

NEWFOUNDLAND AND LABRADOR HYDRO
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
March 31, 2016
(Unaudited)

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

<i>As at (millions of Canadian dollars)</i>	Notes	March 31 2016	December 31 2015
ASSETS			
Current assets			
Cash and cash equivalents		49.6	40.1
Trade and other receivables		113.9	108.6
Inventories		77.3	77.9
Prepayments		9.2	5.8
Derivative assets		-	1.9
Deferred assets	3	45.9	61.2
Total current assets		295.9	295.5
Non-current assets			
Property, plant and equipment	4	2,110.2	2,108.6
Intangible assets	5	7.1	7.1
Other long-term assets	7	279.6	273.8
Investment in joint arrangement		1.2	1.2
Total assets		2,694.0	2,686.2
Regulatory deferrals	6	135.7	144.3
Total assets and regulatory deferrals		2,829.7	2,830.5
LIABILITIES AND EQUITY			
Current liabilities			
Short-term borrowings	8	83.0	97.0
Trade and other payables		111.0	133.3
Current portion of long-term debt	8	233.2	233.4
Deferred credits		0.6	0.4
Current portion of deferred contributions	10	1.1	1.1
Derivative liabilities	9	50.2	61.2
Total current liabilities		479.1	526.4
Non-current liabilities			
Long-term debt	8	1,006.9	1,007.0
Deferred contributions	10	11.8	11.6
Decommissioning liabilities	11	28.9	28.8
Employee benefits liability		122.0	120.5
Total liabilities		1,648.7	1,694.3
Shareholder's equity			
Share capital	14	22.5	22.5
Shareholder contributions	14	118.7	118.7
Reserves		10.9	10.6
Retained earnings		667.4	654.4
Total equity		819.5	806.2
Total liabilities and equity		2,468.2	2,500.5
Regulatory deferrals	6	361.5	330.0
Total liabilities, equity and regulatory deferrals		2,829.7	2,830.5

Commitments and contingencies (Note 20)

See accompanying notes

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	
		2016	2015
			(Note 23)
Energy sales		242.8	277.8
Other revenue		7.3	2.2
Revenue		250.1	280.0
Fuels		72.6	81.3
Power purchased		27.4	27.8
Operating costs	15	48.8	53.7
Depreciation and amortization	4,5	20.9	19.1
Net finance (income) expense	16	18.5	18.0
Other (income) expense	17	4.8	(1.0)
Profit, before regulatory adjustments		57.1	81.1
Regulatory adjustments	6	40.3	47.7
Profit for the period		16.8	33.4
Other comprehensive income for the period		0.3	11.4
Total comprehensive income for the period		17.1	44.8

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, 2016		22.5	118.7	41.4	(30.8)	654.4	806.2
Profit for the period		-	-	-	-	16.8	16.8
Net change in fair value of available-for-sale financial instruments	13	-	-	2.7	-	-	2.7
Net change in fair value of financial instruments reclassified to profit or loss	13	-	-	(2.6)	-	-	(2.6)
Regulatory adjustment	6, 13	-	-	-	0.2	-	0.2
Total comprehensive income for the period		-	-	0.1	0.2	16.8	17.1
Dividends	14	-	-	-	-	(3.8)	(3.8)
Balance at March 31, 2016		22.5	118.7	41.5	(30.6)	667.4	819.5
Balance at January 1, 2015		22.5	118.6	41.3	(46.1)	655.9	792.2
Profit for the period		-	-	-	-	33.4	33.4
Other comprehensive income							
Net change in fair value of available-for-sale financial instruments	13	-	-	13.9	-	-	13.9
Net change in fair value of financial instruments reclassified to profit or loss	13	-	-	(2.5)	-	-	(2.5)
Total comprehensive income for the period		-	-	11.4	-	33.4	44.8
Dividends	14	-	-	-	-	(14.3)	(14.3)
Balance at March 31, 2015		22.5	118.6	52.7	(46.1)	675.0	822.7

