

NEWFOUNDLAND AND LABRADOR HYDRO
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
March 31, 2015
(Unaudited)

DIRECTORS

KEN MARSHALL
President – Atlantic Region
Rogers Communications

LEO ABBASS
Corporate Director

ERIN BREEN*
Partner, Simmons+ Partners Defence

EDMUND MARTIN
President and Chief Executive Officer

TOM CLIFT
Professor
Faculty of Business Administration
Memorial University of Newfoundland and Labrador

GERALD SHORTALL
Chartered Accountant
Corporate Director

OFFICERS

KEN MARSHALL
Chairperson

EDMUND MARTIN
President and Chief Executive Officer

DERRICK STURGE
Vice President, Finance and Chief Financial Officer

GERARD McDONALD
Vice President, Human Resources and Organizational Effectiveness

JOHN MacISAAC
Vice President, Project Execution and Technical Services

GILBERT BENNETT
Vice President, Lower Churchill Project

ROB HENDERSON
Vice President, Newfoundland and Labrador Hydro

PAUL HUMPHRIES
Vice President, System Operations and Planning

WAYNE CHAMBERLAIN
General Counsel and Corporate Secretary

PETER HICKMAN
Assistant Corporate Secretary

SCOTT PELLE
Corporate Treasurer

CARLA RUSSELL
General Manager, Finance

HEAD AND CORPORATE OFFICE

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* Resigned April 15, 2015

NEWFOUNDLAND AND LABRADOR HYDRO
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(Unaudited)

| <i>As at (millions of Canadian dollars)</i> | Notes | March 31 2015 | December 31 2014 |
|---|-------|------------------|---------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | | 17.5 | 25.4 |
| Short-term investments | | 18.1 | 3.3 |
| Trade and other receivables | | 113.2 | 105.0 |
| Inventories | | 92.0 | 97.1 |
| Prepayments | | 9.9 | 5.8 |
| Derivative assets | 13 | 4.5 | 2.7 |
| Total current assets | | 255.2 | 239.3 |
| Non-current assets | | | |
| Property, plant and equipment | 3 | 2,039.1 | 2,037.9 |
| Other long-term assets | 5 | 282.0 | 262.9 |
| Investment in joint arrangement | | 1.5 | 1.5 |
| Total assets | | 2,577.8 | 2,541.6 |
| Regulatory deferrals | 4 | 124.6 | 124.2 |
| Total assets and regulatory deferrals | | 2,702.4 | 2,665.8 |
| LIABILITIES AND EQUITY | | | |
| Current liabilities | | | |
| Short-term borrowings | | 42.0 | 53.0 |
| Trade and other payables | | 121.0 | 151.3 |
| Current portion of long-term debt | 6 | 8.4 | 8.4 |
| Deferred credits | | 0.9 | 0.7 |
| Current portion of deferred contributions | 7 | 0.8 | 0.8 |
| Derivative liabilities | 13 | - | 0.2 |
| Total current liabilities | | 173.1 | 214.4 |
| Non-current liabilities | | | |
| Long-term debt | 6 | 1,238.1 | 1,239.3 |
| Deferred contributions | 7 | 11.3 | 11.4 |
| Decommissioning liabilities | 8 | 28.1 | 28.0 |
| Long-term payables | | 0.4 | 0.7 |
| Employee benefits liability | 9 | 129.1 | 127.7 |
| Total liabilities | | 1,580.1 | 1,621.5 |
| Shareholder's equity | | | |
| Share capital | 10 | 22.5 | 22.5 |
| Shareholder contributions | 10 | 118.6 | 118.6 |
| Reserves | | 6.8 | (4.8) |
| Retained earnings | | 674.2 | 655.9 |
| Total equity | | 822.1 | 792.2 |
| Regulatory deferrals | 4 | 300.2 | 252.1 |
| Total liabilities, equity and regulatory deferrals | | 2,702.4 | 2,665.8 |

See accompanying notes

Commitments and contingencies (Note 15)

