

NEWFOUNDLAND AND LABRADOR HYDRO
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
September 30, 2015
(Unaudited)

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

<i>As at (millions of Canadian dollars)</i>	Notes	September 30 2015	December 31 2014
ASSETS			
Current assets			
Cash and cash equivalents		36.6	25.4
Short-term investments		-	3.3
Trade and other receivables		64.4	105.0
Inventories		76.6	97.1
Prepayments		9.0	5.8
Derivative assets		2.2	2.7
Total current assets		188.8	239.3
Non-current assets			
Property, plant and equipment	3	2,094.9	2,037.9
Other long-term assets	5	274.1	262.9
Investment in joint arrangement		1.4	1.5
Total assets		2,559.2	2,541.6
Regulatory deferrals	4	124.6	124.2
Total assets and regulatory deferrals		2,683.8	2,665.8
LIABILITIES AND EQUITY			
Current liabilities			
Short-term borrowings	6	71.0	53.0
Trade and other payables		104.5	151.3
Current portion of long-term debt	6	8.4	8.4
Deferred credits		0.7	0.7
Current portion of deferred contributions	7	0.8	0.8
Derivative liabilities		-	0.2
Total current liabilities		185.4	214.4
Non-current liabilities			
Long-term debt	6	1,232.5	1,239.3
Deferred contributions	7	11.6	11.4
Decommissioning liabilities	8	28.5	28.0
Long-term payables		1.2	0.7
Employee benefits liability		132.8	127.7
Total liabilities		1,592.0	1,621.5
Shareholder's equity			
Share capital	10	22.5	22.5
Shareholder contributions	10	118.7	118.6
Reserves		(4.2)	(4.8)
Retained earnings		643.6	655.9
Total equity		780.6	792.2
Regulatory deferrals	4	311.2	252.1
Total liabilities, equity and regulatory deferrals		2,683.8	2,665.8

Commitments and contingencies (Note 16)

See accompanying notes

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

<i>For the period ended September 30 (millions of Canadian dollars)</i>	Notes	Three months ended		Nine months ended	
		2015	2014	2015	2014
Energy sales		111.0	104.2	537.2	(Note 19) 509.0
Other revenue		2.1	0.3	6.4	4.3
Revenue		113.1	104.5	543.6	513.3
Fuels		20.3	32.5	137.9	203.7
Power purchased		13.4	13.3	47.2	52.4
Operating costs	11	57.6	54.6	166.8	153.9
Depreciation	3	19.1	16.2	57.2	51.1
Net finance (income) expense	12	17.8	16.1	54.0	53.3
Other (income) expense	13	1.9	4.2	(0.6)	10.2
Share of (profit) loss of joint arrangement		-	(0.1)	0.1	(0.3)
(Loss) profit, before regulatory adjustments		(17.0)	(32.3)	81.0	(11.0)
Regulatory adjustments	4	(16.6)	(23.1)	58.7	(25.4)
(Loss) profit for the period		(0.4)	(9.2)	22.3	14.4
Other comprehensive (loss) income for the period		(2.7)	2.7	0.6	9.4
Total comprehensive (loss) income for the period		(3.1)	(6.5)	22.9	23.8

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		-	-	-	-	22.3	22.3
Other comprehensive income							
Net change in fair value of available-for-sale financial instruments		-	-	7.9	-	-	7.9
Net change in fair value of financial instruments reclassified to profit or loss		-	-	(7.3)	-	-	(7.3)
Total comprehensive income for the period		-	-	0.6	-	22.3	22.9
Shareholder contributions	10	-	0.1	-	-	-	0.1
Dividends	10	-	-	-	-	(34.6)	(34.6)
Balance at September 30, 2015		22.5	118.7	41.9	(46.1)	643.6	780.6
Balance at January 1, 2014		22.5	118.4	24.9	(30.4)	625.7	761.1
Profit for the period		-	-	-	-	14.4	14.4
Other comprehensive income							
Net change in fair value of available-for-sale financial instruments		-	-	17.9	-	-	17.9
Net change in fair value of financial instruments reclassified to profit or loss		-	-	(8.5)	-	-	(8.5)
Total comprehensive income for the period		-	-	9.4	-	14.4	23.8
Dividends	10	-	-	-	-	(40.7)	(40.7)
Balance at September 30, 2014		22.5	118.4	34.3	(30.4)	599.4	744.2

