0.6	0.8
Changes in non-cash working capital balances	33	177.6	306.2
Net cash used in investing activities		(1,624.5)	(327.3)
Financing activities			
Retirement of long-term debt		(225.1)	-
Decrease (increase) in restricted cash		458.3	(705.7)
Class B limited partnership unit contributions	15	168.1	118.4
Increase in short-term borrowings	14	338.0	44.0
Decrease in long-term payables		(7.8)	(15.1)
Increase in shareholder contributions	22	656.4	734.7
Increase (decrease) in deferred contributions	17	1.0	(2.2)
Increase in deferred credits		8.5	11.5
Net cash provided from financing activities		1,397.4	185.6
Net (decrease) increase in cash and cash equivalents		(5.6)	87.7
Cash and cash equivalents, beginning of year		148.5	60.8
Cash and cash equivalents, end of year		142.9	148.5
Interest received		27.1	46.2
Interest paid		276.8	276.5

See accompanying notes

NALCOR ENERGY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS

Nalcor Energy (Nalcor or the Company) is incorporated under a special act of the Legislature of the Province of Newfoundland and Labrador (the Province) as a Crown corporation and its business includes the development, generation, transmission and sale of electricity, oil and gas, industrial fabrication and energy marketing. Nalcor's head office is located at 500 Columbus Drive in St. John's, Newfoundland and Labrador A1B 0C9, Canada.

1.1 Subsidiaries

Nalcor holds interests in the following subsidiaries:

A 100% interest in Newfoundland and Labrador Hydro (Hydro), whose principal activity is the generation, transmission and sale of electricity. Hydro's operations include both regulated and non-regulated activities.

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

A 100% interest in Nalcor Energy – Bull Arm Fabrication Inc. (Bull Arm Fabrication), an industrial fabrication site with a fully integrated infrastructure to support large-scale fabrication and assembly. Its facilities include onshore fabrication halls and shops, a dry-dock and a deep water site.

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

A 100% interest in Muskrat Falls Corporation (Muskrat Falls), created to develop, construct, finance and operate the Muskrat Falls plant, an 824 megawatt (MW) hydroelectric generating facility in Labrador.

A 100% interest in Labrador Transmission Corporation (Labrador Transco), created to develop, construct, finance and operate transmission assets connecting the Muskrat Falls plant to the existing hydroelectric generating facility in Churchill Falls.

A 100% interest in Labrador-Island Link General Partner Corporation (LIL GP) and Labrador-Island Link Holding Corporation (LIL Holdco), created to control, manage and hold Nalcor's 65.0% interest in the Labrador-Island Link Limited Partnership (LIL LP).

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

A 100% interest in Lower Churchill Management Corporation (LCMC), created to carry out the project development and management functions for Phase 1 of the Lower Churchill Project (LCP) including planning, engineering and design management, construction management, risk management, finance, procurement and supply chain management.

A limited partnership interest in the LIL LP, created to develop, construct, finance and operate the assets and property constituting the LIL, a transmission link to be constructed between the Muskrat Falls plant and the Newfoundland and Labrador Island Interconnected System. LIL Holdco holds 100% of the Class A and Class C limited partnership units.

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

1.2 Investment in Joint Arrangement

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

NALCOR ENERGY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

1.3 Special Purpose Entities

Nalcor consolidates the results of special purpose entities (SPEs) in which it holds a financial interest and is the primary beneficiary. Nalcor has determined that it is the primary beneficiary of the LIL Construction Project Trust (Project Trust) and as a result has included the financial statements of the Project Trust in these annual audited consolidated financial statements. Nalcor has determined that it is not the primary beneficiary of the Muskrat Falls/Labrador Transmission Assets (MF/LTA) Funding Trust or the LIL Funding Trust and therefore the operations of these trusts are not reflected in these financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of Compliance and Basis of Measurement

These annual audited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). Nalcor has adopted accounting policies which are based on the IFRS applicable as at December 31, 2016 and includes individual IFRS, International Accounting Standards (IAS), and interpretations made by the IFRS Interpretations Committee and the Standing Interpretations Committee.

These annual audited consolidated financial statements have been prepared on a historical cost basis, except for financial instruments at fair value through profit or loss (FVTPL) and available-for-sale (AFS) which have been measured at fair value. The annual audited consolidated financial statements are presented in Canadian Dollars (CAD) and all values rounded to the nearest million, except when otherwise noted. The annual audited consolidated financial statements were approved by Nalcor's Board of Directors (the Board) on March 6, 2016.

2.2 Basis of Consolidation

The annual audited consolidated financial statements include the financial statements of Nalcor, its subsidiary companies and its share of investments in joint arrangements. In addition, the financial statements of all SPEs, for which Nalcor has been determined the primary beneficiary, are included in these annual audited consolidated 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.

Churchill Falls 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 annual audited consolidated financial statements reflect only Nalcor's proportionate interest in such activities.

2.3 Cash and Cash Equivalents and Short-term Investments

Cash and cash equivalents consist of amounts on deposit with a Schedule 1 Canadian Chartered bank, as well as highly liquid investments with maturities of three months or less. Investments with maturities greater than three months and less than twelve months are classified as short-term investments. Cash and cash equivalents are measured at cost which approximates fair value, while short-term investments are measured at fair value.

2.4 Restricted Cash

Restricted cash consists of cash held on deposit with Schedule 1 Canadian Chartered banks and administered by the Collateral

NALCOR ENERGY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Agent for the sole purpose of funding construction costs related to the LIL, Labrador Transmission Assets (LTA) and Muskrat Falls' hydroelectric plant, including pre-funded equity requirements required under the Labrador-Island Link Limited Project Finance Agreement (LIL PFA) and MF/LTA Project Finance Agreement (MF/LTA PFA). The Project draws funds from these accounts in accordance with procedures set out in the LIL PFA and MF/LTA PFA. Restricted cash also includes accounts administered by the Trustee of the Project Trust which are associated with the establishment of the Project Trust. Restricted cash is measured at cost which approximates fair value.

2.5 Trade and Other Receivables

Trade and other receivables are classified as loans and receivables and are measured at amortized cost using the effective interest method.

2.6 Inventories

Inventories are carried at the lower of cost and net realizable value. Cost is determined on a weighted average basis and includes expenditures incurred in acquiring the inventories and bringing them to their existing condition and location. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

2.7 Property, Plant and Equipment

Items of property, plant and equipment are recognized using the cost model and thus are recorded at cost less accumulated depreciation and accumulated impairment losses. Cost includes materials, labour, contracted services, professional fees and, for qualifying assets, borrowing costs capitalized in accordance with Nalcor's accounting policy outlined in Note 2.11. Costs capitalized with the related asset include all those costs directly attributable to bringing the asset into operation. When significant parts of property, plant and equipment are required to be replaced at intervals, Nalcor recognizes such parts as individual assets with specific useful lives and depreciation rates, respectively. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repairs and maintenance costs are recognized in profit or loss as incurred. Property, plant and equipment is not revalued for financial reporting purposes. Depreciation of these assets commences when the assets are ready for their intended use.

Hydro

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Generation plant	
Hydroelectric	45 to 100 years
Thermal	35 to 65 years
Diesel	25 to 55 years
Transmission	
Lines	30 to 65 years
Terminal stations	40 to 55 years
Distribution system	30 to 55 years
Other assets	5 to 55 years

Hydroelectric generation plant includes the powerhouse, turbines, governors and generators, as well as water conveying and control structures, including dams, dikes, tailrace, penstock and intake structures. Thermal generation plant is comprised of the powerhouse, turbines and generators, boilers, oil storage tanks, stacks, and auxiliary systems. Diesel generation plant includes the buildings, engines, generators, switchgear, fuel storage and transfer systems, dikes and liners and cooling systems.

Transmission lines include the support structures, foundations and insulators associated with lines at voltages of 230, 138 and 69 kilovolt (kV). Terminal stations assets are used to step up voltages of electricity and to step down voltages for distribution. Distribution system assets include poles, transformers, insulators, and conductors.

Other assets include telecontrol, buildings, vehicles, furniture, tools and equipment.

NALCOR ENERGY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Churchill Falls

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Hydroelectric generation plant	40 to 100 years
Transmission and terminals	30 to 65 years
Service facilities and other	5 to 45 years

Hydro and Churchill Falls assets' residual values, useful lives and method of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate. The carrying value of property, plant and equipment is reviewed for impairment whenever events indicate that the carrying amounts of those assets may not be recoverable.

Oil and Gas

(i) Development and Production Costs

Items of property, plant and equipment, which include petroleum and natural gas development and production assets, are carried at cost less accumulated depreciation, depletion and impairment. Development and production assets are grouped into cash-generating units (CGUs) for impairment testing.

Expenditures on the construction, installation or completion of infrastructure facilities such as processing facilities and the drilling of development wells, including unsuccessful development or delineation wells, are capitalized within property, plant and equipment, as long as it is technically feasible and economically viable to extract identified reserves.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the decommissioning costs and, for qualifying assets, borrowing costs. The purchase price or constructed cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Capitalized petroleum and natural gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis.

Gains and losses on disposal of an item of property, plant and equipment, including petroleum and natural gas interests, are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recorded in other (income) expense.

(ii) Subsequent Costs

Costs incurred subsequent to the determination of technical feasibility and commercial viability are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to Oil and Gas and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Routine repairs and maintenance costs are charged to profit or loss during the period in which they are incurred.

(iii) Depletion

The net carrying value of development and production assets is depleted using the unit of production method by reference to the ratio of production in the year to the related proved and probable reserves, and considering estimated future development costs necessary to bring those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves. These estimates are reviewed by independent reserve engineers at least annually.

Proved and probable reserves are estimated using independent reserve engineer reports and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate,

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with a specified degree of certainty, to be recoverable in future years from known reservoirs and which are considered commercially viable. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves.

Such reserves may be considered commercially producible if management has the intention of developing and producing them and such intention is based upon:

- a reasonable assessment of the future economics of such production;
- a reasonable expectation that there is a market for all (or substantially all) the expected petroleum and natural gas production; and
- evidence that the necessary production, transmission and transportation facilities are available or can be made available.

(iv) Other Assets

Office equipment and computer hardware are carried at cost less accumulated depreciation. Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful life of 5 to 20 years. Depreciation methods, useful lives and residual values are reviewed at each reporting date.

Lower Churchill Project

Amortization is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Project support assets	4 to 7 years
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2.8 **Exploration and Evaluation Assets**

Pre-license exploration and evaluation costs are recognized in profit or loss as incurred. Costs of exploring for and evaluating licensed petroleum and gas properties are capitalized and the resulting intangible exploration and evaluation assets are tested for impairment in accordance with IFRS 6 and IAS 36.

Exploration and evaluation costs related to each license/prospect are initially capitalized with "Exploration and Evaluation Assets". Such exploration and evaluation costs may include costs of license acquisition, technical services and studies, exploration drilling and testing, directly attributable overhead and administrative expenses and the projected costs of retiring the assets. General prospecting or evaluation costs incurred prior to having obtained the legal rights to explore an area are expensed directly to profit or loss as they are incurred.

Exploration and evaluation assets are not depleted and are carried forward until technical feasibility and commercial viability of extracting a mineral resource is considered to be determined. The technical feasibility and commercial viability of extracting a mineral resource is considered to be determined when proved reserves are determined to exist. A review of each exploration license or field is carried out, at least annually, to ascertain whether proved reserves have been discovered.

Upon determination of proved reserves, exploration and evaluation assets attributable to those reserves are first tested for impairment and then reclassified from exploration and evaluation assets to property, plant and equipment.

2.9 **Investment Property**

Investment property is property held for the purpose of generating rental income or capital appreciation, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. As at December 31, 2016, investment property included the Bull Arm Fabrication site and facilities.

Investment property is recognized using the cost model and thus is recorded at cost less accumulated depreciation and accumulated impairment losses. Cost includes materials, labour, contracted services and professional fees. Costs capitalized with the related asset include all those costs directly attributable to bringing the asset into operation. When significant parts of investment property are required to be replaced at intervals, Bull Arm Fabrication recognizes such parts as individual assets with

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specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the investment property as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the Consolidated Statement of Profit and Comprehensive Income as incurred. Investment property is not revalued for financial reporting purposes. Depreciation of these assets commences when the assets are ready for their intended use.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Computer equipment, vehicles and office equipment	5 years
Buildings	18 years
Topsides module hall door	26 years
Visitor center	42 years

The assets' residual values, useful lives and method of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate. The carrying value of investment property is reviewed for impairment whenever events indicate that the carrying amounts of those assets may not be recoverable.

2.10 Intangible Assets

Intangible assets that are expected to generate future economic benefit and are measurable, including computer software costs, costs of technical services, feasibility studies, exploration assets and intellectual property are capitalized as intangible assets in accordance with IAS 38.

Intangible assets with finite useful lives are carried at cost less accumulated amortization and accumulated impairment losses. The estimated useful life and amortization method are reviewed at the end of each year, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives are carried at cost less accumulated impairment losses.

Amortization is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Computer software	5 to 10 years
Feasibility studies	5 to 20 years
Seismic data acquisitions	6 years

2.11 Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in the Consolidated Statement of Profit and Comprehensive Income in the period in which they are incurred.

2.12 Impairment of Non-Financial Assets

At the end of each reporting period, Nalcor reviews the carrying amounts of its non-financial assets, except for exploration and evaluation assets, to determine whether there is any indication that those assets may be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Exploration and evaluation assets are assessed for impairment when they are reclassified to plant, property and equipment and also if there are indicators that suggest that the carrying amount exceeds the recoverable amount.

Where it is not possible to estimate the recoverable amount of an individual asset, Nalcor estimates the recoverable amount of the CGU to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are

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also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified. The recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. Value in use is generally computed by reference to the present value of future cash flows expected to be derived from non-financial assets.

Exploration and evaluation assets are allocated to the CGUs on a project basis when they are assessed for impairment, both at the time of any triggering facts and circumstances as well as upon their reclassification to property, plant and equipment.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in the Consolidated Statement of Profit and Comprehensive Income.

2.13 Investments in Joint Arrangements

A joint arrangement is an arrangement of which two or more parties involved have joint control. Control exists when Nalcor has the power, directly or indirectly, to govern the financial and operating policies of another entity, so as to obtain benefits from its activities. A joint arrangement is either classified as a joint operation or a joint venture based on the rights of the parties involved.

Oil and Gas holds equity stakes in the Hebron, Hibernia South Extension and White Rose Extension projects. These projects are classified as joint operations as multiple parties hold joint control and stakeholders have rights to the project assets and obligations for its liabilities. Oil and Gas accounts for its oil and gas investments by recognizing its share of assets, liabilities and profit or loss in relation to its interest in the joint operation.

Effective June 18, 1999, Hydro, Churchill Falls and Hydro-Québec entered into the Shareholders' Agreement which provided, among other matters, that certain of the strategic operating, financing and investing policies of Churchill Falls be subject to approval jointly by representatives of Hydro and Hydro-Québec on the Board of Directors of Churchill Falls. Although Hydro retains its 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 joint operators. This investment is accounted for using the proportionate consolidation method.

Hydro's joint operation, Churchill Falls, holds 33.33% of the equity share capital of Twin Falls and is a party with other shareholders in a participation agreement which gives Churchill Falls joint control of Twin Falls. This investment is accounted for using the equity method. Under the equity method, the interest in the joint venture is carried in the Statement of Financial Position at cost plus post acquisition changes in Churchill Falls' share of net assets of the joint venture. The Consolidated Statement of Profit and Comprehensive Income reflects the share of the profit or loss of the joint venture.

2.14 Employee Future Benefits

(i) Pension Plan

Employees participate in the Province's Public Service Pension Plan, a multi-employer defined benefit plan. Contributions by Nalcor to this Plan are recognized as an expense when employees have rendered service entitling them to the contributions. Liabilities associated with this Plan are held with the Province.

(ii) Other Benefits

Nalcor provides group life insurance and health care benefits on a cost-shared basis to retired employees, in addition to a severance payment upon retirement.

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The cost of providing these benefits is determined using the projected unit credit method, with actuarial valuations being completed on an annual basis, based on service and Management's best estimate of salary escalation, retirement ages of employees and expected health care costs.