NEWFOUNDLAND AND LABRADOR HYDRO
CONSOLIDATED STATEMENT OF PROFIT AND COMPREHENSIVE INCOME
(Unaudited)

| <i>For the period ended March 31 (millions of Canadian dollars)</i> | Notes | Three months ended | |
|---|-------|---------------------------|---------|
| | | 2015 | 2014 |
| Energy sales | | 269.2 | 255.1 |
| Other revenue | | 2.2 | 2.2 |
| Revenue | | 271.4 | 257.3 |
| Fuels | | (81.3) | (118.0) |
| Power purchased | | (19.2) | (22.7) |
| Operating costs | 11 | (53.7) | (50.8) |
| Depreciation | 3 | (19.1) | (17.6) |
| Net finance income and expense | 12 | (20.1) | (22.0) |
| Other income and expense | | 2.3 | (5.9) |
| Share of profit of joint arrangement | | - | 0.1 |
| Profit, before regulatory adjustments | | 80.3 | 20.4 |
| Regulatory adjustments | 4 | (47.7) | 2.8 |
| Profit for the period | | 32.6 | 23.2 |
| Other comprehensive income for the period | | 11.6 | 4.6 |
| Total comprehensive income for the period | | 44.2 | 27.8 |

See accompanying notes

NEWFOUNDLAND AND LABRADOR HYDRO
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(Unaudited)

| <i>(millions of Canadian dollars)</i> | Note | Share Capital | Shareholder Contributions | Fair Value Reserve | Employee Benefit Reserve | Retained Earnings | Total |
|--|-----------|------------------|------------------------------|-----------------------|--------------------------------|----------------------|---------------|
| Balance at January 1, 2015 | | 22.5 | 118.6 | 41.3 | (46.1) | 655.9 | 792.2 |
| Profit for the period | | - | - | - | - | 32.6 | 32.6 |
| Other comprehensive income | | | | | | | |
| Net change in fair value of available-for-sale financial instruments | | - | - | 13.9 | - | - | 13.9 |
| Net change in fair value of financial instruments reclassified to profit or loss | | - | - | (2.3) | - | - | (2.3) |
| Total comprehensive income for the period | | - | - | 11.6 | - | 32.6 | 44.2 |
| Dividends | 10 | - | - | - | - | (14.3) | (14.3) |
| Balance at March 31, 2015 | | 22.5 | 118.6 | 52.9 | (46.1) | 674.2 | 822.1 |
| Balance at January 1, 2014 | | 22.5 | 118.4 | 24.9 | (30.4) | 625.7 | 761.1 |
| Profit for the period | | - | - | - | - | 23.2 | 23.2 |
| Other comprehensive income | | | | | | | |
| Net change in fair value of available-for-sale financial instruments | | - | - | 7.4 | - | - | 7.4 |
| Net change in fair value of financial instruments reclassified to profit or loss | | - | - | (2.8) | - | - | (2.8) |
| Total comprehensive income for the period | | - | - | 4.6 | - | 23.2 | 27.8 |
| Dividends | 10 | - | - | - | - | (13.0) | (13.0) |
| Balance at March 31, 2014 | | 22.5 | 118.4 | 29.5 | (30.4) | 635.9 | 775.9 |

See accompanying notes

NEWFOUNDLAND AND LABRADOR HYDRO
CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

| <i>For the period ended March 31 (millions of Canadian dollars)</i> | Notes | Three months ended | |
|---|-------|--------------------|--------|
| | | 2015 | 2014 |
| Cash provided from (used in) | | | |
| Operating activities | | | |
| Profit for the period | | 32.6 | 23.2 |
| Adjusted for items not involving a cash flow: | | | |
| Depreciation | 3 | 19.1 | 17.6 |
| Accretion | 12 | 0.4 | 0.4 |
| Amortization of deferred contributions | 7 | (0.2) | - |
| Employee benefits | | 1.4 | 0.8 |
| Regulatory adjustments | 4 | 47.7 | (2.8) |
| Loss on disposal of property, plant and equipment | | 0.1 | - |
| Share of profit of joint arrangement | | - | (0.1) |
| Other | | (4.9) | 6.2 |
| | | 96.2 | 45.3 |
| Changes in non-cash working capital balances | 16 | (37.5) | (50.9) |
| Net cash provided from (used in) operating activities | | 58.7 | (5.6) |
| Investing activities | | | |
| Additions to property, plant and equipment | 3 | (20.6) | (16.3) |
| Increase in short-term investments | | (14.8) | (10.5) |
| Increase in sinking funds | | (2.4) | (4.7) |
| Net cash used in investing activities | | (37.8) | (31.5) |
| Financing activities | | | |
| Dividends paid to Nalcor Energy | 10 | (14.3) | (13.0) |
| (Decrease) increase in short-term borrowings | | (11.0) | 42.0 |
| Increase in long-term receivables | | (3.5) | (2.2) |
| Decrease in long-term payable | | (0.3) | (0.2) |
| Decrease (increase) in deferred contributions | | 0.1 | (0.2) |
| Increase in deferred credits | | 0.2 | 0.2 |
| Net cash (used in) provided from financing activities | | (28.8) | 26.6 |
| Net decrease in cash and cash equivalents | | (7.9) | (10.5) |
| Cash and cash equivalents, beginning of period | | 25.4 | 18.0 |
| Cash and cash equivalents, end of period | | 17.5 | 7.5 |