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	2016	2015
Cash provided from (used in)			
Operating activities			
Profit for the period		16.8	33.4
Adjusted for items not involving a cash flow:			
Depreciation and amortization	4, 5	20.9	19.1
Amortization of deferred contributions	10	(0.3)	(0.2)
Accretion	16	0.3	0.4
Employee benefits		1.1	1.4
Regulatory adjustments	6	40.1	47.7
Loss on disposal of property, plant and equipment	17	0.3	0.1
Other		3.1	(5.7)
		82.3	96.2
Changes in non-cash working capital balances	21	(27.0)	(27.3)
Net cash provided from operating activities		55.3	68.9
Investing activities			
Additions to property, plant and equipment	4	(22.4)	(20.5)
Additions to intangible assets	5	(0.4)	(0.1)
Increase in short-term investments		-	(14.8)
Increase in sinking funds		(2.4)	(2.4)
Changes in non-cash working capital balances	21	(3.4)	(10.2)
Net cash used in investing activities		(28.6)	(48.0)
Financing activities			
Retirement of long-term debt		(0.1)	-
Dividends paid to Nalcor Energy	14	(3.8)	(14.3)
Decrease in short-term borrowings	8	(14.0)	(11.0)
Decrease in long-term payable		-	(0.3)
Increase in other long-term assets		-	(3.5)
Increase in deferred contributions	10	0.5	0.1
Increase in deferred credits		0.2	0.2
Net cash used in financing activities		(17.2)	(28.8)
Net increase (decrease) in cash and cash equivalents		9.5	(7.9)
Cash and cash equivalents, beginning of period		40.1	25.4
Cash and cash equivalents, end of period		49.6	17.5
Interest received		2.4	0.6
Interest paid		85.4	34.1

See accompanying notes

NEWFOUNDLAND AND LABRADOR HYDRO

NOTES TO 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 is a 100% owned subsidiary of Nalcor Energy (Nalcor). Hydro's head office is located at 500 Columbus Drive St. John's, Newfoundland and Labrador A1B 0C9, Canada.

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 Standards (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, 2015.

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 and available-for-sale financial assets which have been measured at fair value. The condensed consolidated interim financial statements are presented in Canadian Dollars (CAD) and all values rounded to the nearest million, except when otherwise noted. The condensed consolidated interim financial statements were approved by Hydro's Board of Directors (the Board) on May 12, 2016.

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 (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 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.

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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.

3. DEFERRED ASSETS

The deferred asset represents Hydro's asset related to the power purchase agreement (PPA) with Nalcor Energy Marketing Corporation (Energy Marketing). The deferred asset is amortized on a straight line basis over the effective term, being one calendar year, of the related derivative liability. The aggregate difference yet to be recognized in profit or loss at the beginning and end of the period and a reconciliation of the changes of the balance during the period are as follows:

<i>As at (millions of Canadian dollars)</i>	March 31 2016	December 31 2015
Deferred asset, beginning of period	61.2	-
Additions	-	74.9
Amortization	(15.3)	(13.7)
Deferred asset, end of period	45.9	61.2

4. 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, 2015	1,525.9	710.4	204.4	140.4	2,581.1
Additions	(0.2)	-	-	161.3	161.1
Disposals	(3.0)	(3.1)	(3.4)	(0.2)	(9.7)
Transfers	178.1	58.0	21.2	(257.3)	-
Decommissioning liability revisions	0.5	(0.3)	-	-	0.2
Balance at December 31, 2015	1,701.3	765.0	222.2	44.2	2,732.7
Additions	-	-	-	22.4	22.4
Disposals	(0.2)	(0.2)	(0.3)	-	(0.7)
Transfers	0.1	-	-	(0.1)	-
Balance at March 31, 2016	1,701.2	764.8	221.9	66.5	2,754.4
Depreciation					
Balance at January 1, 2015	369.8	117.6	63.8	-	551.2
Depreciation	44.1	21.6	11.8	-	77.5
Disposals	(1.5)	(0.8)	(2.3)	-	(4.6)
Balance at December 31, 2015	412.4	138.4	73.3	-	624.1
Depreciation	11.7	5.7	3.1	-	20.5
Disposals	-	-	(0.4)	-	(0.4)
Balance at March 31, 2016	424.1	144.1	76.0	-	644.2
Carrying value					
Balance at January 1, 2015	1,156.1	592.8	140.6	140.4	2,029.9
Balance at December 31, 2015	1,288.9	626.6	148.9	44.2	2,108.6
Balance at March 31, 2016	1,277.1	620.7	145.9	66.5	2,110.2