Actuarial gains and losses on Nalcor's defined benefit obligation are recognized in reserves in the period in which they occur. Past service costs are recognized in operating costs as incurred. Pursuant to Order No. P.U. 36 (2015), Nalcor recognizes the amortization of Hydro's employee future benefit actuarial gains and losses in the Consolidated Statement of Profit and Comprehensive Income as a regulatory adjustment.

The retirement benefit obligation recognized in the Consolidated Statement of Financial Position represents the present value of the defined benefit obligation.

2.15 Provisions

A provision is a liability of uncertain timing or amount. A provision is recognized if Nalcor has a present legal obligation or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognized for future operating losses. The provision is measured at the present value of the best estimate of the expenditures expected to be required to settle the obligation using a discount rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. Provisions are re-measured at each Consolidated Statement of Financial Position date using the current discount rate.

2.16 Decommissioning, Restoration and Environmental Liabilities

Legal and constructive obligations associated with the retirement of property, plant and equipment are recorded as liabilities when those obligations are incurred and are measured as the present value of the expected costs to settle the liability, discounted at a rate specific to the liability. The liability is accreted up to the date the liability will be incurred with a corresponding charge to net finance (income) expense. The carrying amount of decommissioning, restoration and environmental liabilities is reviewed annually with changes in the estimates of timing or amount of cash flows added to or deducted from the cost of the related asset or expensed in the Consolidated Statement of Profit and Comprehensive Income if the liability is short-term in nature.

2.17 Revenue Recognition

Electricity Sales

Revenue from the sale of energy is recognized when Nalcor has transferred the significant risks and rewards of ownership to the buyer, recovery of the consideration is probable and the amount of revenue can be reliably measured. Sales within the Province are primarily at rates approved by the Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB), whereas export sales and sales to certain major industrial customers are either at rates under the terms of the applicable contracts, or at market rates.

Churchill Falls provides energy to two primary customers: Hydro-Québec and Hydro.

A power contract with Hydro-Québec dated May 12, 1969 (the Power Contract) provides for the sale of a significant amount of the energy from Churchill Falls. The Power Contract had a 40-year term that expired August 31, 2016, and was followed by a Renewed Power Contract with Hydro-Québec for an additional 25 years beginning September 1, 2016. The rate was predetermined in the Power Contract and was 2.5426 mills per kWh. The rate during the term of the Renewed Power Contract is 2.0 mills per kWh.

Churchill Falls also recognizes revenue from Hydro-Québec under a Guaranteed Winter Availability Contract (GWAC) through 2041. The GWAC was signed with Hydro-Québec in 1998 and provides for the sale of 682 MW of guaranteed seasonal availability to Hydro-Québec during the months of November through March in each of the remaining years until 2041.

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The value of differences between energy delivered and the Annual Energy Base (AEB), as defined in the Power Contract, was tracked over a four-year period and then either recovered from or refunded to Hydro-Québec over the subsequent four-year period, unless the balance is less than \$1.0 million in which case it is recovered or refunded immediately or expiration of the Power Contract in which case it is recovered or refunded within three months. These long-term receivables or long-term payables are subject to interest at 7% per annum (2015 - 7%).

Under the Power Contract and Renewed Power Contract, Churchill Falls has the right to recall 300 MW (Recall Power). All of the Recall Power is sold by Churchill Falls to Hydro. Churchill Falls also provides an additional 225 MW to Hydro.

Petroleum and Natural Gas Sales

Revenue from the sale of crude oil is recognized when the amount of revenue can be reasonably measured, the significant risks and rewards of ownership have passed to the buyer and collection is reasonably assured. This typically occurs when the oil has been produced and delivered to the transshipment facility.

Revenue from properties in which Oil and Gas has an interest with other producers is recognized on the basis of Oil and Gas' net working interest of petroleum and natural gas produced (the entitlement method). Under this method, crude oil produced below or above Oil and Gas' net working interest results in an under-lift or over-lift position. Under-lift or over-lift positions are measured at market value and recorded as an asset or liability, respectively.

Other Revenue

Revenue associated with the sale of geoscience data is recognized when the terms and conditions governing sales have been met, the amount of revenue can be reliably measured and recovery of the consideration is probable.

2.18 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Lessor accounting

Amounts due from lessees under finance leases are recognized as receivables at the amount of Nalcor's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on Nalcor's net investment outstanding in respect of the leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

Lessee accounting

Assets held under finance leases are initially recognized as assets of Nalcor at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the Consolidated Statement of Financial Position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with Nalcor's general policy on borrowing costs (Note 2.11). Contingent rental costs are recognized as operating costs in the periods in which they are incurred.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The

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aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

2.19 Net Finance (Income) Expense

For all financial instruments measured at amortized cost and interest bearing financial assets classified as AFS, interest income or expense is recorded using the effective interest rate method.

2.20 Foreign Currencies

Transactions in currencies other than Nalcor's functional currency (foreign currencies) are recognized using the exchange rate in effect at the date of transaction, approximated by the prior month end close rate. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates of exchange in effect at the period end date. Foreign exchange gains and losses not included in regulatory deferrals are recorded in the Consolidated Statement of Profit and Comprehensive Income as other (income) expense.

2.21 Income Taxes

Nalcor is exempt from paying income taxes under Section 149(1) (d.1) of the Income Tax Act.

2.22 Financial Instruments

Financial assets and financial liabilities are recognized in the Consolidated Statement of Financial Position when Nalcor becomes a party to the contractual provisions of the instrument and are initially measured at fair value. Subsequent measurement is based on classification. Financial instruments are classified into the following specified categories: financial assets at FVTPL, AFS financial assets, loans and receivables, held-to-maturity investments, financial liabilities at FVTPL, financial instruments used for hedging and other financial liabilities. The classification depends on the nature and purpose of the financial instruments and is determined at the time of initial recognition.

Classification of Financial Instruments

Nalcor has classified each of its financial instruments into the following categories: financial assets at FVTPL, loans and receivables, held-to-maturity investments, AFS financial assets, financial liabilities at FVTPL, financial instruments used for hedging and other financial liabilities.

<u>Financial instrument</u>	<u>Category</u>
Cash and cash equivalents	Loans and receivables
Restricted cash	Loans and receivables
Short-term investments	AFS financial assets
Trade and other receivables	Loans and receivables
Derivative instruments	At FVTPL and financial instruments used for hedging
Sinking funds – investments in same Hydro issue	Held-to-maturity investments
Sinking funds – other investments	AFS financial assets
Reserve fund	AFS financial assets
Long-term receivables	Loans and receivables
Long-term investments	Held-to-maturity investments
Trade and other payables	Other financial liabilities
Short-term borrowings	Other financial liabilities
Long-term debt	Other financial liabilities
Long-term payables	Other financial liabilities
Class B limited partnership units	Other financial liabilities

(i) Effective Interest Method

The effective interest method is a method of calculating the amortized cost of a financial instrument and allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments (including all fees on points paid or received that form an integral part of the effective interest

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rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Income or expense is recognized on an effective interest basis for financial instruments other than those financial assets and liabilities classified as at FVTPL.

Financial Assets

(ii) Financial Assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that Nalcor manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with Nalcor's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognized in other (income) expense. The net gain or loss incorporates any dividends or interest earned.

(iii) Loans and Receivables

Trade receivables, loans and other receivables with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

(iv) Held-to-Maturity Investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity dates that Nalcor has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are measured at amortized cost using the effective interest method less any impairment, with revenue recognized on an effective yield basis.

(v) AFS Financial Assets

AFS financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the previous categories. Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in the fair value reserve with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognized in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the fair value reserve is reclassified to profit or loss.

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Financial Liabilities and Equity Instruments

(vi) Financial Liabilities at FVTPL

A financial liability may be classified as at FVTPL if the contracted liability contains one or more embedded derivatives, and if the embedded derivative significantly modified the cash flows or if the embedded derivative is not closely related to the host liability. Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising from re-measurement recognized in profit or loss.

(vii) Other Financial Liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

(viii) Derivative Instruments and Financial Instruments Used for Hedging

Derivative instruments are utilized by Nalcor to manage risk. Nalcor's policy is not to utilize derivative instruments for speculative purposes. Derivatives are initially measured at fair value at the date the derivative contracts are entered into and are subsequently measured at their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging relationship.

Nalcor may choose to designate derivative instruments as hedges and apply hedge accounting if there is a high degree of correlation between the price movements in the derivative instruments and the hedged items. Nalcor formally documents all hedges and the related risk management objectives at the inception of the hedge. Derivative instruments that have been designated and qualify for hedge accounting are classified as either cash flow or fair value hedges.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Cash Flow Hedges

The effective portion of the gain or loss on the hedging instrument is recognized directly in other comprehensive income, while any ineffective portion is recognized immediately in the Consolidated Statement of Profit and Comprehensive Income for the year.

Amounts recognized as other comprehensive income (loss) are transferred to the Consolidated Statement of Profit and Comprehensive Income for the period when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognized or when a forecast sale occurs.

2.23 Derecognition of Financial Instruments

Nalcor derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If Nalcor neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, its retained interest in the asset and any associated liability for amounts it may have to pay is recognized. If Nalcor retains substantially all the risks and rewards of ownership of a transferred financial asset, it continues to recognize the financial asset and also recognizes the collateralized borrowing for the proceeds received. Nalcor derecognizes financial liabilities when, and only when, its obligations are discharged, cancelled or they expire.

2.24 Impairment of Financial Assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or

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- default or delinquency in interest or principal payments; or
- the borrower, more probable than not, entering into bankruptcy or financial re-organization.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include Nalcor's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with defaults on receivables.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

2.25 Government Grants

Government grants are recognized when there is reasonable assurance that Nalcor will comply with the associated conditions and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which Nalcor recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that Nalcor should purchase, construct or otherwise acquire non-current assets are recognized as deferred revenue in the Consolidated Statement of Financial Position and transferred to the Consolidated Statement of Profit and Comprehensive Income on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to Nalcor with no future related costs are recognized in the Consolidated Statement of Profit and Comprehensive Income in the period in which they become receivable.

2.26 Regulatory Deferrals

Hydro's revenues from its electrical sales to most customers within the Province are subject to rate regulation by the PUB. Hydro's borrowing and capital expenditure programs are also subject to review and approval by the PUB. Rates are set through periodic general rate applications utilizing a cost of service methodology. The preliminary estimate of Hydro's allowed rate of return based upon Board Order No. P.U. 49 (2016) is 6.6% in 2016 and 6.7% in 2015 +/- 20 basis points. Hydro applies various accounting policies that differ from enterprises that do not operate in a rate regulated environment. Generally, these policies result in the deferral and amortization of costs or credits which are expected to be recovered or refunded in future rates. In the absence of rate regulation, these amounts would be included in the determination of profit or loss in the year the amounts are incurred. The effects of rate regulation on the annual audited consolidated financial statements are disclosed in Note 10.

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3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the annual audited consolidated financial statements in conformity with IFRS requires Management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ materially from these estimates, including changes as a result of future decisions made by the PUB. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is reviewed if the revision affects only that period or future periods.

3.1 Use of Judgments

(i) Asset Impairment and Reversals

Nalcor applies judgment in evaluating impairment and impairment reversal indicators based on various internal and external factors.

The recoverable amount of a CGU or asset is determined based on the higher of fair value less costs of disposal and its value in use. Management uses factors including expected future oil prices and proved and probable reserves from third party specialists and discount rates to determine the recoverable amount, as well as judgments regarding the occurrence of future events. Changes in these factors will affect the recoverable amount of CGUs and assets, which may result in a material adjustment to their carrying value.

(ii) Property, Plant and Equipment

Nalcor's accounting policy relating to property, plant and equipment is described in Note 2.7. In applying this policy, judgment is used in determining whether certain costs are additions to the carrying amount of the property, plant and equipment as opposed to repairs and maintenance. If an asset has been developed, judgment is required to identify the point at which the asset is capable of being used as intended and to identify the directly attributable borrowing costs to be included in the carrying value of the development asset. Judgment is also used in determining the appropriate componentization structure for Nalcor's property, plant and equipment.

(iii) Revenue

Management exercises judgment in estimating the value of electricity consumed by retail customers in the period, but billed subsequent to the end of the reporting period. Specifically, this involves an estimate of consumption for each retail customer, based on the customer's past consumption history.

When recognizing deferrals and related amortization of costs or credits in Hydro Regulated, Management assumes that such costs or credits will be recovered or refunded through customer rates in future years. Recovery of some of these deferrals is subject to a future PUB order. As such, there is a risk that some or all of the regulatory deferrals will not be approved by the PUB which could have a material impact on Hydro Regulated's profit or loss in the year the order is received.

(iv) Functional Currency

Functional currency was determined by evaluating the primary economic environment in which Nalcor operates. As Nalcor enters into transactions in multiple currencies, judgment is used in determining the functional currency. Management considered factors regarding currency of sales, costs incurred, and operating and financing activities and determined the functional currency to be Canadian Dollars.

(v) Determination of CGUs

Nalcor's accounting policy relating to impairment of non-financial assets is described in Note 2.12. In applying this policy, Nalcor groups assets into the smallest identifiable groups for which cash flows are largely independent of the cash flows from other assets or groups of assets. Judgment is used in determining the level at which cash flows are largely independent of other assets or groups of assets.

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(vi) Discount Rates

Certain of Nalcor's financial liabilities are discounted using discount rates that are subject to Management's judgment.

(vii) Consolidation of Joint Arrangements

Management exercises judgment when applying the criteria outlined in IFRS 11 to determine whether joint arrangements constitute joint ventures or joint operations. Management has determined that its interest in Churchill Falls is considered a joint operation and its interest in Twin Falls is considered a joint venture.

(viii) Consolidation

Management applies its judgment when determining whether to consolidate structured entities in accordance with the criteria outlined in IFRS 10. Management has determined that the Company should consolidate the Project Trust but should not consolidate the MF/LTA and LIL Funding Trusts.

3.2 Use of Estimates

(i) Property, Plant and Equipment

Amounts recorded for depreciation are based on the useful lives of Nalcor's assets. The useful lives of property, plant and equipment are determined by independent specialists and reviewed annually by Nalcor. These useful lives are Management's best estimate of the service lives of these assets. Changes to these lives could materially affect the amount of depreciation recorded.

(ii) Investment Property

Amounts recorded for depreciation are based on the useful lives of Bull Arm Fabrication's assets. These useful lives are Management's best estimate of the service lives of these assets. Changes to these lives could materially affect the amount of depreciation recorded.

Due to the nature of the property and lack of comparable market data, the fair value of Bull Arm Fabrication's investment property is determined using the present value of the future cash flows. Significant assumptions used in the determination of fair value include estimates of the amount and timing of future cash flows and the discount rate.

(iii) Intangible Assets

Amounts recorded for amortization are based on the useful lives of Nalcor's assets. These useful lives are Management's best estimate of the service lives of these assets. Changes to these lives could materially affect the amount of amortization recorded.

(iv) Oil and Natural Gas Reserves

Oil and natural gas reserves are evaluated by independent reserve engineers. Reserve estimates are used in calculating depletion, impairment and decommissioning liabilities. Estimates of recoverable reserves are based upon variable factors and assumptions regarding historical production, production rates, ultimate reserve recovery, marketability of petroleum and natural gas, and timing and amount of future cash expenditures. Changes to these amounts could materially affect these calculations.

(v) Partnership Unit Liabilities

The Partnership determines the fair value of the Class A and Class B limited partnership units at each financial reporting date. These units represent the limited partners' ownership interests in the Partnership. Due to the nature of the liabilities and lack of comparable market data, the fair value of these units is determined using the present value of future cash flows. Significant assumptions used in the determination of fair value include estimates of the amount and timing of future cash flows and the discount rate.

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The process of valuing financial liabilities for which no published market price exists is based on inherent uncertainties and the resulting values may differ from values that would have been used had a ready market existed for the liability. These differences could be material to the fair value of the financial liability.

(vi) Decommissioning Liabilities

Nalcor recognizes a liability for the fair value of the future expenditures required to settle obligations associated with the retirement of property, plant and equipment. Decommissioning liabilities are recorded as a liability at fair value, with a corresponding increase to property, plant and equipment. Accretion of decommissioning liabilities is included in the Consolidated Statement of Profit and Comprehensive Income through net finance (income) expense. Differences between the recorded decommissioning liabilities and the actual decommissioning costs incurred are recorded as a gain or loss in the settlement period.