Supplementary cash flow information (Note 16)

See accompanying notes

NEWFOUNDLAND AND LABRADOR HYDRO

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

1. DESCRIPTION OF BUSINESS

Newfoundland and Labrador Hydro (Hydro or the Company) is incorporated under a special act of the Legislature of the Province of Newfoundland and Labrador (the Province). The principal activity of Hydro is the generation, transmission and sale of electricity. Hydro's operations include both regulated and non-regulated activities. Hydro's head office is located in St. John's, Newfoundland and Labrador. Hydro is a 100% owned subsidiary of Nalcor Energy (Nalcor).

Hydro holds interests in the following entities:

A 65.8% interest in Churchill Falls (Labrador) Corporation Limited (Churchill Falls). Churchill Falls is incorporated under the laws of Canada and owns and operates a hydroelectric generating plant and related transmission facilities situated in Labrador which has a rated capacity of 5,428 megawatts (MW).

A 51% interest in Lower Churchill Development Corporation (LCDC), an inactive subsidiary. LCDC is incorporated under the laws of Newfoundland and Labrador and was established with the objective of developing all or part of the hydroelectric potential of the Lower Churchill River.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of Compliance and Basis of Measurement

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting and have been prepared using accounting policies consistent with those used in the preparation of the annual audited consolidated financial statements for the year ended December 31, 2014.

These condensed interim consolidated financial statements do not include all of the disclosures normally found in Hydro's annual audited consolidated financial statements and should be read in conjunction with the annual audited consolidated financial statements. Interim results will fluctuate due to the seasonal nature of electricity demand and water flows, as well as timing and recognition of regulatory items. Due to higher electricity demand during the winter months, revenue from electricity sales is higher during the first and fourth quarters.

These condensed interim 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) financial assets which have been measured at fair value. The condensed interim consolidated financial statements are presented in Canadian dollars and all values rounded to the nearest million, except when otherwise noted.

2.2 Basis of Consolidation

The condensed interim consolidated financial statements include the financial statements of Hydro, its subsidiary company, Lower Churchill Development Corporation (LCDC) and its share of investment in a joint arrangement. Intercompany transactions and balances have been eliminated upon consolidation.

Effective June 18, 1999, Hydro, Churchill Falls, and Hydro-Québec entered into a shareholders' agreement which provided, among other matters, that certain of the strategic operating, financing and investing policies of Churchill Falls be subject to approval jointly by representatives of Hydro and Hydro-Québec on the Board of Directors of Churchill Falls.

Although Hydro holds a 65.8% ownership interest, the agreement changed the nature of the relationship between Hydro and Hydro-Québec, with respect to Churchill Falls, from that of majority and minority shareholders, respectively, to that of a joint operation. Accordingly, Hydro has recognized its share of assets, liabilities and profit or loss in relation to its interest in Churchill Falls subsequent to the effective date of the Shareholders' Agreement. Churchill Falls holds 33.3% of the equity share capital of Twin Falls. This investment is accounted for using the equity method.