NEWFOUNDLAND AND LABRADOR HYDRO

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

5. INTANGIBLE ASSETS

<i>(millions of Canadian dollars)</i>	Computer Software	Feasibility Studies	Assets Under Development	Total
Cost				
Balance at January 1, 2015	9.0	1.8	-	10.8
Additions	1.5	-	0.1	1.6
Disposals	(1.1)	-	-	(1.1)
Transfers	0.1	-	(0.1)	-
Balance at December 31, 2015	9.5	1.8	-	11.3
Additions	-	-	0.4	0.4
Balance at March 31, 2016	9.5	1.8	0.4	11.7
Amortization				
Balance at January 1, 2015	1.8	1.0	-	2.8
Amortization	1.2	0.2	-	1.4
Balance at December 31, 2015	3.0	1.2	-	4.2
Amortization	0.3	0.1	-	0.4
Balance at March 31, 2016	3.3	1.3	-	4.6
Carrying value				
Balance at January 1, 2015	7.2	0.8	-	8.0
Balance at December 31, 2015	6.5	0.6	-	7.1
Balance at March 31, 2016	6.2	0.5	0.4	7.1

6. REGULATORY DEFERRALS

	January 1 2016	Regulatory activity	March 31 2016	Remaining Recovery Settlement Period (years)
Regulatory asset deferrals				
Foreign exchange losses	56.2	(0.5)	55.7	25.75
Foreign exchange on fuel	0.7	(1.2)	(0.5)	n/a
Deferred lease costs	5.1	-	5.1	n/a
2014 cost deferral	38.6	(4.6)	34.0	n/a
2015 cost deferral	27.8	(0.7)	27.1	n/a
Fuel supply deferral	9.6	(1.7)	7.9	n/a
Deferred energy conservation costs	6.3	0.1	6.4	n/a
	144.3	(8.6)	135.7	
Regulatory liability deferrals				
Rate stabilization plan (RSP)	(324.6)	(31.7)	(356.3)	n/a
Insurance amortization and proceeds	(5.0)	0.2	(4.8)	n/a
Deferred power purchase savings	(0.4)	-	(0.4)	11.25
	(330.0)	(31.5)	(361.5)	

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NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

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

<i>For the period ended March 31 (millions of Canadian dollars)</i>	Three months ended	
	2016	2015
RSP amortization	(4.4)	20.5
Rural rate adjustment	(2.0)	3.5
RSP fuel deferral	32.0	19.6
RSP interest	6.1	4.7
Total RSP activity	31.7	48.3
2014 cost deferral	4.6	-
2015 cost deferral	0.7	-
Fuel supply deferral	1.7	-
Amortization of deferred foreign exchange losses	0.5	0.6
Deferred foreign exchange on fuel	1.2	(0.2)
Deferred energy conservation	(0.1)	(0.1)
Employee benefits actuarial loss	0.2	-
Insurance amortization and proceeds	(0.2)	(0.2)
Deferred lease costs	-	(0.7)
	40.3	47.7

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 for the period ended March 31, 2016 would have increased by \$40.3 million (2015 - \$47.7 million).

6.2 Fuel Supply Deferral

Pursuant to Order No. P.U. 56 (2014), Hydro received approval in 2014 to defer \$9.6 million as a regulatory asset in additional capacity related supply costs incurred during the three months ended March 31, 2014. Recovery of this balance is subject to a future PUB Order. In April 2016, Hydro received Order No. P.U. 13 (2016) which outlines the results of a Prudence Review of certain projects and expenditures of Hydro. As a result, Hydro recorded in regulatory adjustments an expense of \$1.7 million and a corresponding reduction to the Fuel Supply Deferral. Please also refer to Note 22 of these condensed consolidated interim financial statements.

6.3 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 with recovery subject to a future PUB Order. In 2015, Hydro decreased this regulatory asset by \$7.3 million to recognize an allowance for adjustments to certain costs that were discussed through the General Rate Application (GRA) process. In April 2016, Hydro received Order No. P.U. 13 (2016) which outlines the results of a Prudence Review of certain projects and expenditures of Hydro. As a result, Hydro recorded an expense of \$4.6M and a corresponding reduction to the 2014 Cost Deferral. Please also refer to Note 22 of these condensed consolidated interim financial statements.