See accompanying notes

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

<i>For the period ended September 30 (millions of Canadian dollars)</i>	Notes	Three months ended		Nine months ended	
		2015	2014	2015	2014
Cash provided from (used in)					
Operating activities					
(Loss) profit for the period		(0.4)	(9.2)	22.3	14.4
Adjusted for items not involving a cash flow:					
Depreciation	3	19.1	16.2	57.2	51.1
Accretion	12	0.3	0.4	1.0	1.2
Amortization of deferred contributions	7	(0.2)	(0.1)	(0.6)	(0.5)
Employee benefits		1.6	1.4	5.1	4.5
Regulatory adjustments	4	(16.6)	(23.1)	58.7	(25.4)
Loss on disposal of property, plant and equipment		0.4	0.6	1.1	1.0
Share of (profit) loss of joint arrangement		-	(0.1)	0.1	(0.3)
Other		(0.1)	0.7	(9.3)	(7.6)
		4.1	(13.2)	135.6	38.4
Changes in non-cash working capital balances	17	(1.1)	0.7	11.1	24.2
Net cash provided from (used in) operating activities		3.0	(12.5)	146.7	62.6
Investing activities					
Additions to property, plant and equipment	3	(46.0)	(68.7)	(115.8)	(167.5)
Decrease in short-term investments		18.1	11.9	3.3	-
(Increase) decrease in sinking funds		(5.8)	(9.1)	(8.3)	113.4
Decrease in reserve fund		-	0.6	-	0.8
Proceeds on disposal of property, plant and equipment		0.4	-	0.5	-
Net cash used in investing activities		(33.3)	(65.3)	(120.3)	(53.3)
Financing activities					
Issuance/retirement of long-term debt		-	197.1	-	72.4
Dividends paid to Nalcor Energy	10	(12.2)	(12.1)	(34.6)	(40.7)
Increase (decrease) in short-term borrowings		43.0	(103.5)	18.0	(41.0)
Decrease in long-term receivables		1.7	2.3	-	1.7
Decrease in long-term payable		1.0	1.0	0.5	0.5
Increase in shareholder contributions		0.1	-	0.1	-
Increase in deferred contributions		0.4	0.3	0.8	0.7
(Decrease) increase in deferred credits		(0.1)	-	-	0.2
Net cash provided from (used in) financing activities		33.9	85.1	(15.2)	(6.2)
Net increase in cash and cash equivalents		3.6	7.3	11.2	3.1
Cash and cash equivalents, beginning of period		33.0	13.8	25.4	18.0
Cash and cash equivalents, end of period		36.6	21.1	36.6	21.1

Supplementary cash flow information (Note 17)

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 51.0% 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 consolidated interim 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 consolidated interim 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 consolidated interim 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 consolidated interim 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 consolidated interim financial statements include the financial statements of Hydro, its subsidiary company, LCDC, and its share of investments in a joint operation and 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 33.33% of the equity share capital of Twin Falls Power Corporation Limited. (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	-	-	0.1	115.7	115.8
Disposals	(1.6)	(0.8)	(0.8)	-	(3.2)
Transfers	118.7	-	1.5	(120.2)	-
Balance at September 30, 2015	1,643.0	709.6	215.0	136.9	2,704.5
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	32.1	15.7	9.4	-	57.2
Disposals	(0.7)	(0.5)	(0.4)	-	(1.6)
Balance at September 30, 2015	401.2	132.8	75.6	-	609.6
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 September 30, 2015	1,241.8	576.8	139.4	136.9	2,094.9

NEWFOUNDLAND AND LABRADOR HYDRO

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

4. REGULATORY DEFERRALS

	January 1 2015	Regulatory activity	September 30 2015	Remaining Recovery Settlement Period (years)
Regulatory asset deferrals				
Foreign exchange losses	58.4	(1.6)	56.8	26.25
Foreign exchange on fuel	0.3	0.2	0.5	n/a
Deferred lease costs	3.7	1.4	5.1	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	0.4	6.7	n/a
	124.2	0.4	124.6	
Regulatory liability deferrals				
Rate stabilization plan (RSP)	(246.0)	(59.6)	(305.6)	n/a
Insurance proceeds (net)	(5.6)	0.4	(5.2)	n/a
Deferred power purchase savings	(0.5)	0.1	(0.4)	11.75
	(252.1)	(59.1)	(311.2)	