(vii) Employee Future Benefits

Nalcor provides group life insurance and health care benefits on a cost-shared basis to retired employees, in addition to a severance payment upon retirement. The expected cost of providing these other employee benefits is accounted for on an accrual basis, and has been actuarially determined using the projected unit credit method prorated on service, and Management's best estimate of salary escalation, retirement ages of employees, and expected health care costs.

(viii) Lease Revenue

Lease revenue is recognized when services have been rendered, recovery of the consideration is probable and the amount of revenue can be reliably measured. Lease revenue is recognized evenly over the period of the lease contract and may change depending on the final contract value.

(ix) Revenue

In the absence of a signed agreement with Hydro-Québec relating to the AEB, Churchill Falls continues to apply the terms of the previous agreement which expired August 31, 2012. Management continues to work to negotiate terms of a new agreement.

3.3 Use of Assumptions

Derivative Assets

Fair value assumptions for financial transmission rights have been based on internal valuation techniques and models that extrapolate observable external market inputs, such as commodity prices, and include significant judgment regarding the expected impact of seasonality and locational adjustments.

4. FUTURE CHANGES IN ACCOUNTING POLICIES

Amendments to IFRS 11 – Accounting for Acquisition of Interests in Joint Operations, IAS 1 – Disclosure Initiatives and IAS 16 and 38 – Clarification of Acceptable Methods of Depreciation and Amortization that became effective for annual periods beginning on or after January 1, 2016 did not have a material impact on Nalcor's annual audited consolidated financial statements.

Nalcor has not applied the following new and revised IFRS that have been issued but are not yet effective:

Amendments to IAS 7 - Disclosure Initiative¹

Amendments to IFRS 10 and IAS 28 - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture⁴

IFRS 9 - Financial Instruments²

IFRS 15 - Revenue from Contracts with Customers²

IFRS 16 - Leases³

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¹Effective for annual periods beginning on or after January 1, 2017, with earlier application permitted.

²Effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.

³Effective for annual periods beginning on or after January 1, 2019, with earlier application permitted.

⁴Effective for annual periods beginning on or after a date yet to be determined.

4.1 Amendments to IAS 7 - Disclosure Initiative

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments do not prescribe a specific format to disclose financing activities; however, an entity may fulfil the disclosure objective by providing a reconciliation between the opening and closing balances in the Statement of Financial Position for liabilities arising from financing activities.

The amendments apply prospectively. Entities are not required to present comparative information for earlier periods.

Management does not anticipate that the application of these amendments to IAS 7 will have a material impact on Nalcor's annual audited consolidated financial statement disclosures.

4.2 Amendments to IFRS 10 and IAS 28 - Sale or Contribution of Assets between an Investor and its Associated or Joint Venture

The amendments deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture.

In December 2015, the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. Earlier application of these amendments is still permitted.

4.3 IFRS 9 - Financial Instruments

In July 2014, the IASB finalized the reform of financial instruments accounting and issued IFRS 9 (as revised in 2014), which contains the requirements for a) the classification and measurement of financial assets and financial liabilities, b) impairment methodology, and c) general hedge accounting. IFRS 9 (as revised in 2014) will supersede IAS 39 - Financial Instruments: Recognition and Measurement upon its effective date.

Phase 1: Classification and measurement of financial assets and financial liabilities

With respect to the classification and measurement, the number of categories of financial assets under IFRS 9 has been reduced; all recognized financial assets that are currently within the scope of IAS 39 will be subsequently measurement at either amortized cost or fair value under IFRS 9.

IFRS 9 also contains requirements for the classification and measurement of financial liabilities and derecognition requirements. One major change from IAS 39 relates to the presentation of changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of that liability. Under IFRS 9, such changes are presented in other comprehensive income, unless the presentation of the effect of the change in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss.

Phase 2: Impairment of financial assets

The impairment model under IFRS 9 reflects expected credit losses, as opposed to incurred credit losses under IAS 39. Under the impairment approach in IFRS 9, it is no longer necessary for a credit event to have occurred before credit losses are recognized. Instead, an entity always accounts for expected credit losses and changes in those expected credit losses. The amount of expected credit losses should be updated at each reporting date to reflect changes in credit risk since initial recognition.

Phase 3: Hedge accounting

The general hedge accounting requirements of IFRS 9 retain the three types of hedge accounting mechanisms in IAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting. In addition, the effectiveness

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test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is no longer required. Far more disclosure requirements about an entity's risk management activities have been introduced.

Transitional provisions

IFRS 9 (as revised in 2014) is effective for annual periods beginning on or after January 1, 2018 with earlier application permitted. Management has elected to adopt the standard as of the effective date, and although the classifications of existing financial instruments and related disclosures will change, Management does not anticipate material adjustments to Nalcor's annual audited consolidated financial statements upon transition.

4.4 IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. It will supersede the following revenue standards and interpretations upon its effective date:

- IAS 18 Revenue;
- IAS 11 Construction Contracts;
- IFRIC 13 Customer Loyalty Programs;
- IFRIC 15 Agreements for the Construction of Real Estate;
- IFRIC 18 Transfers of Assets from Customers; and
- SIC 31 Revenue-Barter Transactions Involving Advertising Services.

As suggested by the title of the new revenue standard, IFRS 15 will only cover revenue arising from contracts with customers. Under IFRS 15, a customer of an entity is a party that has contracted with the entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration. Unlike the scope of IAS 18, the recognition and measurement of interest income and dividend income from debt and equity investments are no longer within the scope of IFRS 15. Instead, they are within the scope of IAS 39 (or IFRS 9 if it is early adopted).

As mentioned above, the new standard has a single model to deal with revenue from contracts with customers. Its core principle is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Specifically, the standard introduces a five-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

Extensive disclosures are also required by the new standard.

Management anticipates that the application of IFRS 15 in the future may have a material impact on the amounts reported and disclosures made in Nalcor's annual audited consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until Management performs a detailed review.

4.5 IFRS 16 - Leases

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. It will supersede the following lease standard and interpretations upon its effective date:

- IAS 17 Leases;
- IFRIC 4 Determining Whether an Arrangement contains a Lease;
- SIC-15 Operating Leases - Incentives; and
- SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

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IFRS 16 applies a control model to the identification of leases, distinguishing between leases and service contracts on the basis of whether there is an identified asset controlled by the customer.

The standard introduces significant changes to lessee accounting: it removes the distinction between operating and finance leases under IAS 17 and requires a lessee to recognize a right-of-use asset and a lease liability at lease commencement for all leases, except for short-term leases and leases of low value assets.

In contrast to lessee accounting, the IFRS 16 lessor accounting requirements remain largely unchanged from IAS 17, which continue to require a lessor to classify a lease as either an operating lease or a finance lease.

A lessee can apply IFRS 16 either by a full retrospective approach or a modified retrospective approach. If the latter approach is selected, an entity is not required to restate the comparative information and the cumulative effect of initially applying IFRS 16 must be presented as an adjustment to opening retained earnings. Management anticipates that the application of IFRS 16 in the future may have a material impact on the amounts reported and disclosures made in Nalcor's annual audited consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 16 until Management performs a detailed review.

5. CASH AND CASH EQUIVALENTS

<i>As at December 31 (millions of Canadian dollars)</i>	2016	2015
Cash	129.7	148.5
Cash equivalents	13.2	-
	142.9	148.5

The effective interest rate on cash, cash equivalents and short-term investments at December 31, 2016 was 0.97% to 1.00% (2015 - 0.98% to 1.05%) per annum.

6. TRADE AND OTHER RECEIVABLES

<i>As at December 31 (millions of Canadian dollars)</i>	2016	2015
Trade receivables	148.4	134.7
Due from related parties	-	0.1
Advances (a)	38.2	88.8
Other receivables (b)	123.6	60.3
Allowance for doubtful accounts	(16.7)	(13.0)
	293.5	270.9

(a) Advances relate to the current portion of long-term advances to suppliers in relation to construction of the Lower Churchill Project.

(b) Other receivables is comprised primarily of harmonized sales tax (HST) input as well as interest on long-term investments.

<i>As at December 31 (millions of Canadian dollars)</i>	2016	2015
0-60 days	246.8	179.0
60+ days	46.7	91.9
	293.5	270.9

<i>As at December 31 (millions of Canadian dollars)</i>	2016	2015
Allowance for doubtful accounts, beginning of year	(13.0)	(11.4)
Amounts provided for during the year	(3.8)	(1.7)
Amounts written off as uncollectable	0.1	0.1
Allowance for doubtful accounts, end of year	(16.7)	(13.0)

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As at December 31, 2016, trade and other receivables included balances of \$43.9 million (2015 - \$16.0 million) denominated in United States Dollars (USD).

7. INVENTORIES

<i>As at December 31 (millions of Canadian dollars)</i>	2016	2015
No. 6 fuel	34.9	26.4
Materials and other	47.6	41.1
Diesel fuel	3.8	4.2
Other fuel	4.5	3.9
Construction aggregates	2.3	2.3
	93.1	77.9

The cost of inventories recognized as an expense during the year is \$173.9 million (2015 - \$199.3 million) and is included in operating costs and fuels.

8. PROPERTY, PLANT AND EQUIPMENT

<i>(millions of Canadian dollars)</i>	Generation Plant	Transmission and Distribution	Petroleum and Natural Gas Properties	Other	Construction in Progress	Total
						(Note 36)
Cost						
Balance at January 1, 2015	1,534.4	718.2	837.2	207.9	3,016.4	6,314.1
Additions	(0.2)	-	221.2	-	2,538.8	2,759.8
Disposals	(3.0)	(3.1)	-	(3.6)	-	(9.7)
Transfers	179.1	58.7	-	23.6	(261.4)	-
Decommissioning liabilities and revisions	0.5	(0.3)	58.4	-	-	58.6
Other adjustments	-	-	-	190.9	(111.6)	79.3
Balance at December 31, 2015	1,710.8	773.5	1,116.8	418.8	5,182.2	9,202.1
Additions	-	0.1	208.2	0.3	3,041.3	3,249.9
Disposals	(6.1)	(3.2)	(0.3)	(3.5)	-	(13.1)
Transfers	93.8	97.8	-	28.7	(220.3)	-
Decommissioning liabilities and revisions	(13.9)	1.0	(10.4)	-	-	(23.3)
Other adjustments	(0.4)	-	-	(1.6)	-	(2.0)
Balance at December 31, 2016	1,784.2	869.2	1,314.3	442.7	8,003.2	12,413.6
Depreciation, depletion and impairment						
Balance at January 1, 2015	369.6	118.6	95.9	64.3	-	648.4
Depreciation and depletion	44.1	21.9	14.8	12.0	-	92.8
Impairment	-	-	61.7	-	-	61.7
Disposals	(1.5)	(0.8)	-	(2.3)	-	(4.6)
Other adjustments	-	-	-	79.3	-	79.3
Balance at December 31, 2015	412.2	139.7	172.4	153.3	-	877.6
Depreciation and depletion	47.6	23.4	40.0	13.8	-	124.8
Disposals	(1.8)	(1.0)	-	(2.5)	-	(5.3)
Balance at December 31, 2016	458.0	162.1	212.4	164.6	-	997.1
Carrying value						
Balance at January 1, 2015	1,164.8	599.6	741.3	143.6	3,016.4	5,665.7
Balance at December 31, 2015	1,298.6	633.8	944.4	265.5	5,182.2	8,324.5
Balance at December 31, 2016	1,326.2	707.1	1,101.9	278.1	8,003.2	11,416.5

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9. INTANGIBLE ASSETS

<i>(millions of Canadian dollars)</i>	Computer Software	Feasibility Studies	Seismic Data Acquisitions	Intellectual Property	Assets Under Development	Total
						(Note 36)
Cost						
Balance at January 1, 2015	14.3	1.8	13.0	1.5	-	30.6
Additions	3.2	-	27.6	-	0.4	31.2
Disposals	(1.1)	-	-	-	-	(1.1)
Transfers	0.1	-	-	-	(0.1)	-
Balance at December 31, 2015	16.5	1.8	40.6	1.5	0.3	60.7
Additions	-	-	28.1	-	8.3	36.4
Balance at December 31, 2016	16.5	1.8	68.7	1.5	8.6	97.1
Amortization						
Balance at January 1, 2015	5.7	1.0	-	-	-	6.7
Amortization	1.4	0.2	3.1	-	-	4.7
Balance at December 31, 2015	7.1	1.2	3.1	-	-	11.4
Amortization	1.7	0.2	8.3	-	-	10.2
Balance at December 31, 2016	8.8	1.4	11.4	-	-	21.6
Carrying value						
Balance at January 1, 2015	8.6	0.8	13.0	1.5	-	23.9
Balance at December 31, 2015	9.4	0.6	37.5	1.5	0.3	49.3
Balance at December 31, 2016	7.7	0.4	57.3	1.5	8.6	75.5

10. REGULATORY DEFERRALS

<i>As at (millions of Canadian dollars)</i>	January 1 2016	Reclass	Regulatory activity	December 31 2016	Remaining Recovery Settlement Period (years)
Regulatory asset deferrals					
2014 cost deferral	38.6	8.1	(8.0)	38.7	n/a
2015 cost deferral	27.8	(1.7)	(1.6)	24.5	n/a
2016 cost deferral	-	-	32.4	32.4	n/a
Asset disposal	-	-	0.4	0.4	20.4
Deferred energy conservation costs	6.3	0.9	1.1	8.3	n/a
Deferred foreign exchange on fuel	0.7	-	(0.9)	(0.2)	n/a
Deferred lease costs	5.1	-	(0.6)	4.5	4.4
Foreign exchange losses	56.2	-	(2.2)	54.0	25.0
Fuel supply deferral	9.6	(8.1)	(1.5)	-	n/a
Hearing costs	-	0.8	(0.5)	0.3	1.0
Phase Two hearing costs	-	-	0.9	0.9	n/a
	144.3	0.0	19.5	163.8	
Regulatory liability deferrals					
Deferred power purchase savings	(0.4)	-	-	(0.4)	10.5
Insurance amortization and proceeds	(5.0)	-	0.6	(4.4)	n/a
Rate stabilization plan (RSP)	(324.6)	-	(19.0)	(343.6)	n/a
	(330.0)	-	(18.4)	(348.4)	

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

<i>For the year ended December 31 (millions of Canadian dollars)</i>	2016	2015
RSP amortization	(40.1)	27.6
RSP fuel deferral	41.8	25.2
RSP interest	25.5	21.7
Rural rate adjustment	(8.2)	4.1
Total RSP activity	19.0	78.6
2014 cost deferral	8.0	7.3
2015 cost deferral	1.6	(27.8)
2016 cost deferral	(32.4)	-
Amortization of deferred foreign exchange losses	2.2	2.2
Asset disposal	(0.4)	-
Deferred energy conservation	(1.1)	-
Deferred foreign exchange on fuel	0.9	(0.4)
Deferred lease costs	0.6	(1.4)
Deferred purchased power savings	-	(0.1)
Employee future benefits actuarial loss	0.2	0.4
Fuel supply deferral	1.5	-
Hearing costs	0.5	-
Insurance amortization and proceeds	(0.6)	(0.6)
Non-customer contributions in aid of construction	0.1	-
Phase Two hearing costs	(0.9)	-
	(0.8)	58.2

The following section describes Hydro's regulatory deferrals which will be, or are expected to be, reflected in customer rates in future periods and have been established through the rate setting process. In the absence of rate regulation, these amounts would be reflected in operating results in the year and profit or loss for the year ended December 31, 2016 would have decreased by \$0.8 million (2015 - an increase of \$58.2 million).

10.2 2014 Cost Deferral

As per Order No. P.U. 58 (2014), Hydro received approval in 2014 to defer \$45.9 million in relation to Hydro's proposed 2014 revenue requirement. Hydro decreased the regulatory asset by \$8.0 million (2015 - \$7.3 million) to recognize an allowance for items outlined in P.U. 49 (2016). In addition, as per Order No. P.U. 49 (2016), the remaining balance of the Fuel Supply Deferral of \$8.1 million was reclassified to the 2014 Cost Deferral with recovery to be dealt with in a future Order.