6.4 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. Accordingly, these costs have been recognized as a regulatory asset. In 2015, Hydro decreased the regulatory asset by \$2.4 million to recognize an allowance for adjustments to certain costs that were discussed through the GRA process. In April 2016, Hydro received Order No. P.U. 13 (2016) which outlines the results of a Prudence Review of certain projects and expenditures of Hydro. As a result, Hydro recorded an expense of \$0.7 million and a corresponding reduction to the 2015 Cost Deferral. Please also refer to Note 22 of these condensed consolidated interim financial statements.

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NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

7. OTHER LONG-TERM ASSETS

	March 31	December 31
<i>As at (millions of Canadian dollars)</i>	2016	2015
Long-term receivables	0.3	0.3
Reserve fund	30.9	30.9
Sinking funds	248.4	242.6
	279.6	273.8

8. DEBT

8.1 Short-term Borrowings

Hydro maintains a \$50.0 million CAD or USD equivalent unsecured demand operating credit facility with its banker and as at March 31, 2016 there were no amounts drawn on this facility (2015 - \$nil). 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 as a performance guarantee in relation to the Department of Fisheries and Oceans Fish Habitat Compensation Program.

In addition, Hydro utilized promissory notes to fulfil its short-term funding requirements. Total available short-term borrowings permitted under the promissory notes program is \$300.0 million. As at March 31, 2016, there were \$83.0 million in short-term borrowings outstanding with a maturity date of April 4, 2016 bearing an interest rate of 0.69% (2015 - \$97.0 million).

8.2 Long-term Debt

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

	Face	Coupon	Year of	Year of	March 31	December 31
<i>As at (millions of Canadian dollars)</i>	Value	Rate %	Issue	Maturity	2016	2015
Hydro						
V*	0.2	10.50	1989	2014	0.2	0.3
X*	150.0	10.25	1992	2017	149.8	149.8
Y*	300.0	8.40	1996	2026	294.7	294.7
AB*	300.0	6.65	2001	2031	305.7	305.7
AD*	125.0	5.70	2003	2033	123.8	123.8
AE	225.0	4.30	2006	2016	224.9	224.8
AF	200.0	3.60	2014	2045	197.1	197.1
Total debentures	1,300.2				1,296.2	1,296.2
Less: Sinking fund investments in own debentures					56.1	55.8
					1,240.1	1,240.4
Less: payments due within one year					233.2	233.4
Total debentures					1,006.9	1,007.0

*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 of 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, 2016 was \$1.1 million (2015 - \$1.1 million).

NEWFOUNDLAND AND LABRADOR HYDRO
NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

9. DERIVATIVE LIABILITIES

The derivative liability relates to the PPA with Energy Marketing and represents the future value provided to Energy Marketing through the contract. The PPA can be terminated at the end of any calendar year, with notice provided three months prior to the end of that year. Otherwise, the effective term of the PPA resets at October 1, and the derivative liability relating to the following calendar year is recorded. The components of the change are as follows:

<i>(millions of Canadian dollars)</i>	PPA Derivative Liability	Other Derivative Liability	Total
Balance at January 1, 2015	-	0.2	0.2
Additions, net of disposals	74.9	-	74.9
Settlement of realized profit	(8.5)	-	(8.5)
Mark-to-market of derivative	(5.2)	(0.2)	(5.4)
Balance at December 31, 2015	61.2	-	61.2
Settlement of realized profit	(5.8)	-	(5.8)
Mark-to-market of derivative	(5.2)	-	(5.2)
Balance at March 31, 2016	50.2	-	50.2

10. 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 2016	December 31 2015
Deferred contributions, beginning of period	12.7	12.2
Additions	0.5	1.4
Amortization	(0.3)	(0.9)
Deferred contributions, end of period	12.9	12.7
Less: current portion	(1.1)	(1.1)
	11.8	11.6

11. DECOMMISSIONING LIABILITIES

Hydro has recognized liabilities associated with the retirement of portions of the Holyrood Thermal Generating Station and the disposal of Polychlorinated Biphenyls.

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

<i>(millions of Canadian dollars)</i>	March 31 2016	December 31 2015
Decommissioning liabilities, beginning of period	28.8	28.0
Liabilities settled	(0.1)	(0.1)
Accretion	0.2	0.7
Revisions	-	0.2
Decommissioning liabilities, end of period	28.9	28.8

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12. EMPLOYEE BENEFITS LIABILITY

12.1 Pension Plan

Employees participate in the Province's Public Service Pension Plan, a multi-employer defined benefit plan. The employer's contributions for the period ended March 31, 2016 of \$2.2 million (2015 - \$2.1 million) are expensed as incurred.