NEWFOUNDLAND AND LABRADOR HYDRO

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

3. PROPERTY, PLANT AND EQUIPMENT

| <i>(millions of Canadian dollars)</i> | Generation Plant | Transmission and Distribution | Other | Construction in Progress | Total |
|---------------------------------------|---------------------|-------------------------------------|--------------|-----------------------------|----------------|
| Cost | | | | | |
| Balance at January 1, 2014 | 1,477.2 | 654.9 | 197.4 | 22.4 | 2,351.9 |
| Additions | 0.4 | (0.1) | - | 242.4 | 242.7 |
| Decommissioning liability revisions | 2.2 | 0.1 | - | - | 2.3 |
| Disposals | (2.1) | (1.8) | (1.3) | - | (5.2) |
| Transfers | 48.2 | 57.3 | 18.1 | (123.4) | 0.2 |
| Balance at December 31, 2014 | 1,525.9 | 710.4 | 214.2 | 141.4 | 2,591.9 |
| Additions | - | - | - | 20.6 | 20.6 |
| Disposals | - | (0.1) | - | - | (0.1) |
| Transfers | 96.5 | - | - | (96.5) | - |
| Other adjustments | (0.2) | - | - | - | (0.2) |
| Balance at March 31, 2015 | 1,622.2 | 710.3 | 214.2 | 65.5 | 2,612.2 |
| Depreciation | | | | | |
| Balance at January 1, 2014 | 333.3 | 98.6 | 54.6 | - | 486.5 |
| Depreciation expense | 38.1 | 18.9 | 12.8 | - | 69.8 |
| Disposals | (1.2) | (0.4) | (0.9) | - | (2.5) |
| Transfers | (0.4) | 0.5 | 0.1 | - | 0.2 |
| Balance at December 31, 2014 | 369.8 | 117.6 | 66.6 | - | 554.0 |
| Depreciation expense | 10.7 | 5.3 | 3.1 | - | 19.1 |
| Balance at March 31, 2015 | 380.5 | 122.9 | 69.7 | - | 573.1 |
| Carrying value | | | | | |
| Balance at January 1, 2014 | 1,143.9 | 556.3 | 142.8 | 22.4 | 1,865.4 |
| Balance at December 31, 2014 | 1,156.1 | 592.8 | 147.6 | 141.4 | 2,037.9 |
| Balance at March 31, 2015 | 1,241.7 | 587.4 | 144.5 | 65.5 | 2,039.1 |

NEWFOUNDLAND AND LABRADOR HYDRO

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

4. REGULATORY DEFERRALS

| | January 1 2015 | Regulatory activity | March 31 2015 | Remaining Recovery Settlement Period (years) |
|------------------------------------|-------------------|------------------------|------------------|---|
| Regulatory asset deferrals | | | | |
| Foreign exchange losses | 58.4 | (0.6) | 57.8 | 26.75 |
| Foreign exchange on fuel | 0.3 | 0.2 | 0.5 | n/a |
| Deferred lease costs | 3.7 | 0.7 | 4.4 | n/a |
| 2014 cost deferral | 45.9 | - | 45.9 | n/a |
| Fuel supply deferral | 9.6 | - | 9.6 | n/a |
| Deferred energy conservation costs | 6.3 | 0.1 | 6.4 | n/a |
| | 124.2 | 0.4 | 124.6 | |
| Regulatory liability deferrals | | | | |
| Rate stabilization plan (RSP) | (246.0) | (48.3) | (294.3) | n/a |
| Insurance proceeds (net) | (5.6) | 0.2 | (5.4) | n/a |
| Deferred power purchase savings | (0.5) | - | (0.5) | 12.25 |
| | (252.1) | (48.1) | (300.2) | |

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

| | Three months ended | |
|---|--------------------|--------|
| <i>For the period ended March 31 (millions of Canadian dollars)</i> | 2015 | 2014 |
| RSP amortization | 20.5 | 10.9 |
| Rural rate adjustment | 3.5 | 3.3 |
| RSP fuel deferral | 19.6 | (20.5) |
| RSP interest | 4.7 | 4.6 |
| Total RSP activity | 48.3 | (1.7) |
| Amortization of deferred foreign exchange losses | 0.6 | 0.5 |
| Deferred foreign exchange on fuel | (0.2) | (0.6) |
| Deferred energy conservation | (0.1) | (0.1) |
| Insurance proceeds (net) | (0.2) | (0.1) |
| Deferred lease costs | (0.7) | (0.8) |
| | 47.7 | (2.8) |