10.3 2015 Cost Deferral

As per Order No. P.U. 36 (2015), Hydro received approval to defer \$30.2 million in relation to Hydro's proposed 2015 net profit deficiency with recovery subject to a future PUB Order. Pursuant to P.U. 49 (2016), Hydro decreased the regulatory asset by \$1.6 million (2015 - \$27.8 million) to recognize an allowance for adjustments that were outlined in the Order. In addition, based upon P.U. 49 (2016) Hydro re-classified \$0.9 million and \$0.8 million from the 2015 Cost Deferral to Deferred Energy Conservation Costs and PUB Hearing Costs, respectively.

10.4 2016 Cost Deferral

As per Order No. P.U. 56 (2016), Hydro received approval to defer \$38.8 million in relation to Hydro's proposed 2016 net profit deficiency with recovery subject to a future PUB Order. Accordingly, these costs have been recognized as a regulatory asset. In the absence of rate regulation, this amount would be reflected in operating results in the year and net profit or loss for 2016 would have decreased by \$38.8 million (2015 - \$nil). Pursuant to P.U. 49 (2016), Hydro decreased the regulatory asset by \$6.4 million to recognize an allowance for adjustments that were outlined in the Order.

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10.5 Asset Disposal

As per Board Order No. P.U. 49 (2016), the Board Ordered that Hydro defer \$0.4 million loss on disposal related to the Sunnyside transformer that was disposed in 2014. Hydro is required to recover the deferred asset in rate base and amortize the asset for 22.4 years commencing in 2015. Hydro is required to exclude the new Sunnyside transformer from rate base until the Sunnyside Transformer Original Asset Deferral has been fully amortized. In the absence of rate regulation, this amount would be reflected in the operating results in the year and profit or loss for 2016 would have decreased by \$0.4 million.

10.6 Deferred Energy Conservation

The PUB has historically approved the deferral of costs associated with an electricity conservation program for residential, industrial, and commercial sectors. In 2016, Hydro deferred \$1.1 million (2015 - \$nil) in the Deferred Energy Conservation Costs regulatory asset. In the absence of rate regulation, this amount would be reflected in the operating results in the year and profit or loss for 2016 would have decreased by \$1.1 million (2015 - \$nil). In addition, as per P.U. 49 (2016), Hydro re-classified \$0.9 million of Deferred Energy Conservation Costs from the 2015 Cost Deferral.

10.7 Deferred Foreign Exchange on Fuel

Hydro purchases a significant amount of fuel for HTGS in USD. The RSP allows Hydro to defer variances in fuel prices (including foreign exchange fluctuations). During 2016, Hydro recognized in regulatory assets, foreign exchange gains on fuel purchases of \$0.9 million (2015 - \$0.4 million loss). In the absence of rate regulation, this amount would be reflected in the operating results in the year and profit or loss for 2016 would have increased by \$0.9 million (2015 - decreased by \$0.4 million).

10.8 Deferred Lease Costs

Pursuant to Order No. P.U. 38 (2013), Order No. P.U. 17 (2016) and Order No. P.U. 23 (2016), Hydro deferred lease costs of \$1.6 million (2015 - \$1.4 million) for diesel units and other necessary infrastructure to ensure black start capability at the Holyrood Thermal Generating Station (HTGS). In the absence of rate regulation, this amount would be reflected in the operating results in the year and profit or loss for 2016 would have decreased by \$1.6 million (2015 - \$1.4 million). In Orders No. P.U. 17 (2016), No. P.U. 23 (2016) and No. P.U. 49 (2016), the Board also approved the amortization of the balance over a period of five years. In 2016, Hydro recorded amortization of \$2.2 million (2015 - \$nil) of the deferred lease costs.

10.9 Deferred Purchased Power Savings

In 1997, the PUB ordered Hydro to defer \$1.1 million related to reduced purchased power rates resulting from the interconnection of communities in the area of L'Anse au Clair to Red Bay to the Hydro-Québec system and amortize the balance over a 30-year period. The remaining unamortized savings in the amount of \$0.4 million (2015 - \$0.4 million) are deferred as a regulatory liability.

10.10 Employee Future Benefits Actuarial Loss

Pursuant to Order no. P.U. 36 (2015), Hydro has recognized the amortization of employee future benefit actuarial gains and losses in profit or loss. During 2016, Hydro recorded \$0.2 million (2015 - \$0.4 million) employee future benefits losses as a regulatory adjustment. In the absence of rate regulation, IFRS would require Hydro to include employee future benefits actuarial gains and losses in other comprehensive income. As a result, during 2016, Hydro also recorded a decrease of \$0.2 million (2015 - \$0.4 million) to other comprehensive income to recognize the amount that was reclassified to profit or loss.

10.11 Foreign Exchange Losses

In 2002, the PUB ordered Hydro to defer realized foreign exchange losses related to the issuance of Swiss Franc and Japanese Yen denominated debt and amortize the balance over a 40-year period. Accordingly, these costs were recognized as a regulatory asset. During 2016, the amortization of \$2.2 million (2015 - \$2.2 million) reduced regulatory assets.

10.12 Fuel Supply Deferral

Pursuant to Order No. P.U. 56 (2014), Hydro received approval in 2014 to defer \$9.6 million additional capacity related supply costs incurred during the three months ended March 31, 2014 as a regulatory asset. As per Order's No. P.U. 13 (2016) and P.U. 49 (2016), Hydro recorded a reduction of \$1.5 million in 2016 (2015 - reduction of \$nil) based upon the results of a Prudence Review which resulted in a \$1.5 million decrease in profit or loss. In addition, as per Order No. P.U. 49 (2016), the remaining balance of

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

\$8.1 million was reclassified to the 2014 Cost Deferral with recovery to be dealt with in a future Order.

10.13 Hearing Costs

As per Board Order No. P.U. 49 (2016), the Board approved \$0.8 million in Deferred Hearing Costs to be deferred and amortized over a three year period commencing 2015. Pursuant to the Order, Hydro reclassified \$0.8 million from the 2015 Cost Deferral to deferred hearing costs. In 2016, Hydro recorded amortization of \$0.5 million of the deferred hearing costs.

10.14 Insurance Amortization and Proceeds

Pursuant to Order No. P.U. 13 (2012), Hydro records net insurance proceeds against the capital costs and amortizes the balance over the life of the asset. Under IFRS, Hydro is required to recognize the insurance proceeds and corresponding amortization in regulatory liabilities. During 2016, Hydro recorded a decrease to regulatory liabilities resulting from amortization of \$0.6 million (2015 - \$0.6 million) related to the assets.

10.15 Non-Customer Contributions in Aid of Construction

Pursuant to P.U. 1 (2017), Hydro recognized amortization of deferred contributions in aid of construction (CIAC) from entities which are not customers in profit or loss. During 2016, Hydro recorded \$0.1 million (2015 - \$nil) non-customer CIAC amortization as a regulatory adjustment. In the absence of rate regulation, IFRS requires non-customer CIACs to be recorded as contributed capital with no corresponding amortization.

10.16 Phase Two Hearing Costs

In April 2016, Hydro received Order No. P.U. 13 (2016) which approved the deferral of costs for 2014, 2015 and subsequent years relating to Phase Two of the investigation into the reliability and adequacy of power on the Island Interconnected system after the interconnection with the Muskrat Falls generating station. As a result, Hydro recorded a regulatory asset of \$0.9 million. In the absence of rate regulation, this amount would be reflected in the operating results in the year and profit or loss for 2016 would have decreased by \$0.9 million.

10.17 Rate Stabilization Plan (RSP)

In 1986, the PUB ordered Hydro to implement a Rate Stabilization Plan (RSP) which primarily provides for the deferral of fuel expense variances resulting from changes in fuel prices, hydrology and load and associated interest. Additionally, the RSP also includes costs associated with the island interconnected and isolated systems. Adjustments required in utility rates to cover the amortization of the balance are implemented on July 1 of each year. Similar adjustments required in industrial rates are implemented on January 1 of each year.

During 2016, Hydro recorded a net increase in regulatory liabilities of \$19.0 million (2015 - increase of \$78.6 million) resulting in an RSP ending balance for 2016 of \$343.6 million (2015 - \$324.6 million). Included in the balance is \$108.6 million (2015 - \$126.9 million) which is to be refunded in the following year, with the exception of hydraulic variations, which will be refunded at a rate of 25% of the outstanding balance at December 31, 2016. The remaining portion of the RSP balance totaling \$235.0 million (2015 - \$197.7 million) has been set aside with \$143.4 million (2015 - \$133.4 million) to be refunded to Newfoundland Power's retail customers and Hydro's Island Rural Customers, \$91.2 million (2015 - \$61.2 million) subject to a future ruling of the PUB and \$0.4 million (2015 - \$3.1 million) is being used to phase in Island Industrial rate increases.

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11. OTHER LONG-TERM ASSETS

<i>As at December 31 (millions of Canadian dollars)</i>		2016	2015
Investment property	(a)	1.0	1.0
Investment in joint arrangement		1.2	1.2
Long-term receivables	(b)	27.4	3.6
Long-term prepayments	(c)	3.3	9.2
Reserve fund	(d)	14.9	30.9
Sinking funds	(e)	307.1	283.6
Other		0.8	0.5
Other long-term assets, end of year		355.7	330.0
Less: current portion		(81.7)	(12.4)
		274.0	317.6

- (a) As at December 31, 2016, the fair value measurement of the investment property is categorized as a Level 3 valuation. The fair value of investment property at December 31, 2016 is estimated to be \$19.4 million (2015 - \$33.8 million). Due to the nature of the property and lack of comparable market data, the fair value of Bull Arm Fabrication's investment property is determined using the present value of future cash flows. Bull Arm Fabrication's estimates are based on cash flows estimated to occur between 2017 and 2022, discounted at a rate of 12.0%.
- (b) As at December 31, 2016, long-term receivables include \$26.9 million (2015 - \$3.3 million) related to long-term advances to suppliers in relation to construction of the Lower Churchill Project. The current portion of \$38.2 million (2015 - \$88.8 million) is included in trade and other receivables. The remaining \$0.5 million (2015 - \$0.3 million) includes the non-current portion of receivables associated with customer payment plans and the long-term portion of employee purchase programs.
- (c) Long-term prepayments include prepaid insurance expenditures related to the Lower Churchill Project.
- (d) In 2007, Churchill Falls commenced the creation of a \$75.0 million segregated reserve fund pursuant to the terms of the Shareholders' Agreement to contribute towards the funding of capital expenditures related to Churchill Falls' existing facilities and their replacement. Churchill Falls invested \$17.0 million in each of 2007, 2008 and 2009 and \$8.0 million in each of 2010, 2011 and 2012. In December 2016, \$23.4 million (2015 - \$5.0 million) was withdrawn to fund a portion of capital expenditures. As per the terms of the Shareholders' Agreement, these funds will be replaced over a five year period when the reserve fund is fully depleted.

This fund must remain in place until the end of the Shareholders' Agreement in 2041. Any amounts removed to fund capital expenditures must be replaced. Reserve fund holdings consist of securities issued by the Government of Canada, various provinces of Canada and Schedule 1 and 2 Canadian Chartered Banks.

Nalcor's 65.8% share of the reserve fund consists of the following:

<i>As at December 31 (millions of Canadian dollars)</i>	2016	2015
Reserve fund, beginning of year	30.9	(Note 36) 34.2
Principal withdrawals	(15.4)	(3.3)
Earnings withdrawn	(0.4)	-
Net discount	0.2	0.1
Mark-to-market adjustment	(0.4)	(0.1)
Reserve fund, end of year	14.9	30.9
Less: current portion	(4.9)	(10.8)
	10.0	20.1

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- (e) As at December 31, 2016, sinking funds include \$267.0 million (2015 - \$242.6 million) related to repayment of Hydro's long-term debt and \$40.1 million (2015 - \$41.0 million) related to funding of Nalcor's long-term payable under the Upper Churchill Redress Agreement (UCRA). Sinking fund investments consist of bonds, debentures, promissory notes and coupons issued by, or guaranteed by, the Government of Canada, provincial governments or Schedule 1 banks, and have maturity dates ranging from 2017 to 2041.

Hydro debentures, which are intended to be held to maturity, are deducted from debt while all other sinking fund investments are shown separately on the Consolidated Statement of Financial Position as assets. Annual contributions to the various sinking funds are in accordance with bond indenture terms, and are structured to ensure the availability of adequate funds at the time of expected bond redemption. Effective yields range from 0.97% to 9.12% (2015 - 1.22% to 9.12%).

Nalcor's sinking funds are held to fund the annual payments to the Innu Nation as required under the UCRA.

The sinking funds consist of the following:

<i>As at December 31 (millions of Canadian dollars)</i>	2016	2015
Sinking funds, beginning of year	283.6	268.6
Contributions	8.1	8.1
Earnings	13.8	6.8
Disposals	(1.6)	(1.5)
Mark-to-market adjustment	3.2	1.6
Sinking funds, end of year	307.1	283.6
Less: current portion	(76.8)	(1.6)
	230.3	282.0

Sinking fund instalments due for the next five years are as follows:

<i>(millions of Canadian dollars)</i>	2017	2018	2019	2020	2021
Sinking fund instalments	6.7	6.7	6.7	6.7	6.7

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12. LONG-TERM INVESTMENTS

<i>As at December 31 (millions of Canadian dollars)</i>	Year of Maturity	2016	2015
Muskrat Falls			
\$75.0 million Floating Rate Deposit Note, with interest paid at the one-month Canadian Dealer Offered Rate (CDOR) plus 0.38%.	2017	48.7	57.0
\$478.2 million Amortizing Floating Rate Deposit Note, with interest paid at the one-month CDOR plus 0.38%.	2016	-	53.6
\$1,912.7 million Amortizing Fixed Rate Deposit Note, with interest paid at a rate of 1.5937% per annum.	2016	-	214.2
Labrador Transco			
\$75.0 million Floating Rate Deposit Note, with interest paid at the one-month CDOR plus 0.38%.	2017	12.9	18.0
\$478.2 million Amortizing Floating Rate Deposit Note, with interest paid at the one-month CDOR plus 0.38%.	2016	-	16.9
\$1,912.7 million Amortizing Fixed Rate Deposit Note, with interest paid at a rate of 1.5937% per annum.	2016	-	67.6
LIL LP			
\$75.0 million Floating Rate Deposit Note, with interest paid at the one-month CDOR plus 0.38%.	2017	29.0	75.0
\$883.5 million Amortizing Floating Rate Deposit Note, with interest paid at the one-month CDOR plus 0.38%.	2016	-	245.4
\$1,325.3 million Amortizing Fixed Rate Deposit Note, with interest paid at a rate of 1.6182% per annum.	2016	-	368.1
Churchill Falls			
\$28.0 million Redeemable Guaranteed Investment Certificate (GIC), with interest paid at a rate of 1.40% per annum.	2019	18.5	-
\$23.6 million Redeemable GIC, with interest paid at a rate of 1.46% per annum.	2019	15.5	-
GIPCo			
\$0.2 million Term Deposit, with interest paid at a rate of 5.16% per annum.	2020	0.1	-
Long-term investments, end of year		124.7	1,115.8
Less: redemptions to be received within the next year	(a)	(90.6)	(1,025.2)
		34.1	90.6

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

13. TRADE AND OTHER PAYABLES

<i>As at December 31 (millions of Canadian dollars)</i>	2016	2015
Trade payables and accruals	1,089.2	911.4
Accrued interest payable	43.4	44.6
Rent and royalty payable	5.0	5.1
Other payables	24.1	36.0
	1,161.7	997.1

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As at December 31, 2016, trade and other payables included balances of \$34.2 million (2015 - \$44.1 million) denominated in USD, \$0.1 million (2015 - \$0.1 million) denominated in Great British Pounds, \$45.0 million (2015 - \$64.2 million) denominated in Euros and \$nil (2015 - \$0.3 million) denominated in Norwegian Kroner.

14. DEBT

14.1 Short-term Borrowings

Nalcor maintains a \$250.0 million CAD or USD equivalent committed revolving term credit facility with its banker, with a maturity date of January 31, 2018. There were no amounts drawn on this facility as at December 31, 2016 (2015 - \$nil), however \$34.1 million of the borrowing limit has been used to issue 14 irrevocable letters of credit (2015 - \$12.0 million). Borrowings in CAD may take the form of Prime Rate Advances, Bankers' Acceptances (BAs) and letters of credit. Borrowings in USD may take the form of Base Rate Advances, London Interbank Offer Rate (LIBOR) Advances and letters of credit. The facility also provides coverage for overdrafts on Nalcor's bank accounts, with interest calculated at the Prime Rate.