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

<i>For the period ended September 30 (millions of Canadian dollars)</i>	Three months ended		Nine months ended	
	2015	2014	2015	2014
RSP amortization	(2.2)	8.7	31.1	26.5
Rural rate adjustment	(0.7)	2.1	5.4	7.7
RSP fuel deferral	(19.2)	(36.8)	7.0	(69.6)
RSP interest	5.8	4.4	16.1	13.7
Total RSP activity	(16.3)	(21.6)	59.6	(21.7)
Amortization of deferred foreign exchange losses	0.5	0.5	1.6	1.6
Deferred foreign exchange on fuel	(0.4)	(0.4)	(0.2)	(0.6)
Deferred energy conservation	(0.3)	(0.7)	(0.4)	(1.3)
Deferred purchased power savings	-	-	(0.1)	-
Insurance proceeds (net)	(0.1)	(0.1)	(0.4)	(0.4)
Deferred lease costs	-	(0.8)	(1.4)	(3.0)
	(16.6)	(23.1)	58.7	(25.4)

5. OTHER LONG-TERM ASSETS

	September 30 2015	December 31 2014
<i>(millions of Canadian dollars)</i>		
Long-term receivables	0.3	0.3
Reserve fund	34.2	34.2
Sinking funds	239.6	228.4
	274.1	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 as at September 30, 2015, \$0.7 million was drawn on this facility (2014 - \$nil), presented with cash and cash equivalents.

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In addition, Hydro used promissory notes to fulfil its short-term funding requirements. As at September 30, 2015, there were \$71.0 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	September 30 2015	December 31 2014
Hydro						
V*	0.3	10.50	1989	2014	0.3	0.3
X*	150.0	10.25	1992	2017	149.8	149.7
Y*	300.0	8.40	1996	2026	294.5	294.3
AB*	300.0	6.65	2001	2031	305.8	305.9
AD*	125.0	5.70	2003	2033	123.7	123.7
AE	225.0	4.30	2006	2016	224.8	224.6
AF	200.0	3.60	2014	2045	197.1	197.1
Total debentures	1,300.3				1,296.0	1,295.6
Less: Sinking fund investments in own debentures					55.1	47.9
					1,240.9	1,247.7
Less: payments due within one year					8.4	8.4
Total debentures					1,232.5	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 September 30, 2015 was \$3.4 million (2014 - \$2.8 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>	September 30 2015	December 31 2014
Deferred contributions, beginning of period	12.2	11.3
Additions	0.8	1.7
Amortization	(0.6)	(0.8)
Deferred contributions, end of period	12.4	12.2
Less: current portion	(0.8)	(0.8)
	11.6	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 Holyrood Thermal Generating Station and disposal of Polychlorinated Biphenyls.

The reconciliation of the beginning and ending carrying amounts of decommissioning liabilities for September 30, 2015 and December 31, 2014 are as follows:

	September 30	December 31
<i>(millions of Canadian dollars)</i>	2015	2014
Decommissioning liabilities, beginning of period	28.0	24.8
Liabilities settled	(0.1)	(0.1)
Accretion	0.6	1.0
Revisions	-	2.3
Decommissioning liabilities, end of period	28.5	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 \$6.7 million (2014 - \$4.7 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 \$2.4 million (2014 - \$2.3 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.

	Three months ended		Nine months ended	
<i>For the period ended September 30 (millions of Canadian dollars)</i>	2015	2014	2015	2014
Component of benefit cost				
Current service cost	1.2	0.9	3.4	2.7
Interest cost	1.3	1.3	4.1	4.1
Total benefit expense for the period	2.5	2.2	7.5	6.8

10. SHAREHOLDER'S EQUITY

10.1 Share Capital

The share capital of Hydro is summarized below:

	September 30	December 31
<i>(millions of Canadian dollars)</i>	2015	2014
Common shares of par value of \$1 each		
Authorized - 25,000,000		
Issued and outstanding - 22,503,942	22.5	22.5

10.2 Shareholder Contributions

	September 30	December 31
<i>(millions of Canadian dollars)</i>	2015	2014
Total shareholder contributions	118.7	118.6