5. OTHER LONG-TERM ASSETS

| | March 31 | December 31 |
|---------------------------------------|--------------|-------------|
| <i>(millions of Canadian dollars)</i> | 2015 | 2014 |
| Long-term receivables | 3.8 | 0.3 |
| Reserve fund | 34.5 | 34.2 |
| Sinking funds | 243.7 | 228.4 |
| | 282.0 | 262.9 |

6. DEBT

6.1 Short-term Borrowings

Hydro maintains a \$50.0 million CAD or USD equivalent unsecured demand operating credit facility with its banker and for the period ended March 31, 2015, there were no amounts drawn on this facility (2014 - \$nil).

NEWFOUNDLAND AND LABRADOR HYDRO

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

For the period ended March 31, 2015, there were \$42.0 million in short-term borrowings outstanding (2014 - \$53.0 million).

6.2 Long-term Debt

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

| <i>(millions of Canadian dollars)</i> | Face Value | Coupon Rate % | Year of Issue | Year of Maturity | March 31 2015 | December 31 2014 |
|--|------------|---------------|---------------|------------------|---------------|------------------|
| Hydro | | | | | | |
| V* | 0.3 | 10.50 | 1989 | 2014 | 0.3 | 0.3 |
| X* | 150.0 | 10.25 | 1992 | 2017 | 149.7 | 149.7 |
| Y* | 300.0 | 8.40 | 1996 | 2026 | 294.4 | 294.3 |
| AB* | 300.0 | 6.65 | 2001 | 2031 | 305.9 | 305.9 |
| AD* | 125.0 | 5.70 | 2003 | 2033 | 123.7 | 123.7 |
| AE | 225.0 | 4.30 | 2006 | 2016 | 224.7 | 224.6 |
| AF | 200.0 | 3.60 | 2014 | 2045 | 197.1 | 197.1 |
| Total debentures | 1,300.3 | | | | 1,295.8 | 1,295.6 |
| Less: Sinking fund investments in own debentures | | | | | 49.3 | 47.9 |
| | | | | | 1,246.5 | 1,247.7 |
| Less: payments due within one year | | | | | 8.4 | 8.4 |
| Total debentures | | | | | 1,238.1 | 1,239.3 |

*Sinking funds have been established for these issues.

Hydro's promissory notes and debentures are unsecured and unconditionally guaranteed as to principal and interest and, where applicable, sinking fund payments, by the Province. The Province charges Hydro a guarantee fee of 25 basis points annually on the total debt (net of sinking funds) with a remaining term to maturity less than 10 years and 50 basis points annually on total debt (net of sinking funds) with a remaining term to maturity greater than 10 years. The fee for the period ended March 31, 2015 was \$1.1 million (2014 - \$0.9 million).

Required repayments of long-term debt over the next five years will be as follows:

| <i>(millions of Canadian dollars)</i> | 2016 | 2017 | 2018 | 2019 | 2020 |
|---------------------------------------|-------|-------|------|------|------|
| Long-term debt repayment | 225.0 | 150.0 | - | - | - |

7. DEFERRED CONTRIBUTIONS

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

| <i>(millions of Canadian dollars)</i> | March 31 2015 | December 31 2014 |
|---|---------------|------------------|
| Deferred contributions, beginning of period | 12.2 | 11.3 |
| Additions | 0.1 | 1.7 |
| Amortization | (0.2) | (0.8) |
| Deferred contributions, end of period | 12.1 | 12.2 |
| Less: current portion | (0.8) | (0.8) |
| | 11.3 | 11.4 |

NEWFOUNDLAND AND LABRADOR HYDRO

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

8. DECOMMISSIONING LIABILITIES

Hydro has recognized liabilities associated with the retirement of portions of the HTGS and disposal of Polychlorinated Biphenyls (PCB's).