Two letters of credit, totaling \$25.7 million, are on behalf of Oil and Gas to ensure compliance with regulations relating to petroleum and natural gas exploration and production activities. Another 12 letters, totaling \$8.5 million, are on behalf of Energy Marketing and relate to power purchases and sale contracts with various independent system operators, transmission providers and bilateral counterparties.

Hydro maintains a \$50.0 million CAD or USD equivalent unsecured demand operating credit facility with its banker and as at December 31, 2016, there were no amounts drawn on this facility (2015 - \$nil), however \$0.3 million of the borrowing limit has been used to issue an irrevocable letter of credit (2015 - \$0.3 million). Borrowings in CAD may take the form of Prime Rate Advances, BAs and letters of credit, with interest calculated at the Prime Rate or prevailing Government BA fee. Borrowings in USD may take the form of Base Rate Advances, LIBOR Advances and letters of credit. The facility also provides coverage for overdrafts on Hydro's bank accounts, with interest calculated at the Prime Rate. Hydro has issued one irrevocable letter of credit, for \$0.3 million (2015 - \$0.3 million), as a performance guarantee in relation to the Department of Fisheries and Oceans Fish Habitat Compensation Program which was cancelled on January 24, 2017.

On October 12, 2016, Nalcor borrowed \$225.0 million from the Province by way of a promissory note, and these funds were then loaned to Hydro. The proceeds of this loan, which will mature on January 11, 2017 and carry an interest rate of 0.90%, were used to repay Hydro's Series AE long-term debentures (Note 37).

In addition, Hydro utilized its government guaranteed promissory note program to fulfill its short-term funding requirements. As at December 31, 2016, there were \$210.0 million in promissory notes outstanding with a maturity date of January 4, 2017 bearing an interest rate of 0.63% (2015 - \$97.0 million bearing an interest rate of 0.66%). Upon maturity, the promissory note was reissued (Note 37).

<i>(millions of Canadian dollars)</i>	2016	2015
Promissory notes - borrowed from the Province	225.0	-
Promissory notes - borrowed from external markets	210.0	97.0
Total promissory notes	435.0	97.0

Churchill Falls maintains a \$10.0 million CAD or USD equivalent unsecured demand operating credit facility with its primary banker. There were no amounts drawn on this facility as at December 31, 2016 (2015 - \$nil), however \$1.0 million of the borrowing limit has been used to issue irrevocable letters of credit (2015 - \$1.0 million). Churchill Falls has issued an additional irrevocable letter of credit in the amount of \$1.0 million (2015 - \$1.0 million), which does not impact the borrowing limit of the operating credit facility. Borrowings in CAD may take the form of Prime Rate Advances, BAs, or letters of credit, with interest calculated at the Prime Rate or prevailing Government BA fee. Borrowings in USD may take the form of Base Rate Advances. The facility also provides coverage for overdrafts on Churchill Falls bank accounts, with interest calculated at the Prime Rate. Churchill Falls has issued three irrevocable letters of credit, totaling \$2.0 million (2015 - \$2.0 million), to ensure satisfactory management

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of its waste management and compliance with a certificate of approval for the transportation of special hazardous wastes granted by the Department of Environment and Conservation.

Oil and Gas maintains a \$30.0 million (2015 - \$5.0 million) USD or CAD equivalent unsecured credit facility with its banker and as at December 31, 2016, there were no amounts drawn on this facility (2015 - \$nil). Borrowings in CAD may take the form of Prime Rate Advances and letters of credit. Borrowings in USD may take the form of Base Rate Advances and letters of credit. During the year, Oil and Gas issued an irrevocable letter of guarantee in the amount of \$0.5 million to the Canada-Newfoundland and Labrador Offshore Petroleum Board, to satisfy liability requirements related to seabed mapping and geochemical sample acquisition work being carried out by a third party.

Energy Marketing maintains a \$20.0 million CAD or USD equivalent demand operating credit facility with its banker, and as at December 31, 2016, there were no amounts drawn on this facility (2015 - \$8.2 million). This facility has an unconditional and irrevocable guarantee from Nalcor. Borrowings in CAD may take the form of Prime Rate Advances, BAs and letters of credit. Borrowings in USD may take the form of Base Rate Advances, LIBOR Advances and letters of credit.

14.2 Long-term Debt

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

<i>As at December 31 (millions of Canadian dollars)</i>	Face Value	Coupon Rate %	Year of Issue	Year of Maturity	2016	2015
Hydro						
V	0.2	10.50	1989	2014	0.2	0.3
X*	150.0	10.25	1992	2017	149.9	149.8
Y*	300.0	8.40	1996	2026	295.0	294.7
AB*	300.0	6.65	2001	2031	305.5	305.7
AD*	125.0	5.70	2003	2033	123.8	123.8
AE	225.0	4.30	2006	2016	-	224.8
AF	200.0	3.60	2014	2045	197.2	197.1
LIL LP						
Tranche A	725.0	3.76	2013	2033	725.3	725.3
Tranche B	600.0	3.86	2013	2045	600.1	600.1
Tranche C	1,075.0	3.85	2013	2053	1,075.2	1,075.2
Labrador Transco/Muskrat Falls						
Tranche A	650.0	3.63	2013	2029	650.2	650.2
Tranche B	675.0	3.83	2013	2037	675.1	675.1
Tranche C	1,275.0	3.86	2013	2048	1,275.2	1,275.2
Total debentures	6,300.2				6,072.7	6,297.3
Less: Sinking fund investments in own debentures					57.3	55.8
					6,015.4	6,241.5
Less: payments due within one year					(142.6)	(233.4)
					5,872.8	6,008.1

*Sinking funds have been established for these issues.

Hydro's promissory notes and debentures are unsecured and unconditionally guaranteed as to principal and interest and, where applicable, sinking fund payments, by the Province. The Province charges Hydro a guarantee fee of 25 basis points annually on the total debt (net of sinking funds) with a remaining term to maturity less than 10 years and 50 basis points annually on total debt (net of sinking funds) with a remaining term to maturity greater than 10 years. The fee for the year ended December 31, 2016 was \$4.5 million (2015 - \$4.5 million).

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15. 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 December 31 (millions of Canadian dollars)</i>	Units	2016	Units	2015
Class B limited partnership units, beginning of year	25	207.4	25	79.4
Contributions	-	168.1	-	118.4
Accrued interest	-	23.6	-	9.6
Class B limited partnership units, end of year	25	399.1	25	207.4

16. DEFERRED CREDITS

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

<i>(millions of Canadian dollars)</i>	Government Funding	Oil and Gas Overlift	Deferred Energy Sales	Deferred Lease Revenue	Total
Deferred credits, beginning of year	3.6	2.8	659.0	8.9	674.3
Additions	0.4	0.3	485.2	7.8	493.7
Amortization	(1.9)	(2.2)	-	(0.2)	(4.3)
Deferred credits, end of year	2.1	0.9	1,144.2	16.5	1,163.7
Less: current portion	(1.1)	-	-	(1.7)	(2.8)
	1.0	0.9	1,144.2	14.8	1,160.9

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

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

Nalcor has recorded deferred energy sales of \$1,144.2 million (2015 - \$659.0 million) which equals the construction costs to date incurred by Emera related to the Maritime Link. Nalcor has determined that it controls the Maritime Link asset for financial reporting purposes, and as such, has recorded the costs as a component of property, plant and equipment under construction.

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

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17. DEFERRED CONTRIBUTIONS

Nalcor has received contributions in aid of construction of property, plant and equipment. These contributions are deferred and amortized to other revenue over the life of the related property, plant and equipment asset.

<i>As at December 31 (millions of Canadian dollars)</i>	2016	2015 (Note 36)
Deferred contributions, beginning of year	12.2	15.3
Additions	1.1	1.4
Disposals	(0.1)	(3.6)
Amortization	(1.0)	(0.9)
Deferred contributions, end of year	12.2	12.2
Less: current portion	(1.1)	(1.1)
	11.1	11.1

18. DECOMMISSIONING LIABILITIES

Nalcor has recognized liabilities associated with the retirement of portions of the HTGS, disposal of Polychlorinated Biphenyls (PCB) and decommissioning liabilities resulting from its net ownership interests in petroleum and natural gas properties and related well sites.

The reconciliation of beginning and ending carrying amounts of decommissioning liabilities as at December 31, 2016 and December 31, 2015 are as follows:

<i>As at December 31 (millions of Canadian dollars)</i>	2016	2015
Decommissioning liabilities, beginning of year	103.0	43.2
Liabilities settled	(0.8)	(0.2)
Accretion	3.8	1.4
Revisions	(23.3)	58.6
Decommissioning liabilities, end of year	82.7	103.0
Less: current portion	(1.0)	(1.0)
	81.7	102.0

The total estimated undiscounted cash flows required to settle the HTGS obligations at December 31, 2016 are \$15.2 million (2015 - \$32.1 million). The HTGS decommissioning obligation decreased from 2015 primarily due to an updated assumption that Holyrood will be used as an industrial site for the foreseeable future because of the operation of assets such as Holyrood CT and the black start diesels. Payments to settle the liabilities are expected to occur between 2020 and 2023. The fair value of the decommissioning liabilities was determined using the present value of future cash flows discounted at Hydro's credit adjusted risk free rate of 2.5% (2015 - 2.3%). Hydro has recorded \$13.4 million (2015 - \$27.0 million) related to HTGS obligations.

The total estimated undiscounted cash flows required to settle the PCB obligations at December 31, 2016 are \$2.7 million (2015 - \$2.0 million). Payments to settle the liabilities are expected to occur between 2017 and 2025. The fair value of the decommissioning liabilities was determined using the present value of future cash flows discounted at Hydro's and Churchill Falls' credit adjusted risk free rates of 2.9% to 3.7% (2015 - 2.6% to 3.8%). Hydro and Churchill Falls have recorded \$2.4 million (2015 - \$1.8 million) related to PCB obligations.

Oil and Gas' decommissioning liabilities result from net ownership interests in petroleum and natural gas properties and related well sites. The total undiscounted estimated cash flows required to settle the obligations, including a rate of inflation of 2%, at December 31, 2016 are \$116.8 million (2015 - \$137.4 million). Payments to settle the liabilities are expected to occur between 2017 and 2030. The fair value of the decommissioning liabilities was determined using the present value of future cash flows discounted at rates ranging from 4.0% to 4.3% (2015 - 3.6% to 4.4%).

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A significant number of Nalcor's assets include generation plants, transmission assets and distribution systems. These assets can continue to run indefinitely with ongoing maintenance activities. As it is expected that Nalcor's assets will be used for an indefinite period, no removal date can be determined and consequently, a reasonable estimate of the fair value of any related decommissioning liability cannot be determined at this time. If it becomes possible to estimate the fair value of the cost of removing assets that Nalcor is required to remove, a decommissioning liability for those assets will be recognized at that time.

19. LONG-TERM PAYABLES

As at December 31, 2016, long-term payables consist of a payable to the Innu Nation under the UCRA and a payable to the Innu Nation under the Impact and Benefits Agreement (IBA).

<i>As at December 31 (millions of Canadian dollars)</i>	2016	2015
Long-term payables, beginning of year	77.1	82.2
Payments	(15.1)	(7.3)
Additions and revisions	-	(1.5)
Accretion	3.3	3.7
	65.3	77.1
Less: current portion	(7.2)	(14.5)
Long-term payables, end of year	58.1	62.6

Under the UCRA, Nalcor is required to pay to the Innu Nation \$2.0 million annually, escalating by 2.5% annually until 2041. At December 31, 2016, \$2.2 million (2015 - \$2.2 million) of the amount is current and is recorded in trade and other payables. Nalcor has sinking funds in the amount of \$40.1 million (2015 - \$40.9 million) to fund these future obligations.

Under the IBA, Nalcor is required to make annual payments to the Innu Nation that commenced upon sanction of the Muskrat Falls hydroelectric plant. The Muskrat Falls hydroelectric plant was sanctioned in December 2012 and the first IBA payment was made at that time. The IBA requires annual payments of \$5.0 million escalating by an annual consumer price index from sanction until first commercial power. The present value of the remaining payments using a discount rate of 2.7% (2015 - 2.6%) is \$27.9 million (2015 - \$20.3 million). The current portion of the payable at December 31, 2016 is \$5.0 million (2015 - \$5.0 million) and is recorded in trade and other payables.

As at December 31, 2015, a long-term payable related to the Hebron Benefits Agreement Drilling Equipment Set Settlement Agreement of \$7.3 million was reclassified to trade and other payables. The balance was paid in 2016.

20. EMPLOYEE FUTURE BENEFITS

20.1 Pension Plan

Employees participate in the Province's Public Service Pension Plan, a multi-employer defined benefit plan. The employer's contributions of \$12.0 million (2015 - \$11.7 million) are expensed as incurred.

20.2 Other Benefits

Nalcor provides group life insurance and health care benefits on a cost shared basis to retired employees, and in certain cases, their surviving spouses, in addition to a severance payment upon retirement. In 2016, cash payments to beneficiaries for its unfunded other employee future benefits were \$8.9 million (2015 - \$3.3 million). An actuarial valuation was performed as at December 31, 2016.

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<i>As at December 31 (millions of Canadian dollars)</i>	2016	2015 (Restated - Note 35)
Accrued benefit obligation, beginning of year	116.1	115.0
Current service cost	5.5	5.0
Interest cost	4.8	5.0
Benefits paid	(8.9)	(3.3)
Actuarial gain	(0.4)	(5.6)
Accrued benefit obligation, end of year	117.1	116.1

<i>For the year ended December 31 (millions of Canadian dollars)</i>	2016	2015
Component of benefit cost		
Current service cost	5.5	5.0
Interest cost	4.8	5.0
Total benefit expense for the year	10.3	10.0

The significant actuarial assumptions used in measuring the accrued benefit obligations and benefit expenses are as follows:

	2016	2015
Discount rate - benefit cost	4.10%	4.20%
Discount rate - accrued benefit obligation	3.90%	4.10%
Rate of compensation increase	3.50%	3.50%

Assumed healthcare trend rates:

	2016	2015
Initial health care expense trend rate	5.85%	6.00%
Cost trend decline to	4.50%	4.50%
Year that rate reaches the rate it is assumed to remain at	2025	2025

A 1% change in assumed health care trend rates would have had the following effects:

<i>Increase (millions of Canadian dollars)</i>	2016	2015
Current service and interest cost	2.1	2.8
Accrued benefit obligation	19.3	25.3
<i>Decrease (millions of Canadian dollars)</i>	2016	2015
Current service and interest cost	(1.5)	(2.0)
Accrued benefit obligation	(14.8)	(19.0)

21. ACCUMULATED OTHER COMPREHENSIVE INCOME

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

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

<i>(millions of Canadian dollars)</i>	2016	2015
Employee future benefits		
Balance, beginning of year	(26.9)	(32.9)
Regulatory adjustment	0.2	0.4
Net actuarial gains on defined benefit plans	0.4	5.6
Balance, end of year	(26.3)	(26.9)

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<i>(millions of Canadian dollars)</i>	2016	2015
Available-for-sale financial instruments		
Balance, beginning of year	45.1	44.6
Net fair value gains on available-for-sale during the year	13.0	10.5
Amounts reclassified to profit (loss)	(10.0)	(10.0)
Balance, end of year	48.1	45.1

<i>(millions of Canadian dollars)</i>	2016	2015
Cash flow hedges		
Balance, beginning of year	(6.4)	(4.1)
Fair value (losses) gains during the year	(2.6)	9.2
Amounts reclassified to profit (loss)	(6.3)	(11.5)
Balance, end of year	(15.3)	(6.4)

22. SHAREHOLDER'S EQUITY

22.1 Share Capital

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

22.2 Shareholder Contributions

<i>As at December 31 (millions of Canadian dollars)</i>	2016	2015
Total shareholder contributions	2,860.7	2,204.3

During 2016, Nalcor's shareholder contributed capital in the amount of \$656.1 million (2015 - \$734.6 million) in relation to Nalcor's capital expenditures.