NEWFOUNDLAND AND LABRADOR HYDRO

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

10.3 Dividends

<i>For the period ended September 30 (millions of Canadian dollars)</i>	Three months ended		Nine months ended	
	2015	2014	2015	2014
Declared during the period:				
Final dividend - prior period: \$0.12/share (2014 - \$0.16)	-	-	2.7	3.5
Interim dividend - current period YTD: \$1.42/share (2014 - \$1.65)	12.2	12.1	31.9	37.2
	12.2	12.1	34.6	40.7

11. OPERATING COSTS

<i>For the period ended September 30 (millions of Canadian dollars)</i>	Three months ended		Nine months ended	
	2015	2014	2015	2014
Salaries and benefits expense	29.7	28.7	91.4	83.4
Transmission rental	5.0	5.3	15.1	15.0
Maintenance and materials	13.1	10.8	29.2	25.1
Professional services	5.7	5.4	13.2	13.4
Rental and royalty expense	0.2	(0.2)	3.5	1.8
Travel and transportation	2.3	2.4	6.5	6.7
Equipment rental	1.7	1.2	4.4	4.4
Other operating costs	(0.1)	1.0	3.5	4.1
	57.6	54.6	166.8	153.9

12. NET FINANCE (INCOME) EXPENSE

<i>For the period ended September 30 (millions of Canadian dollars)</i>	Three months ended		Nine months ended	
	2015	2014	2015	2014
Finance income				
Interest on sinking fund	3.4	3.1	9.9	12.6
Interest on reserve fund	0.2	0.4	0.7	1.1
Other interest income	0.1	0.2	0.6	0.4
	3.7	3.7	11.2	14.1
Finance expense				
Long-term debt	21.2	19.7	63.4	64.9
Debt guarantee fee	1.1	1.0	3.4	2.8
Accretion	0.3	0.4	1.0	1.2
Other	-	0.4	0.5	1.0
	22.6	21.5	68.3	69.9
Interest capitalized during construction	(1.1)	(1.7)	(3.1)	(2.5)
	21.5	19.8	65.2	67.4
Net finance (income) expense	17.8	16.1	54.0	53.3

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13. OTHER (INCOME) EXPENSE

<i>For the period ended September 30 (millions of Canadian dollars)</i>	Three months ended		Nine months ended	
	2015	2014	2015	2014
Mark-to-market of commodity swaps	3.1	(0.9)	0.4	0.1
Settlement of commodity swaps	(4.2)	0.3	(6.8)	2.2
Mark-to-market of forward contracts	-	0.8	(0.2)	0.4
Change in fair value of transmission congestion contracts	0.1	0.2	(0.2)	0.4
Asset disposal cost	2.3	2.7	3.4	3.4
Other	0.2	0.7	0.2	(0.1)
Foreign exchange loss	0.4	0.4	2.6	3.8
Other (income) expense	1.9	4.2	(0.6)	10.2

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair Value

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

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 September 30, 2015 and the year ended December 31, 2014.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
		September 30, 2015		December 31, 2014	
<i>(millions of Canadian dollars)</i>					
Financial assets					
Cash and cash equivalents	1	36.6	36.6	25.4	25.4
Short-term investments	1	-	-	3.3	3.3
Trade and other receivables	1	64.4	64.4	105.0	105.0
Derivative assets	2,3	2.2	2.2	2.7	2.7
Sinking funds - investments in same Hydro issue	2	55.1	69.4	47.9	62.3
Sinking funds - other investments	2	239.6	239.6	228.4	228.4
Reserve fund	2	34.2	34.2	34.2	34.2
Long-term receivables	2	0.3	0.3	0.3	0.3
Financial liabilities					
Trade and other payables	1	104.5	104.5	151.3	151.3
Short-term borrowings	1	71.0	71.0	53.0	53.0
Derivative liabilities	2	-	-	0.2	0.2
Long-term debt including amount due within one year (before sinking funds)	2	1,296.0	1,660.6	1,295.6	1,694.6
Long-term payables	2	1.2	1.3	0.7	0.8

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

15. 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

(a) Hydro is required to contribute to the cost of operations of the PUB as well as the cost of hearings and applications costs. As at September 30, 2015, Hydro incurred \$2.1 million (2014 - \$2.7 million) in costs related to the PUB, of which, \$2.3 million (2014 - \$2.4 million) is included in trade and other payables.