The reconciliation of the beginning and ending carrying amounts of decommissioning liabilities for March 31, 2015 and December 31, 2014 are as follows:

| <i>(millions of Canadian dollars)</i> | March 31 2015 | December 31 2014 |
|---|--------------------------|---------------------|
| Decommissioning liabilities, beginning of period | 28.0 | 24.8 |
| Liabilities settled | (0.1) | (0.1) |
| Accretion | 0.2 | 1.0 |
| Revisions | - | 2.3 |
| Decommissioning liabilities, end of period | 28.1 | 28.0 |

9. EMPLOYEE BENEFITS LIABILITY

9.1 Pension Plan

Employees participate in the Province's Public Service Pension Plan, a multi-employer defined benefit plan. The employer's contributions of \$1.8 million (2014 - \$1.3 million) are expensed as incurred.

9.2 Other Benefits

Hydro provides group life insurance and health care benefits on a cost shared basis to retired employees, and in certain cases, their surviving spouses, in addition to a severance payment upon retirement. In 2015, cash payments to beneficiaries for its unfunded other employee future benefits were \$1.1 million (2014 - \$1.5 million). An actuarial valuation was performed as at December 31, 2012, with an extrapolation to December 31, 2014. The next actuarial valuation will be performed at December 31, 2015.

| <i>For the period ended March 31 (millions of Canadian dollars)</i> | Three months ended | |
|---|---------------------------|------|
| | 2015 | 2014 |
| Component of benefit cost | | |
| Current service cost | 1.1 | 0.9 |
| Interest cost | 1.4 | 1.4 |
| Total benefit expense for the period | 2.5 | 2.3 |

10. SHAREHOLDER'S EQUITY

10.1 Share Capital

The share capital of Hydro is summarized below:

| <i>(millions of Canadian dollars)</i> | March 31 2015 | December 31 2014 |
|--|--------------------------|---------------------|
| Common shares of par value of \$1 each | | |
| Authorized - 25,000,000 | | |
| Issued and outstanding - 22,503,902 | 22.5 | 22.5 |

10.2 Shareholder Contributions

| <i>(millions of Canadian dollars)</i> | March 31 2015 | December 31 2014 |
|---------------------------------------|--------------------------|---------------------|
| Total contributed capital | 118.6 | 118.6 |

NEWFOUNDLAND AND LABRADOR HYDRO

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

10.3 Dividends

| | Three months ended | |
|---|--------------------|------|
| <i>For the period ended March 31 (millions of Canadian dollars)</i> | 2015 | 2014 |
| Declared during the period | | |
| Final dividend for prior period: \$0.12 per share (2014 - \$0.16) | 2.7 | 3.5 |
| Interim dividend for current period: \$0.52 per share (2014 - \$0.42) | 11.6 | 9.5 |
| | 14.3 | 13.0 |

11. OPERATING COSTS

| | Three months ended | |
|---|--------------------|------|
| <i>For the period ended March 31 (millions of Canadian dollars)</i> | 2015 | 2014 |
| Salaries and benefits expense | 30.6 | 29.9 |
| Transmission rental | 5.0 | 5.0 |
| Maintenance and materials | 6.4 | 5.6 |
| Professional services | 3.3 | 3.5 |
| Rental and royalty expense | 2.6 | 1.9 |
| Travel and transportation | 1.9 | 1.9 |
| Equipment rental | 1.4 | 1.3 |
| Other operating costs | 2.5 | 1.7 |
| | 53.7 | 50.8 |

12. NET FINANCE INCOME AND EXPENSE

| | Three months ended | |
|---|--------------------|-------|
| <i>For the period ended March 31 (millions of Canadian dollars)</i> | 2015 | 2014 |
| Finance income | | |
| Interest on sinking fund | 3.2 | 4.9 |
| Interest on reserve fund | 0.2 | 0.3 |
| Other interest income | 0.2 | 0.1 |
| | 3.6 | 5.3 |
| Finance expense | | |
| Long-term debt | 21.1 | 22.6 |
| Foreign exchange loss | 2.1 | 3.3 |
| Debt guarantee fee | 1.1 | 0.9 |
| Accretion | 0.4 | 0.4 |
| Other | 0.3 | 0.3 |
| | 25.0 | 27.5 |
| Interest capitalized during construction | (1.3) | (0.2) |
| | 23.7 | 27.3 |
| Net finance expense | 20.1 | 22.0 |

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair Value

The estimated fair values of financial instruments as at March 31, 2015 and December 31, 2014 are based on relevant market prices and information available at the time. Fair value estimates are based on valuation techniques which are significantly affected by the assumptions used including the amount and timing of future cash flows and discount rates reflecting various degrees of risk. As such, the fair value estimates below are not necessarily indicative of the amounts that Hydro might receive or incur in actual market transactions.