During 2016, the Churchill Falls (Labrador) Corporation Trust (the Trust) contributed capital in the amount of \$0.3 million (2015 - \$0.1 million).

23. REVENUE

<i>For the year ended December 31 (millions of Canadian dollars)</i>	2016	2015
Electricity sales	624.0	706.0
GWAC revenue	24.0	24.1
Petroleum and natural gas sales	137.3	32.2
Royalty expense	(6.4)	(1.6)
Total energy sales	778.9	760.7
Lease revenue	21.4	20.5
Government funding	1.5	1.0
Preferred dividends	4.3	4.7
Other	18.0	23.6
Total other revenue	45.2	49.8

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24. OPERATING COSTS

<i>For the year ended December 31 (millions of Canadian dollars)</i>	2016	2015
Salaries and benefits	126.9	138.0
Maintenance and materials	32.6	39.3
Professional services	17.4	31.1
Travel and transportation	6.0	8.8
Rental and royalty	4.9	5.1
Equipment rental	4.0	6.1
Other operating costs	15.5	15.1
	207.3	243.5

25. OIL PRODUCTION, MARKETING AND TRANSPORTATION COSTS

Oil production, marketing and transportation costs include costs incurred by Oil and Gas related to the operating, processing and transportation of oil.

<i>For the year ended December 31 (millions of Canadian dollars)</i>	2016	2015
Project operating costs	16.0	7.7
Processing and marketing expense	6.1	1.7
Transportation and transshipment expense	4.2	2.7
	26.3	12.1

26. TRANSMISSION RENTAL AND MARKET FEES

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

<i>For the year ended December 31 (millions of Canadian dollars)</i>	2016	2015
Transmission rental	21.4	20.2
Market fees	0.7	1.2
	22.1	21.4

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27. NET FINANCE (INCOME) EXPENSE

<i>For the year ended December 31 (millions of Canadian dollars)</i>	2016	2015
Finance income		
Interest on sinking fund	15.3	14.7
Interest on reserve fund	0.7	0.9
Interest on investments	8.4	31.1
Interest on restricted cash	14.6	12.4
Other interest income	2.0	1.1
	41.0	60.2
Finance expense		
Long-term debt	272.9	275.0
Class B limited partnership units	23.6	9.6
Debt guarantee fee	4.5	4.5
Accretion	7.6	5.6
Other	2.8	1.4
	311.4	296.1
Interest capitalized during construction	(198.3)	(162.4)
	113.1	133.7
Net finance (income) expense	72.1	73.5

28. OTHER (INCOME) EXPENSE

<i>For the year ended December 31 (millions of Canadian dollars)</i>	2016	2015
Mark-to-market commodity swaps	-	4.0
Mark-to-market foreign exchange forward contracts	-	(0.5)
Settlement of commodity swaps	(9.7)	(20.2)
Settlement of foreign exchange forward contracts	(0.3)	8.1
Financial transmission rights income and amortization	(1.6)	(1.6)
Loss on disposal of property, plant and equipment	7.2	4.3
Asset disposal costs	0.5	1.8
Mark-to-market of open market	-	(0.1)
Insurance proceeds	-	(0.1)
Unrealized foreign exchange loss	0.6	3.3
Realized foreign exchange loss	0.3	1.1
Other	(1.0)	3.1
Other (income) expense	(4.0)	3.2

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

29.1 Fair Value

The estimated fair values of financial instruments as at December 31, 2016 and December 31, 2015 are based on relevant market prices and information available at the time. Fair value estimates are based on valuation techniques which are significantly affected by the assumptions used including the amount and timing of future cash flows and discount rates reflecting various degrees of risk. As such, the fair value estimates below are not necessarily indicative of the amounts that Nalcor might receive or incur in actual market transactions.

As a significant number of Nalcor's assets and liabilities do not meet the definition of a financial instrument, the fair value estimates below do not reflect the fair value of Nalcor as a whole.

Establishing Fair Value

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the nature of the inputs used in

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making the measurements. The fair value hierarchy has the following levels:

Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value. For assets and liabilities that are recognized at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. There were no transfers between Level 1, 2 and 3 for the year ended December 31, 2016 and the year ended December 31, 2015.

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
		December 31, 2016		December 31, 2015	
<i>(millions of Canadian dollars)</i>					
Financial assets					
Derivative assets	2,3	0.7	0.7	9.1	9.1
Sinking funds - investments in Hydro debt issue	2	57.3	71.3	55.8	69.9
Sinking funds - other investments	2	307.1	307.1	283.6	283.6
Long-term investments	1,2	34.1	34.1	90.6	90.6
Reserve fund	2	14.9	14.9	30.9	30.9
Long-term receivables	2	27.4	27.4	3.6	3.6
Financial liabilities					
Derivative liabilities	2	5.4	5.4	5.2	5.2
Long-term debt including amount due within one year (before sinking funds)	2	6,072.7	6,964.8	6,297.3	7,557.1
Class B limited partnership units	3	399.1	399.1	207.4	207.4
Long-term payables	2	58.1	75.0	62.6	79.2

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.

Level 3 financial instruments include financial transmission rights and Class B limited partnership units.

Financial transmission rights are purchased contracts used to mitigate risk associated with congestion in export markets. The following table summarizes quantitative information about the valuation techniques and unobservable inputs used in the fair value measurement of financial transmission rights as at December 31, 2016.

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<i>(millions of Canadian dollars)</i>	Carrying Value	Valuation Techniques	Significant Unobservable Input(s)	Range
Derivative assets (Financial transmission rights)	0.7	Modelled pricing	Price, seasonality and market factors	9-26%

Methodologies for calculating the fair values of financial transmission rights are determined by using underlying contractual data as well as observable and unobservable inputs. Fair value methodologies are reviewed by Management on a quarterly basis to assess the reasonability of the assumptions made and models are adjusted as necessary for significant expected changes in fair value due to changes in key inputs. As at December 31, 2016, the effect of using reasonably possible alternative assumptions regarding the unobservable implied volatilities may have resulted in \$0.1 million to \$0.2 million change in the carrying value of the financial transmission rights.

The Class B limited partnership units are carried at amortized cost calculated using the effective interest method. The effective interest rate is defined in the Newfoundland and Labrador Development Agreement as Emera NL's rate of return on equity (RROE), and is equal to the rate approved by the PUB for privately-owned regulated electrical utilities. Due to the unobservable nature of the effective interest rate and cash flows associated with the units, the fair value is assumed to approximate carrying value and the instruments have therefore been classified as Level 3.

The table below sets forth a summary of changes in fair value of the Class B limited partnership units given a one percent change in the discount rate while holding other variables constant:

<i>(millions of Canadian dollars)</i>	1% Increase	1% Decrease
Class B limited partnership units	(5.6)	5.5

29.2 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.

Credit Risk

Nalcor's expected future cash flows are exposed to credit risk through its operating activities, primarily due to the potential for non-performance by its customers, and through its financing and investing activities, based on the risk of non-performance by counterparties to its financial instruments. The degree of exposure to credit risk on cash and cash equivalents, short-term investments, long-term investments and derivative assets as well as from the sale of electricity to customers, including the associated accounts receivable, is determined by the financial capacity and stability of those customers and counterparties. The maximum exposure to credit risk on these financial instruments is represented by their carrying values on the Consolidated Statement of Financial Position at the reporting date.

Credit risk on cash and cash equivalents is considered to be minimal, as Nalcor's cash deposits are held by a Schedule 1 Canadian Chartered bank with a rating of A+ (Standard and Poor's). Credit risk on restricted cash is considered to be minimal, as Nalcor's restricted cash deposits are held by Schedule 1 Canadian Chartered banks with a rating of AA- (Standard and Poor's). Credit risk on short-term investments is minimized by limiting holdings to high-quality, investment grade securities issued by the Federal and Provincial governments, as well as BAs and term deposits issued by Schedule 1 Canadian Chartered banks.

Credit exposure on Nalcor's sinking funds is limited by restricting the holdings to long-term debt instruments issued by the Government of Canada or any province of Canada, Crown corporations and Schedule 1 Canadian Chartered banks. The following credit risk table provides information on credit exposures according to issuer type and credit rating for the remainder of the sinking fund's portfolio:

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	Issuer Credit Rating	Fair Value of Portfolio (%)	Issuer Credit Rating	Fair Value of Portfolio (%)
	2016		2015	
Provincial governments	AA- to AAA	0.37%	AA- to AAA	0.37%
Provincial governments	A- to A+	44.29%	A- to A+	45.04%
Provincially owned utilities	A- to A+	49.22%	A- to A+	52.28%
Schedule 1 Canadian banks	A- to A+	6.12%	A- to A+	2.31%
		100.00%		100.00%

Credit exposure on the reserve fund is mitigated by adhering to an investment policy which restricts the holdings to long-term debt instruments issued or guaranteed by the Government of Canada or any province of Canada. Investments in the long-term debt instruments of Canadian banks are also permitted, provided the bank is rated A or higher by Standard and Poor's. With the exception of the Government of Canada, holdings of any one issuer are limited to 10.0% of the total principal amount of the portfolio. The following credit risk table provides information on credit exposures according to issuer type and credit rating for the reserve fund:

	Issuer Credit Rating	Fair Value of Portfolio (%)	Issuer Credit Rating	Fair Value of Portfolio (%)
	2016		2015	
Provincial governments	AA- to AAA	7.32%	AA- to AAA	3.48%
Provincial governments	A- to A+	30.63%	A- to A+	12.69%
Provincially owned utilities	A- to A+	-	A- to A+	12.70%
Schedule 1 Canadian banks	AA- to AAA	9.07%	AA- to AAA	10.17%
Schedule 1 or 2 Canadian banks	A- to A+	52.98%	A- to A+	60.96%
		100.00%		100.00%

Credit exposure on Nalcor's long-term investments is considered to be limited as the structured deposit notes are held by a Canadian Schedule 1 Chartered bank with a rating of AA- (Standard and Poor's). The following credit risk table provides information on credit exposures according to issuer type and credit rating for the long-term investments:

	Issuer Credit Rating	Fair Value of Portfolio (%)	Issuer Credit Rating	Fair Value of Portfolio (%)
	2016		2015	
Schedule 1 Canadian Banks	AA-	100.00%	AA-	100.00%

Credit exposure on derivative assets is limited by a Financial Risk Management Policy as approved by the Board, which restricts available counterparties for hedge transactions to Schedule 1 Canadian Chartered banks and Federally Chartered US banks.

Nalcor does not have any significant amounts that are past due and uncollectable, for which a provision has not been recognized at December 31, 2016.

Liquidity Risk

Nalcor is exposed to liquidity risk with respect to its contractual obligations and financial liabilities, including any derivative liabilities related to hedging activities. Liquidity risk management is aimed at ensuring cash is available to meet those obligations as they become due.

Short-term liquidity for Nalcor and its subsidiaries is mainly provided through cash and cash equivalents on hand, funds from operations, an operating credit facility which Nalcor maintains with its banker, and shareholder contributions. Nalcor maintains a \$250.0 million (2015 - \$250.0 million) committed revolving term credit facility, with a maturity date of January 31, 2018. There were no amounts drawn on this facility at December 31, 2016 (2015 - \$nil). In addition, Hydro has access to a \$300.0 million promissory note program and a \$50.0 million (2015 - \$50.0 million) unsecured demand operating credit facility. Oil and Gas and

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Churchill Falls also maintain demand operating facilities of \$30.0 million (2015 - \$5.0 million) and \$10.0 million (2015 - \$10.0 million), respectively. Churchill Falls maintains a \$22.0 million minimum cash balance (2015 - \$20.0 million). Energy Marketing maintains a demand operating facility of \$20.0 million (2015 - \$20.0 million).

Liquidity risk for Muskrat Falls and Labrador Transco is considered to be minimal, as both companies can access the funds drawn down from the MF/LTA construction facility for the payment of construction costs as well as interest payments. The LIL LP has access to the funds drawn down from the LIL construction facility for the payment of construction costs as well as interest payments.

Long-term liquidity risk for Hydro is managed by the issuance of a portfolio of debentures with maturity dates ranging from 2017 to 2045. Sinking funds have been established for these issues, with the exception of the issue maturing in 2045. For Churchill Falls, long-term liquidity risk is managed by maintenance of the reserve fund in accordance with the Shareholders' Agreement and a dividend management policy that meets long-term liquidity requirements associated with Churchill Falls' capital expenditure program.

The following are contractual maturities of Nalcor's financial liabilities, including principal and interest as at December 31, 2016:

<i>(millions of Canadian dollars)</i>	< 1 Year	1-3 Years	3-5 Years	> 5 Years	Total
Trade and other payables	1,161.7	-	-	-	1,161.7
Short-term borrowings	435.0	-	-	-	435.0
Derivative liabilities	5.4	-	-	-	5.4
Long-term debt	156.9	174.4	228.2	5,515.7	6,075.2
Interest	258.2	499.9	499.9	4,636.2	5,894.2
Class B partnership units	-	-	73.9	1,688.8	1,762.7
Long-term payables	7.3	22.3	17.9	60.8	108.3
	2,024.5	696.6	819.9	11,901.5	15,442.5

Market Risk

In the course of carrying out its operating, financing and investing activities, Nalcor is exposed to possible market price movements that could impact expected future cash flow and the carrying value of certain financial assets and liabilities. Market price movements to which Nalcor has significant exposure include those relating to prevailing interest rates, foreign exchange rates, most notably USD/CAD, and current commodity prices, most notably the spot prices for diesel fuel, electricity, No. 6 fuel and oil. These exposures are addressed as part of the Financial Risk Management Strategy.

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. The impact of a 0.5% change in interest rates on the Consolidated Statement of Profit and Comprehensive Income associated with cash and cash equivalents and short-term investments was negligible throughout 2016 due to the short time period to maturity.

The table below shows the impact of a 0.5% change in interest rates on other comprehensive income associated with the sinking funds and reserve fund as at December 31, 2016:

<i>(millions of Canadian dollars)</i>	0.5% Decrease	0.5% Increase
Interest on sinking funds	11.4	(14.1)
Interest on reserve fund	0.1	(0.1)
	11.5	(14.2)

The impact of interest rates on the expected future cash outflows related to short-term borrowings (which includes promissory notes and BAs issued under Nalcor's credit lines) and long-term debt are managed within the corporate financing strategy

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whereby floating rate debt exposures and interest rate scenarios are forecasted and evaluated. A diversified portfolio of fixed and floating rate debt is maintained and managed with a view to an acceptable risk profile. Key quantitative parameters for interest rate risk management includes the percentage of floating rate debt in the total debt portfolio, coupled with an examination of the weighted average term to maturity of the entire debt portfolio. By setting clear guidelines in respect to these quantitative parameters, Nalcor attempts to minimize the likelihood of a material impact on profit or loss resulting from an unexpected change in interest rates.

Foreign Currency and Commodity Exposure

Nalcor's primary exposure to both foreign exchange and commodity price risk arises from its purchases of No. 6 fuel for consumption at the HTGS, USD denominated electricity sales, rental revenues and the sale of crude oil. For the purchase of No.6 fuel, these risks are mitigated through the operation of the RSP. Exposures to USD denominated electricity sales are addressed in accordance with the Board-approved Financial Risk Management Policy. Tactics include the use of forward rate agreements and fixed price commodity swaps.

The table below shows the impact of a 0.5% change in foreign exchange rates on trade and other payables as at December 31, 2016

<i>(millions of Canadian dollars)</i>	0.5% Decrease	0.5% Increase
Trade and other payables	(4.0)	4.0

During 2016, Hydro had \$nil total electricity sales denominated in USD (2015 - \$33.9 million). Effective October 1, 2015, the export sales are recognized in Energy Marketing in accordance with the PPA. In 2015, foreign exchange risk on these sales was mitigated through the use of foreign currency forward contracts, which were entered into by Energy Marketing. Commodity price risk was mitigated by Hydro for 2015, through the use of electricity price commodity swap. During 2016, nil (2015 - \$9.2 million) in realized gains from these derivative contracts was recognized in Hydro's other (income) expense and \$nil (2015 - \$0.7 million) unrealized losses in unrealized losses were recognized in Hydro's other (income) expense.