(b) On March 31, 2015, Hydro paid the Province a debt guarantee fee of \$4.5 million (2014 - \$3.7 million). For the nine months ended September 30, \$3.4 million (2014 - \$2.8 million) has been recorded in net finance (income) expense.

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- (c) Hydro received contributions in aid of construction from the Province related to wind feasibility studies. As at September 30, 2015, \$0.6 million (2014 - \$0.7 million) has been recorded in deferred credits.
- (d) For the period ended September 30, 2015, Hydro recovered \$4.9 million (2014 - \$4.1 million) of operating costs from related parties representing the provision of administrative services.
- (e) For the period ended September 30, 2015, Hydro has purchased \$21.6 million (2014 - \$21.7 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 \$12.5 million (2014 - \$10.1 million).
- (f) Hydro received \$0.9 million (2014 - \$0.9 million) from Nalcor associated with the Upper Churchill Redress Agreement to be used to reduce the electricity accounts of each residential Innu customer in Innu Communities or to Mushuau Innu First Nation. This payment was recorded as deferred revenue and as at September 30, 2015, there is a balance of \$0.1 million outstanding (2014 - \$0.2 million).
- (g) Hydro recorded \$0.3 million (2014 - \$0.4 million) as a rate subsidy for rural isolated customers from the Province and \$1.5 million (2014 - \$1.5 million) as an energy rebate to offset the cost of basic electricity consumption for Labrador rural isolated residential customer under the Northern Strategic Plan. As at September 30, 2015, there is a balance of \$0.6 million outstanding (2014 - \$0.6 million).
- (h) As at September 30, 2015, Hydro has a payable to related parties of \$2.6 million (2014 - \$2.7 million) and receivable from related parties of \$14.2 million (2014 - \$15.0 million). This payable/receivable consists of various intercompany operating costs and power purchases.

16. 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 \$32.6 million as at September 30, 2015 (2014 - \$29.6 million).

In 2014, Hydro entered into a lease with Twin Falls and Wabush Resources Inc. to access a terminal station located on land owned by Wabush Mines. This lease is for a six-month period commencing on January 1, 2015. It was extended for a further three months until September 30, 2015 and has since been re-extended until November 6, 2015.

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.

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17. SUPPLEMENTARY CASH FLOW INFORMATION

<i>For the period ended September 30 (millions of Canadian dollars)</i>	Three months ended		Nine months ended	
	2015	2014	2015	2014
Trade and other receivables	8.9	1.3	40.6	48.0
Inventories	(0.9)	(10.3)	20.5	(27.7)
Prepayments	(1.5)	(1.4)	(3.2)	(2.8)
Trade and other payables	(7.6)	11.1	(46.8)	6.7
Changes in non-cash working capital balances	(1.1)	0.7	11.1	24.2
Interest received	0.5	1.2	1.7	18.6
Interest paid	34.0	34.3	76.7	80.2

18. 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 and Hydro, 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 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.

	Hydro Regulated	Churchill Falls	Energy Marketing	Other	Inter- Segment	Total
<i>(millions of Canadian dollars)</i>						
For the nine months ended September 30, 2015						
Energy sales	426.7	70.1	71.3	-	(30.9)	537.2
Other revenue	2.5	0.4	-	-	3.5	6.4
Revenue	429.2	70.5	71.3	-	(27.4)	543.6
Fuels	137.9	-	-	-	-	137.9
Power purchased	46.0	-	32.1	-	(30.9)	47.2
Operating costs	113.7	33.1	18.6	1.3	0.1	166.8
Depreciation	46.4	10.8	-	-	-	57.2
Net finance (income) expense	54.8	(0.8)	-	-	-	54.0
Other (income) expense	4.1	0.9	(5.6)	-	-	(0.6)
Share of loss of joint arrangement	-	0.1	-	-	-	0.1
Preferred dividends	-	(3.5)	-	-	3.5	-
Profit (loss) before regulatory adjustments	26.3	29.9	26.2	(1.3)	(0.1)	81.0
Regulatory adjustments	58.7	-	-	-	-	58.7
(Loss) profit for the period	(32.4)	29.9	26.2	(1.3)	(0.1)	22.3
Capital expenditures	91.1	24.6	0.1	-	-	115.8
Total assets	2,154.5	521.4	7.9	-	-	2,683.8