NEWFOUNDLAND AND LABRADOR HYDRO

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As a significant number of Hydro'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 Hydro as a whole.

Establishing Fair Value

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the nature of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value. For assets and liabilities that are recognized at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. There were no transfers between Level 1, 2 and 3 fair value measurements for the period ended March 31, 2015 and the year ended December 31, 2014.

As of March 31, 2015 and December 31, 2014, Hydro did not have any level 3 instruments.

| | Level | Carrying Value March 31, 2015 | Fair Value | Carrying Value December 31, 2014 | Fair Value |
|--|-------|----------------------------------|------------|-------------------------------------|------------|
| <i>(millions of Canadian dollars)</i> | | | | | |
| Financial assets | | | | | |
| Cash and cash equivalents | 1 | 17.5 | 17.5 | 25.4 | 25.4 |
| Short-term investments | 1 | 18.1 | 18.1 | 3.3 | 3.3 |
| Trade and other receivables | 1 | 113.2 | 113.2 | 105.0 | 105.0 |
| Derivative assets | 2 | 4.5 | 4.5 | 2.7 | 2.7 |
| Sinking funds - investments in same Hydro issue | 2 | 49.3 | 66.2 | 47.9 | 62.3 |
| Sinking funds - other investments | 2 | 243.7 | 243.7 | 228.4 | 228.4 |
| Reserve fund | 2 | 34.5 | 34.5 | 34.2 | 34.2 |
| Long-term receivables | 2 | 3.8 | 4.0 | 0.3 | 0.3 |
| Financial liabilities | | | | | |
| Trade and other payables | 1 | 121.0 | 121.0 | 151.3 | 151.3 |
| Short-term borrowings | 1 | 42.0 | 42.0 | 53.0 | 53.0 |
| Derivative liabilities | 2 | - | - | 0.2 | 0.2 |
| Long-term debt including amount due within one year (before sinking funds) | 2 | 1,295.8 | 1,757.3 | 1,295.6 | 1,694.6 |
| Long-term payables | 2 | 0.4 | 0.4 | 0.7 | 0.8 |

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

NEWFOUNDLAND AND LABRADOR HYDRO

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

14. RELATED PARTY TRANSACTIONS

Hydro enters into various transactions with its parent and other affiliates. These transactions occur in 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 Hydro transacts are as follows:

| Related Party | Relationship |
|--|---|
| Nalcor | 100.0% shareholder of Hydro |
| The Province | 100.0% shareholder of Nalcor |
| Churchill Falls | Joint arrangement of Hydro |
| Twin Falls | Joint venture of Churchill Falls |
| The Churchill Falls (Labrador) Corporation Trust | Created by the Province with Churchill Falls as the beneficiary |
| Nalcor Energy – Bull Arm Fabrication Inc. | Wholly owned subsidiary of Nalcor |
| Nalcor Energy – Oil and Gas Inc. | Wholly owned subsidiary of Nalcor |
| Board of Commissioners of Public Utilities (PUB) | Agency of the Province |
| Labrador-Island Link Limited Partnership | Partnership in which Nalcor owns 75 Class A Units |
| Muskrat Falls Corporation | Wholly owned subsidiary of Nalcor |
| Lower Churchill Management Corporation | Wholly owned subsidiary of Nalcor |
| Nalcor Energy Marketing Corporation | Wholly owned subsidiary of Nalcor |

15. COMMITMENTS AND CONTINGENCIES

Hydro has 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 that Hydro's exposure to such claims and litigation, to the extent not covered by insurance policies or otherwise provided for, is not expected to materially affect its financial position.

Outstanding commitments for capital projects total approximately \$34.6 million as at March 31, 2015 (2014 - \$29.6 million).