During 2016, Energy Marketing had energy sales denominated in USD of \$31.7 million USD (2015 - \$5.5 million USD). To mitigate foreign exchange risk on these sales, Energy Marketing used foreign currency forward contracts. In December 2015, Energy Marketing entered into a series of foreign exchange forward contracts with a notional value of \$29.0 million USD and an average exchange rate of \$1.34 CAD per USD to hedge foreign exchange risk on 60% of planned USD energy sales for 2016.

In December 2016, Energy Marketing entered into a series of foreign exchange forward contracts to hedge foreign exchange risk on approximately 58% of anticipated USD electricity sales in 2017. These contracts, with a notional value of \$20.2 million USD, provide Energy Marketing with an average rate of 1.32 CAD per USD.

As the foreign exchange forward contracts have been designated as hedging instruments, changes in fair value have been recorded in other comprehensive income. During 2016, \$0.1 million in losses from foreign exchange forward contracts were included in other (income) expense (2015 - \$5.5 million loss) and \$1.0 million in gains (2015 - \$1.3 million in losses) remain in other comprehensive income.

In December 2015, Energy Marketing entered into a series of fixed price commodity swaps to hedge commodity price risk on approximately 60% of planned energy sales for 2016. These contracts, with a notional value of \$29.0 million USD were to provide Energy Marketing with an average price of \$41.30 USD per megawatt hour (MWh) (Peak) and \$21.60 USD per MWh (Off-Peak). All fixed price commodity swaps were settled by June 30, 2016. During 2016, \$3.5 million in gains have been included in other (income) expense.

During 2016, additional financial transmission rights with notional values of \$1.5 million USD were purchased to mitigate risk on congestion for the remainder of 2016 and a significant portion of 2017. As the rights have not been designated under hedge accounting, changes in fair value have been recorded in other (income) expense.

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During 2016, total oil sales denominated in USD were \$93.6 million (2015 - \$25.2 million). While Oil and Gas has exposure to fluctuations in the USD/CAD exchange rate on those sales, a significant portion of Oil and Gas' planned capital expenditures for 2016 were denominated in USD, which mitigated this exposure. Furthermore, in March, June and November 2015, Oil and Gas entered into a series of commodity price swap contracts to mitigate commodity price exposure on oil sales. Combined, these contracts had a notional value of \$11.1 million USD, and provided an average fixed price of \$59.85 USD per barrel on approximately 15% of budgeted production for 2016.

On November 30, 2016, Oil and Gas entered into a series of commodity price swap contracts to hedge foreign exchange risk on approximately 25% of anticipated 2017 production. These contracts have a notional value of \$32.3 million USD, and provide an average fixed price of \$52.09 USD per barrel.

During 2016, \$6.2 million in gains (2015 - \$9.8 million) from commodity price swaps contracts, designated under hedge accounting, were included in other income and expense. As the contracts have been designated as hedged instruments, changes in fair value have been recorded in other comprehensive income. For the year ended, \$4.5 million in unrealized losses (2015 - \$6.9 million in unrealized gains) remain in other comprehensive income.

On December 1, 2016, Oil and Gas entered into series of foreign exchange forward contracts to hedge foreign exchange risk on approximately 23% of anticipated USD energy sales in 2017. These contracts have a notional value of \$32.3 million USD and provide Oil and Gas with an average fixed rate of \$1.33 CAD per USD.

As the contracts have been designated as hedged instruments, changes in fair value have been recorded in other comprehensive income. For the year ended December 31, 2016, \$0.2 million in losses remain in other comprehensive income.

During 2016, total lease revenue in Bull Arm Fabrication denominated in USD was \$16.1 million (2015 - \$16.1 million). In November 2015, Bull Arm Fabrication entered into a series of foreign exchange forward contracts with a notional value of \$17.5 million USD, to mitigate USD/CAD currency exposure on its USD lease revenue for 2016 and the first two months of 2017, at a weighted average fixed exchange rate of \$1.33 CAD per USD.

In December 2016, a series of an additional 12 foreign exchange contracts with a total notional value of \$16.1 million USD were entered into at a weighted average fixed exchange rate of \$1.32 CAD per USD. Combined with the hedge contracts previously in place, 100% of expected USD lease revenue for 2017, and the first two months of 2018, is hedged at a weighted average fixed exchange rate of \$1.32 CAD per USD.

During 2016, \$0.2 million in losses (2015 - \$2.3 million in losses) have been included in other (income) expense related to the Bull Arm Fabrication forward contracts and \$0.9 million in unrealized gains (2015 - \$0.7 million in losses) remain in other comprehensive income. As at December 31, 2016, the fair value of the derivative liabilities as presented on the Statement of Financial Position was \$0.2 million (2015 - \$1.1 million).

In December 2013, Muskrat Falls entered into nine bond forward contracts totaling \$2.0 billion to hedge the interest rate risk on the forecasted issue of long-term debt. These contracts were designated as part of a cash flow hedging relationship and the resulting change in fair value was recorded in other comprehensive income (loss) with the ineffective portion recognized immediately in other (income) expense. 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. The amount amortized in 2016 was \$0.8 million (2015 - \$0.8 million). The other comprehensive loss will be recognized in profit or loss over the same period as the related debt instruments which mature between 2029 and 2048.

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	Commodity and forward contracts		Other derivatives		Total	
	Level II	Level II	Level III	Level II	Level III	
<i>(millions of Canadian dollars)</i>						
Balance at January 1, 2016	1.6	2.0	0.3	3.6	0.3	
Purchases	-	-	1.9	-	1.9	
	1.6	2.0	2.2	3.6	2.2	
Changes to profit (loss)						
Amortization	-	-	(1.6)	-	(1.6)	
Mark-to-market	3.5	-	-	3.5	-	
Settlements	(0.7)	(1.9)	-	(2.6)	-	
Total	2.8	(1.9)	(1.6)	0.9	(1.6)	
Changes in other comprehensive income (loss)						
Mark-to-market	(2.8)	-	-	(2.8)	-	
Realized in (profit) loss	(7.0)	-	-	(7.0)	-	
Total	(9.8)	-	-	(9.8)	-	
Balance at December 31, 2016	(5.4)	0.1	0.6	(5.3)	0.6	
Balance at January 1, 2015	7.6	2.5	0.1	10.1	0.1	
Purchases	-	-	1.2	-	1.2	
	7.6	2.5	1.3	10.1	1.3	
Changes to profit (loss)						
Amortization	-	-	(0.9)	-	(0.9)	
Mark-to-market	(7.7)	(0.5)	3.2	(8.2)	3.2	
Settlements	4.7	-	(3.3)	4.7	(3.3)	
Total	(3.0)	(0.5)	(1.0)	(3.5)	(1.0)	
Changes in other comprehensive income (loss)						
Mark-to-market	9.2	-	-	9.2	-	
Realized in profit (loss)	(12.2)	-	-	(12.2)	-	
Total	(3.0)	-	-	(3.0)	-	
Balance at December 31, 2015	1.6	2.0	0.3	3.6	0.3	

30. RELATED PARTY TRANSACTIONS

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

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

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. Outstanding balances due to or from related parties are non-interest bearing with no set terms of repayment, unless otherwise stated.

- (a) Hydro is required to incur the costs of operations of the PUB as well as the cost of hearings and application costs. During 2016, Hydro incurred \$1.3 million (2015 - \$3.9 million) in costs related to the PUB and has included \$2.1 million (2015 - \$4.0 million) in trade and other payables.

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- (b) The debt guarantee fee for 2016 was \$4.5 million (2015 - \$4.5 million). It was paid to the Province on March 31, 2016.
- (c) Hydro recognized contributions in aid of construction totaling \$0.1 million (2015 - \$0.2 million) from the Province related to wind feasibility studies. As at December 31, 2016, \$0.4 million (2015 - \$0.4 million) has been recorded in deferred credits.
- (d) For the year ended December 31, 2016, Hydro has purchased \$25.2 million (2015 - \$27.8 million) of power generated from assets related to Exploits Generation, which are held by the Province. In addition, Hydro operates these assets on behalf of Nalcor and recovered costs in the amount of \$29.1 million (2015 - \$19.2 million).
- (e) Hydro recorded \$0.2 million (2015 - \$0.4 million) as a rate subsidy for rural isolated customers from the Province and \$1.8 million (2015 - \$2.0 million) as an energy rebate to offset the cost of basic electricity consumption for Labrador rural isolated residential customers under the Northern Strategic Plan. As at December 31, 2016, there is a balance of \$1.3 million (2015 - \$0.7 million) outstanding in trade and other receivables.
- (f) Churchill Falls has entered into long-term power contracts with its shareholders for the sale of substantially all of the power produced by the generating plant. During 2016, revenue from Hydro-Québec was \$102.4 million (2015 - \$109.6 million) of which Nalcor has recorded its share of \$67.4 million (2015 - \$72.1 million).
- (g) Under the terms of the Lease and amendments thereto, Churchill Falls is required to pay the Province an annual rental of 8% of the consolidated net profits before income taxes and an annual royalty of \$0.50 per horsepower year generated, as defined in the Lease. At December 31, 2016, \$7.5 million (2015 - \$7.9 million) was payable to the Province, of which Nalcor has recognized its share of \$4.9 million (2015 - \$5.2 million).
- (h) Churchill Falls tracks the value of differences between energy delivered and the Annual Energy Base over a four year period. The difference is then recovered from or refunded to Hydro-Québec.

The payable to Hydro-Québec as at December 31, 2016 is the accumulation of differences between energy delivered and the AEB during the four year period from September 1, 2008 to August 31, 2012 and the four year period September 1, 2012 to August 31, 2016. The current portion of \$nil (2015 - \$1.0 million) is included in trade and other payables.

For the year ended December 31, 2016, net finance (income) expense on the related party payable/receivable was \$0.2 million (2015 - \$0.1 million), of which Nalcor has recorded its share of \$0.1 million (2015 - \$0.1 million).

- (i) On February 3, 2010, the Province established the Trust with Churchill Falls as the beneficiary. The purpose of the Trust is to fund the external costs and expenses incurred in relation to the motion filed by Churchill Falls seeking a modification to the pricing terms of the 1969 Power Contract. To date, \$5.3 million (2015 - \$4.9 million) has been received and \$13.0 thousand (2015 - \$17.0 thousand) has been accrued as receivable from the Trust. Nalcor has recorded its share of \$3.5 million (2015 - \$3.2 million) as received and \$8.6 thousand (2015 - \$11.2 thousand) accrued as receivable from the Trust.
- (j) As at December 31, 2016, Churchill Falls capacity penalty payable was \$0.4 million (2015 - \$0.4 million), of which Nalcor has recorded its share of \$0.3 million (2015 - \$0.3 million). The capacity penalty relates to the supply of power to Hydro-Québec. Churchill Falls did not incur a capacity penalty in 2016 (2015 - \$nil).
- (k) For the year ended December 31, 2016, Oil and Gas expensed \$6.4 million (2015 - \$1.6 million) to the Province for royalties on its oil and gas operations.
- (l) During the year, Oil and Gas made a one-time payment of \$7.4 million to the Province in relation to the construction of the drilling equipment set which was constructed outside of the province.

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- (m) Total funding to be received under PEEP was \$4.5 million over five years. For the year ended December 31, 2016, there were no funds provided. Included in deferred revenue at December 31, 2016 is \$1.0 million (2015 - \$1.1 million) related to funding received.
- (n) Total funding to be received under OGDP was \$14.3 million over four years commencing in 2010. Additional funding of \$1.0 million has been received as at December 31, 2016, for a total of \$15.3 million (2015 - \$15.3 million). Included in deferred revenue at December 31, 2016 is \$0.7 million (2015 - \$2.0 million) related to funding received.

30.1 Key Management Personnel

Compensation for key management personnel, which Nalcor defines as its executives who have the primary authority and responsibility in planning, directing and controlling the activities of the entity, includes compensation for senior executives. Salaries and employee benefits include base salaries, performance contract payments, vehicle allowances and contributions to employee benefit plans. Post-employment benefits include contributions to the Province's Public Service Pension Plan.

<i>For the year ended December 31 (millions of Canadian dollars)</i>	2016	2015
Salaries and employee benefits*	10.3	3.6
Post-employment benefits	0.3	0.3
	10.6	3.9

*2016 includes severance and related costs incurred in the second quarter.

31. COMMITMENTS AND CONTINGENCIES

- (a) Nalcor and its subsidiaries have received claims instituted by various companies and individuals with respect to power delivery claims and other miscellaneous matters. Although the outcome of such matters cannot be predicted with certainty, Management believes Nalcor's exposure to such claims and litigation, to the extent not covered by insurance or otherwise provided for, is not expected to materially affect its financial position or results of operations.
- (b) Nalcor and its subsidiaries have issued 19 irrevocable letters of credit with a total value of \$36.9 million as per Note 14.1.
- (c) Outstanding commitments for capital projects, excluding those related to Oil and Gas, total approximately \$2.1 billion as at December 31, 2016 (2015 - \$2.8 billion). Outstanding commitments related to pre-funded equity requirements associated with the Project Finance Agreements total approximately \$3.3 billion as at December 31, 2016 (2015 - \$0.7 billion).

- (d) LCP has the following sinking fund instalments due for the next five years:

<i>(millions of dollars)</i>	2017	2018	2019	2020	2021
Sinking fund instalments	-	53.7	107.4	107.4	107.4

- (e) Oil and Gas has the following commitments as a result of its joint venture partnerships:

<i>(millions of Canadian dollars)</i>	Operating	Capital	Total Commitments
2017	28.9	37.5	66.4
2018	13.6	-	13.6
2019	9.4	-	9.4
2020	9.2	-	9.2
2021	8.8	-	8.8

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- (f) Hydro has entered into a number of long-term power purchase agreements as follows:

Type	Rating	Effective Date	Term
Hydroelectric	175 kW	1988	Continual
Hydroelectric	3 MW	1995	25 years
Hydroelectric	4 MW	1998	25 years
Hydroelectric	300 MW	1998	43 years
Cogeneration	15 MW	2003	20 years
Wind	390 MW	2004	15 years
Wind	27 MW	2008	20 years
Wind	27 MW	2009	20 years
Wind	300 kW	2010	Continual
Hydroelectric	225 MW	2015	25.5 years

- (g) Estimated payments due in each of the next five years are as follows:

<i>(millions of dollars)</i>	2017	2018	2019	2020	2021
Power purchases	74.0	74.8	76.8	78.4	79.6

- (h) In 2016, Hydro purchased Wabush Mines' rights to the land and assets that comprise the Wabush Terminal Station and a short section of two 230 kV transmission lines that supply this Station. As part of this transaction, Wabush Mines also disclaimed its Crown lease on which another section of 230 kV transmission corridor is located, and Hydro has since applied for a Crown lease for this corridor. All other transmission infrastructure which supplies Labrador West is on land currently subject to a Crown lease to Churchill Falls. Hydro will be filing an application with the PUB for approval of long-term Crown leases and subleases from Churchill Falls for the two 230 kV transmission lines and some terminal equipment serving Labrador West and for the acquisition from Churchill Falls and Twin Falls of some associated terminal station equipment and spares.
- (i) In 2014, Hydro entered into three Capacity Assistance Agreements, one with Vale Newfoundland & Labrador Limited (Vale) and two with Corner Brook Pulp and Paper Limited (CBPP) for the purchase of relief power up to 15.8 MW, 60 MW and 30 MW, respectively, during the winter period. In 2016, Hydro also entered into two new Capacity Assistance Agreements, one with Praxair and a second agreement with Vale for the purchase of relief power up to 5MW and 6MW, respectively. All five agreements have a supply period defined in the agreements as December 1 to March 31 for each contract year, concluding March 2018. Payment for services will be dependent on the successful provision of capacity assistance for the winter period by Vale, CBPP and Praxair.
- (j) In December 2016, Energy Marketing entered into two, one-year agreements with a transmission provider for 22MW of firm transmission rights. Estimated payments in 2017 are \$1.1 million USD.
- (k) Energy Marketing holds firm transmission rights with a number of counterparties in order to gain access to export markets. As at December 31, 2016, commitments for transmission rights total \$3.2 million for 2017. No transmission rights held by Energy Marketing extend beyond December 31, 2017.
- (l) As part of the LIL Project Finance Agreement (PFA), LIL LP has pledged its current and future assets as security to the Collateral Agent. Under the terms and conditions of the Project Trust PFA, LIL LP has also provided a guarantee of the Project Trust's payment obligations to the Collateral Agent for the benefit of the LIL Funding Trust.
- (m) As part of the Muskrat Falls/Labrador Transmission Assets PFA, Muskrat Falls and Labrador Transco have pledged its present and future assets as security to the Collateral Agent.