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	Hydro Regulated	Churchill Falls	Energy Marketing	Other	Inter- Segment	Total
<i>(millions of Canadian dollars)</i>						
For the nine months ended September 30, 2014						
Energy sales	400.8	48.2	62.9	-	(2.9)	509.0
Other revenue	1.6	0.7	-	-	2.0	4.3
Revenue	402.4	48.9	62.9	-	(0.9)	513.3
Fuels	203.7	-	-	-	-	203.7
Power purchased	49.2	-	6.1	-	(2.9)	52.4
Operating costs	101.6	30.7	20.4	1.2	-	153.9
Depreciation	41.0	10.1	-	-	-	51.1
Net finance (income) expense	54.3	(1.0)	-	-	-	53.3
Other (income) expense	5.3	1.7	3.2	-	-	10.2
Share of profit of joint arrangement	-	(0.3)	-	-	-	(0.3)
Preferred dividends	-	(2.0)	-	-	2.0	-
(Loss) profit before regulatory adjustments	(52.7)	9.7	33.2	(1.2)	-	(11.0)
Regulatory adjustments	(25.4)	-	-	-	-	(25.4)
(Loss) profit for the period	(27.3)	9.7	33.2	(1.2)	-	14.4
Capital expenditures	142.9	23.9	0.7	-	-	167.5
Total assets	2,011.6	488.1	7.3	-	-	2,507.0

	Hydro Regulated	Churchill Falls	Energy Marketing	Other	Inter- Segment	Total
<i>(millions of Canadian dollars)</i>						
For the three months ended September 30, 2015						
Energy sales	81.5	14.7	25.0	-	(10.2)	111.0
Other revenue	0.8	0.1	-	-	1.2	2.1
Revenue	82.3	14.8	25.0	-	(9.0)	113.1
Fuels	20.3	-	-	-	-	20.3
Power purchased	12.8	-	10.8	-	(10.2)	13.4
Operating costs	40.0	11.2	6.0	0.4	-	57.6
Depreciation	15.6	3.5	-	-	-	19.1
Net finance (income) expense	18.1	(0.3)	-	-	-	17.8
Other (income) expense	2.2	0.7	(1.0)	-	-	1.9
Preferred dividends	-	(1.2)	-	-	1.2	-
(Loss) profit before regulatory adjustments	(26.7)	0.9	9.2	(0.4)	-	(17.0)
Regulatory adjustments	(16.6)	-	-	-	-	(16.6)
(Loss) profit for the year	(10.1)	0.9	9.2	(0.4)	-	(0.4)
Capital expenditures	31.7	14.3	-	-	-	46.0
Total assets	2,154.5	521.4	7.9	-	-	2,683.8

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	Hydro Regulated	Churchill Falls	Energy Marketing	Other	Inter- Segment	Total
<i>(millions of Canadian dollars)</i>						
For the three months ended September 30, 2014						
Energy sales	79.1	8.2	17.8	-	(0.9)	104.2
Other revenue	(0.4)	0.2	-	-	0.5	0.3
Revenue	78.7	8.4	17.8	-	(0.4)	104.5
Fuels	32.5	-	-	-	-	32.5
Power purchased	11.6	-	2.6	-	(0.9)	13.3
Operating costs	36.2	9.9	7.6	0.9	-	54.6
Depreciation	12.8	3.4	-	-	-	16.2
Net finance (income) expense	16.4	(0.3)	-	-	-	16.1
Other (income) expense	3.0	1.2	-	-	-	4.2
Share of profit of joint arrangement	-	(0.1)	-	-	-	(0.1)
Preferred dividends	-	(0.5)	-	-	0.5	-
(Loss) profit before regulatory adjustments	(33.8)	(5.2)	7.6	(0.9)	-	(32.3)
Regulatory adjustments	(23.1)	-	-	-	-	(23.1)
(Loss) profit for the year	(10.7)	(5.2)	7.6	(0.9)	-	(9.2)
Capital expenditures	59.2	8.8	0.7	-	-	68.7
Total assets	2,011.6	488.1	7.3	-	-	2,507.0

19. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform with presentation adopted during the current reporting period. Specifically, foreign exchange gains and losses, previously reported in net finance (income) expense, have been presented with other (income) expense.