16. SUPPLEMENTARY CASH FLOW INFORMATION

| <i>For the period ended March 31 (millions of Canadian dollars)</i> | Three months ended | |
|---|--------------------|--------|
| | 2015 | 2014 |
| Trade and other receivables | (8.2) | (5.7) |
| Prepayments | (4.1) | (2.8) |
| Inventories | 5.1 | (12.9) |
| Trade and other payables | (30.3) | (29.5) |
| Changes in non-cash working capital balances | (37.5) | (50.9) |
| Interest received | 0.6 | 0.8 |
| Interest paid | 34.1 | 34.1 |

NEWFOUNDLAND AND LABRADOR HYDRO

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17. SEGMENT INFORMATION

Hydro operates in four business segments. Hydro regulated activities encompasses sales of electricity to customers within the Province, Churchill Falls operates a hydroelectric generating facility and sells electricity primarily to Hydro-Québec, energy marketing activities which include the sale of electricity to markets outside the Province and other non-regulated energy activities which primarily consist of the investment in a joint arrangement. The designation of segments has been based on a combination of regulatory status and Management accountability. The segments' accounting policies are the same as those previously described in Note 2 of the annual audited consolidated financial statements.

| <i>(millions of Canadian dollars)</i> | Hydro Regulated | Churchill Falls | Energy Marketing | Other | Inter- Segment | Total |
|--|--------------------|--------------------|---------------------|--------------|-------------------|----------------|
| For the three months ended March 31, 2015 | | | | | | |
| Energy sales | 214.3 | 38.8 | 16.1 | - | - | 269.2 |
| Other revenue | 0.9 | 0.1 | - | - | 1.2 | 2.2 |
| Revenue | 215.2 | 38.9 | 16.1 | - | 1.2 | 271.4 |
| Fuels | (81.3) | - | - | - | - | (81.3) |
| Power purchased | (18.2) | - | (1.0) | - | - | (19.2) |
| Operating costs | (34.6) | (12.3) | (6.2) | (0.6) | - | (53.7) |
| Depreciation | (15.5) | (3.6) | - | - | - | (19.1) |
| Net finance income and expense | (19.5) | 0.2 | (0.8) | - | - | (20.1) |
| Other income and expense | - | - | 2.3 | - | - | 2.3 |
| Preferred dividends | - | 1.2 | - | - | (1.2) | - |
| Profit (loss) before regulatory adjustments | 46.1 | 24.4 | 10.4 | (0.6) | - | 80.3 |
| Regulatory adjustments | (47.7) | - | - | - | - | (47.7) |
| (Loss) profit for the period | (1.6) | 24.4 | 10.4 | (0.6) | - | 32.6 |
| Capital expenditures | 18.1 | 2.4 | 0.1 | - | - | 20.6 |
| Total assets | 2,175.3 | 513.6 | 13.5 | - | - | 2,702.4 |
| For the three months ended March 31, 2014 | | | | | | |
| <i>(millions of Canadian dollars)</i> | Hydro Regulated | Churchill Falls | Energy Marketing | Other | Inter- Segment | Total |
| Energy sales | 199.6 | 29.6 | 26.9 | - | (1.0) | 255.1 |
| Other revenue | 1.1 | 0.2 | - | - | 0.9 | 2.2 |
| Revenue | 200.7 | 29.8 | 26.9 | - | (0.1) | 257.3 |
| Fuels | (118.0) | - | - | - | - | (118.0) |
| Power purchased | (22.5) | - | (1.2) | - | 1.0 | (22.7) |
| Operating costs | (32.6) | (11.5) | (6.5) | (0.2) | - | (50.8) |
| Depreciation | (14.1) | (3.5) | - | - | - | (17.6) |
| Net finance income and expense | (22.1) | 0.3 | (0.2) | - | - | (22.0) |
| Other income and expense | - | - | (5.9) | - | - | (5.9) |
| Share in profit of joint venture | - | 0.1 | - | - | - | 0.1 |
| Preferred dividends | - | 0.9 | - | - | (0.9) | - |
| (Loss) profit before regulatory adjustments | (8.6) | 16.1 | 13.1 | (0.2) | - | 20.4 |
| Regulatory adjustments | 2.8 | - | - | - | - | 2.8 |
| (Loss) profit for the period | (5.8) | 16.1 | 13.1 | (0.2) | - | 23.2 |
| Capital expenditures | 11.6 | 4.6 | 0.1 | - | - | 16.3 |
| Total assets | 1,978.4 | 494.6 | 9.6 | - | - | 2,482.6 |