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- (n) Under the terms of the Newfoundland and Labrador Development Agreement (NLDA), LIL GP has certain responsibilities and provisions of duty with which it must comply in its role as the general partner. Any failure of LIL GP to comply with the NLDA will result in Nalcor indemnifying Emera NL for any losses sustained.
- (o) The minimum lease payments associated with the lease arrangement of Bull Arm Fabrication's assets and facilities to be received over the next five years will be as follows:

<i>(millions of Canadian dollars)</i>	2017	2018	2019	2020	2021	Thereafter
Minimum lease payments	22.0	3.6	-	-	-	-

32. CAPITAL MANAGEMENT

Nalcor's principal business requires ongoing access to capital in order to maintain assets and ensure the continuity of its operations as a going concern. Nalcor also requires access to capital to fund its various development activities relating to Oil and Gas and the Lower Churchill Project. Therefore, Nalcor's primary objective when managing capital is to ensure ready access to capital at a reasonable cost, to minimize its cost of capital within the confines of established risk parameters, and to safeguard Nalcor's ability to continue as a going concern.

The capital managed by Nalcor is comprised of debt (long-term debentures, promissory notes, bank credit facilities and Class B limited partnership units) and equity (share capital, shareholder contributions, reserves and retained earnings).

A summary of the consolidated capital structure is outlined below:

<i>As at December 31 (millions of Canadian dollars)</i>	2016	2015		
Debt				
Sinking funds (Hydro portion only)	(267.0)	(242.6)		
Short-term borrowings	435.0	97.0		
Current portion of long-term debt	142.6	233.4		
Long-term debt	5,872.8	6,008.1		
Class B limited partnership units	399.1	207.4		
	6,582.5	6,303.3	60.7%	64.5%
Equity				
Share capital	122.5	122.5		
Shareholder contributions	2,860.7	2,204.3		
Reserves	6.5	11.8		
Retained earnings	1,273.0	1,136.7		
	4,262.7	3,475.3	39.3%	35.5%
Total Debt and Equity	10,845.2	9,778.6	100.0%	100.0%

Nalcor's committed operating facility has covenants restricting the issuance of debt such that the unconsolidated debt to total capitalization ratio cannot exceed 70.0%. The covenants further stipulate that the debt service coverage ratio should at all times be greater than 1.5 on an unconsolidated basis. As at December 31, 2016, Nalcor was in compliance with these covenants.

32.1 Hydro

Hydro's approach to capital management encompasses various factors including monitoring the percentage of floating rate debt in the total debt portfolio, the weighted average term to maturity of its overall debt portfolio, its percentage of debt to debt plus equity, and its interest coverage.

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For the regulated portion of Hydro's operations, Management targets a capital structure comprised of 75% debt and 25% equity, a ratio which Management believes to be optimal with respect to its cost of capital. This capital structure is maintained by a combination of dividend policy, shareholder contributions and debt issuance. The issuance of any new debt with a term greater than one year requires prior approval of the PUB.

Legislation stipulates that the total of the short-term loans issued by Hydro and outstanding at any time shall not exceed a limit as fixed by the Lieutenant-Governor in Council. Short-term loans are those loans issued with a term not exceeding two years. The current limit is set at \$300.0 million and \$210.0 million is outstanding as at December 31, 2016 (2015 - \$97.0 million). Issuance of short-term borrowings and long-term debt by Hydro is further restricted by the Hydro Corporation Act, 2007, as amended. This Act limits Hydro's total government guaranteed borrowings to \$2.1 billion (2015 - \$1.6 billion) at any point in time.

32.2 Oil and Gas

Oil and Gas' objective when managing capital is to maintain the ability to fund operating costs and expenditures related to development and production assets, on a timely basis. Oil and Gas maintains an unsecured demand credit facility, which is used to finance operations in the short-term. Long-term capital includes share capital, shareholder contributions and retained earnings. Oil and Gas' future requirements for capital are expected to decline as construction on existing joint venture projects decreases. During this time, it is expected that Oil and Gas' cash flow from operations will be sufficient to fund its capital needs. Additional requirements will be funded through Oil and Gas' credit facility.

32.3 Energy Marketing

Energy Marketing's objective when managing capital is to maintain its ability to continue as a going concern. Energy Marketing's capital consists of shareholders' equity, specifically, share capital, reserves and retained earnings. Capital resource requirements are limited to working capital needs, which are funded through cash from operations, support from its parent, and a \$20.0 million demand operating facility with its primary banker.

32.4 Bull Arm

Bull Arm Fabrication's objective when managing capital is to maintain its ability to continue as a going concern. The focus of the capital management policy is to provide flexibility to ensure cash continues to be available to satisfy capital requirements. Prior to January 2009, net earnings received were payable to the Province. From January 2009 to December 2012, earnings were retained by Bull Arm Fabrication. In 2013, Bull Arm Fabrication implemented its Board approved dividend policy of paying dividends to Nalcor when, together, cash and short-term investment balances exceed \$1.0 million, an amount which would provide coverage for approximately 12 months of operating expenses assuming no cash inflows.

32.5 Churchill Falls

Churchill Falls' objective when managing capital is to maintain its ability to continue as a going concern. Churchill Falls' requirements for capital in the future are expected to increase, coincident with the aging of the plant and related infrastructure and the execution of the long-term asset management plan. The focus of the capital management policy is to provide flexibility to ensure cash continues to be available to satisfy capital requirements. Managing the level of dividend payments is a key aspect of ensuring the availability of funding to maintain the plant and infrastructure.

At present, the capital position of Churchill Falls is comprised entirely of equity capital (issued capital, shareholder contributions, reserves and retained earnings). The capital structure is adjusted through the amount of dividends paid to shareholders.

32.6 Muskrat Falls and Labrador Transco

Long-term capital includes share capital and contributed capital, net of deficit. Muskrat Falls' and Labrador Transco's objectives for managing capital are to maintain its ability to continue as a going concern and to ensure timely payment of its contractual obligations as they relate to the construction of the Muskrat Falls hydroelectric facility and the LTA. Muskrat Falls' and Labrador Transco's future requirements for capital are expected to continue to increase as construction progresses. During this time, it is expected that proceeds from the MF/LTA Construction Facility and contributed capital will be sufficient to fund the development

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of the Muskrat Falls hydroelectric facility and the LTA. Additional requirements will be funded entirely through shareholder contributions. Nalcor, as well as the Province, have provided guarantees of equity support in relation to the construction of the Muskrat Falls hydroelectric facility and the LTA. These guarantees, together with the proceeds from long-term debt, will ensure sufficient funds are available to finance construction.

32.7 LIL LP

The capital structure of the Partnership is comprised of partner capital (issued units, cash calls and deficit) and long-term debt. The capital structure is adjusted through the amount of distributions paid to the Partners as well as capital contributions.

The Partnership's objective when managing capital is to fund the construction of the LIL while providing its partners a required return. The Partnership's requirements for capital in the future are expected to increase, coincident with the development of the LIL. The focus of the capital management policy is to provide flexibility to ensure cash continues to be available to satisfy capital requirements. Managing cash calls from the limited partners is a key aspect of ensuring the availability of funding to develop the LIL. Nalcor, as well as the Province of Newfoundland and Labrador, have provided guarantees to ensure partner contributions in relation to the construction of the LIL. These partner contributions, together with the proceeds from long-term debt, will be sufficient to fund the development and construction of the LIL.

33. SUPPLEMENTARY CASH FLOW INFORMATION

<i>For the year ended December 31 (millions of Canadian dollars)</i>	2016	2015
Trade and other receivables	(22.6)	(21.7)
Prepayments	3.8	8.1
Inventories	(15.2)	19.2
Trade and other payables	164.6	325.0
Changes in non-cash working capital balances	130.6	330.6
Related to:		
Operating activities	(47.0)	24.4
Investing activities	177.6	306.2
	130.6	330.6

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34. SEGMENT INFORMATION

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

<i>(millions of Canadian dollars)</i>	Hydro Regulated	Churchill Falls	Oil and Gas	Energy Marketing	Bull Arm	Phase 1 Lower Churchill Project	Corporate and Other Activities	Inter- Segment	Total
For the year ended December 31, 2016									
Energy sales	511.2	96.4	130.9	83.3	-	-	-	(42.9)	778.9
Other revenue	3.8	0.5	9.3	6.0	21.3	-	-	4.3	45.2
Revenue	515.0	96.9	140.2	89.3	21.3	-	-	(38.6)	824.1
Fuels	167.5	-	-	-	-	-	-	-	167.5
Power purchased	60.2	-	-	42.9	-	-	-	(42.3)	60.8
Operating costs	124.5	44.4	8.1	11.8	1.2	1.3	16.0	-	207.3
Oil production, marketing and transportation costs	-	-	26.3	-	-	-	-	-	26.3
Transmission rental and market fees	-	-	-	22.1	-	-	-	-	22.1
Depreciation, depletion, amortization and impairment	68.0	16.7	48.5	0.4	-	-	1.4	-	135.0
Exploration and evaluation	-	-	1.5	-	-	-	-	-	1.5
Net finance (income) expense	70.9	(1.0)	3.2	0.2	-	(1.9)	0.7	-	72.1
Other (income) expense	5.7	0.4	(5.0)	(5.6)	0.2	0.3	-	-	(4.0)
Preferred dividends	-	(4.3)	-	-	-	-	-	4.3	-
Profit (loss) before regulatory adjustments	18.2	40.7	57.6	17.5	19.9	0.3	(18.1)	(0.6)	135.5
Regulatory adjustments	(0.8)	-	-	-	-	-	-	-	(0.8)
Profit (loss) for the year	19.0	40.7	57.6	17.5	19.9	0.3	(18.1)	(0.6)	136.3
Capital expenditures*	218.8	40.9	208.2	-	-	2,776.5	5.5	-	3,249.9
Total assets	2,442.4	559.8	1,243.0	14.3	4.0	9,499.7	577.2	(278.9)	14,061.5

*Capital expenditures include non-cash additions of \$485.2 million related to the Maritime Link and \$23.6 million related to Class B Limited Partnership Unit accrued interest. Total assets include total-to-date amounts of \$1,146.5 million related to the Maritime Link and \$44.8 million related to Class B Limited Partnership Unit accrued interest.

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<i>(millions of Canadian dollars)</i>	Hydro Regulated	Churchill Falls	Oil and Gas	Energy Marketing	Bull Arm	Phase 1 Lower Churchill Project	Corporate and Other Activities	Inter- Segment	Total
For the year ended December 31, 2015									
Energy sales	582.1	100.8	30.6	89.2	-	-	-	(42.0)	760.7
Other revenue	3.4	0.5	14.6	6.0	20.5	-	0.1	4.7	49.8
Revenue	585.5	101.3	45.2	95.2	20.5	-	0.1	(37.3)	810.5
Fuels	192.8	-	-	-	-	-	-	-	192.8
Power purchased	60.7	-	-	42.1	-	-	-	(41.5)	61.3
Operating costs	151.7	45.2	10.2	12.3	1.3	1.4	21.4	-	243.5
Oil production, marketing and transportation costs	-	-	12.1	-	-	-	-	-	12.1
Transmission rental and market fees	-	-	-	21.4	-	-	-	-	21.4
Depreciation, depletion, amortization and impairment	63.8	15.1	79.7	0.1	-	-	0.5	-	159.2
Exploration and evaluation	-	-	1.0	-	-	-	-	-	1.0
Net finance (income) expense	73.7	(1.1)	0.7	0.1	-	(0.6)	0.7	-	73.5
Other (income) expense	10.4	1.9	(10.0)	(3.3)	2.3	2.5	(0.6)	-	3.2
Share of loss of joint arrangement	-	0.3	-	-	-	-	-	-	0.3
Preferred dividends	-	(4.7)	-	-	-	-	-	4.7	-
Profit (loss) before regulatory adjustments	32.4	44.6	(48.5)	22.5	16.9	(3.3)	(21.9)	(0.5)	42.2
Regulatory adjustments	58.2	-	-	-	-	-	-	-	58.2
(Loss) profit for the year	(25.8)	44.6	(48.5)	22.5	16.9	(3.3)	(21.9)	(0.5)	(16.0)
Capital expenditures	135.1	36.0	221.2	0.2	-	2,359.9	7.4	-	2,759.8
Total assets	2,244.5	532.1	1,034.1	2.0	2.1	8,182.9	357.7	(33.7)	12,321.7

*Capital expenditures include non-cash additions of \$329.0 million related to the Maritime Link and \$9.6 million related to Class B Limited Partnership Unit accrued interest.
Total assets include total-to-date amounts of \$661.3 million related to the Maritime Link and \$21.2 million related to Class B Limited Partnership Unit accrued interest.

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35. PRIOR PERIOD ADJUSTMENTS

The January 1, 2015 and December 31, 2015 figures have been restated as a result of a misstatement relating to the calculation of the other post-employment benefit (OPEB) health and dental liabilities for retirees. The December 31, 2015 figures have been restated to reduce employee future benefits liability by \$19.2 million and increase opening retained earnings by \$9.7 million and reserves by \$9.5 million.

The following table summarizes the adjustments to the affected accounts from the previously issued 2015 audited consolidated financial statements to the current year comparative figures:

<i>(millions of Canadian dollars)</i>	Previously stated 2015	2015 Adjustment	Restated 2015
Statement of Financial Position			
Employee future benefits liability, Balance at December 31, 2015	(135.3)	19.2	(116.1)
Reserves	(2.3)	(9.5)	(11.8)
Retained earnings	(1,127.0)	(9.7)	(1,136.7)
Statement of Profit and Comprehensive Income			
Operating costs*	278.9	(1.9)	277.0
Regulatory adjustments	59.5	(1.3)	58.2
Loss for the year	(19.2)	3.2	(16.0)
Statement of Changes in Equity			
Reserves, Balance at January 1, 2015	(56.3)	23.4	(32.9)
Retained Earnings, Balance at January 1, 2015	1,146.2	6.5	1,152.7
Actuarial gain on employee future benefits	18.2	(12.6)	5.6
Regulatory adjustment	1.7	(1.3)	0.4
Consolidated Statement of Cash Flows			
Employee future benefits	9.0	(2.3)	6.7

* See Note 36 for additional comparative figures changes impacting operating costs

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36. COMPARATIVE FIGURES

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

<i>(millions of Canadian dollars)</i>	Previously reported	Current portion of reserve fund reclass	Other long-term assets presentation	Intellectual property reclass	Financial purchases presentation	Cost recovery reclass	Production cost reclass	Transmission rental and market fee reclass	Reclassified balance
Statement of Financial Position									
Current portion of other long-term assets	1.6	10.8							12.4
Property, plant and equipment	8,317.6			6.9					8,324.5
Intangible assets	56.2			(6.9)					49.3
Investment property	1.0		(1.0)						-
Investment in joint arrangement	1.2		(1.2)						-
Other long-term assets	326.2	(10.8)	2.2						317.6
Deferred contributions	11.6			(0.5)					11.1
Shareholder contributions	2,203.8			0.5					2,204.3
Statement of Profit and Other Comprehensive Income									
Energy sales	761.9				(1.2)				760.7
Other revenue	50.0					(0.2)			49.8
Power purchased	62.8				(1.2)			(0.3)	61.3
Operating costs	278.9					(0.2)	(12.1)	(21.1)	245.5
Oil production, marketing and transportation costs	-						12.1	-	12.1
Transmission rental	-							21.4	21.4

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37. SUBSEQUENT EVENTS

On January 11, 2017, the \$225.0 million promissory note with Nalcor was repaid with a new promissory note, which expires March 31, 2017 and has an interest rate of 0.951%. Hydro intends to refinance this loan in the coming months with a long-term debt issuance in the capital markets.

On January 13, 2017, Hydro re-opened its Series AF debentures and sold \$300.0 million of new debentures to its underwriting syndicate for net proceeds of \$284.0 million.

On January 24, 2017, the irrevocable letter of credit for \$0.3 million, issued as a performance guarantee in relation to the Department of Fisheries and Oceans Fish Habitat Compensation Program, was cancelled by the beneficiary as it was no longer required.

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