12.2 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 2016, cash payments to beneficiaries for its unfunded other employee future benefits were \$1.2 million (2015 - \$1.1 million). An actuarial valuation was performed as at December 31, 2015.

	Three months ended	
<i>For the period ended March 31 (millions of Canadian dollars)</i>	2016	2015
Component of benefit cost		
Current service cost	1.1	1.1
Interest cost	1.2	1.4
Total benefit expense for the period	2.3	2.5

13. ACCUMULATED OTHER COMPREHENSIVE INCOME

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

Items that may be reclassified to profit or loss:

	Three months ended	
<i>(millions of Canadian dollars)</i>	2016	2015
Available-for-sale financial instruments		
Balance, beginning of period	41.4	41.3
Net gains on available-for-sale during the period	2.7	13.9
Reclassification adjustments related to disposals during the period	(2.6)	(2.5)
Balance, end of period	41.5	52.7

	Three months ended	
<i>(millions of Canadian dollars)</i>	2016	2015
Employee future benefits		
Balance, beginning of period	(30.8)	(46.1)
Regulatory adjustment	0.2	-
Balance, end of period	(30.6)	(46.1)

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14. SHAREHOLDER'S EQUITY

14.1 Share Capital

	March 31	December 31
	2016	2015
<i>(millions of Canadian dollars)</i>		
Common shares of par value of \$1 each		
Authorized - 25,000,000		
Issued, paid and outstanding - 22,503,902	22.5	22.5

14.2 Shareholder Contributions

	March 31	December 31
	2016	2015
<i>As at (millions of Canadian dollars)</i>		
Total shareholder contributions	118.7	118.7

14.3 Dividends

	Three months ended	
	2016	2015
<i>For the period ended March 31 (millions of Canadian dollars)</i>		
Declared during the year		
Final dividend for prior period: \$0.05 per share (2015 - \$0.12)	1.1	2.7
Interim dividend for current period: \$0.12 per share (2015 - \$0.52)	2.7	11.6
	3.8	14.3

15. OPERATING COSTS

	Three months ended	
	2016	2015
<i>For the period ended March 31 (millions of Canadian dollars)</i>		
Salaries and benefits	29.5	30.6
Maintenance and materials	5.3	6.4
Transmission rental	4.9	5.0
Professional services	1.5	3.3
Rental and royalty expense	2.5	2.6
Travel and transportation	1.3	1.9
Equipment rental	1.3	1.4
Other	2.5	2.5
	48.8	53.7

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16. NET FINANCE (INCOME) EXPENSE

<i>For the period ended March 31 (millions of Canadian dollars)</i>	Three months ended	
	2016	2015
Finance income		
Interest on sinking fund	3.4	3.2
Interest on reserve fund	0.2	0.2
Other interest income	0.2	0.3
	3.8	3.7
Finance expense		
Long-term debt	21.1	21.1
Debt guarantee fee	1.1	1.1
Accretion	0.3	0.4
Other	0.3	0.4
	22.8	23.0
Interest capitalized during construction	(0.5)	(1.3)
	22.3	21.7
Net finance (income) expense	18.5	18.0

17. OTHER (INCOME) EXPENSE

<i>For the period ended March 31 (millions of Canadian dollars)</i>	Three months ended	
	2016	2015
Mark-to-market of commodity swaps	1.9	(1.9)
Settlement of commodity swaps	(1.9)	-
Mark-to-market of foreign exchange forward contracts	-	(0.2)
Financial transmission rights income and amortization	-	(0.2)
Loss on disposal of property, plant and equipment	0.3	0.1
Asset disposal costs	0.2	(0.1)
Net PPA (gains) losses ^(a)	4.3	-
Foreign exchange loss	-	1.3
Other (income) expense	4.8	(1.0)

(a) Net PPA (Gains) Losses

<i>For the period ended March 31 (millions of Canadian dollars)</i>	Three months ended	
	2016	2015
PPA Gains		
Settlement of realized profit	(5.8)	-
Mark-to-market of derivative	(5.2)	-
	(11.0)	-
PPA losses		
Amortization of deferral	15.3	-
	15.3	-
Net PPA (gains) losses	4.3	-

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18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair Value

The estimated fair values of financial instruments as at March 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 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 measurement for the period ended March 31, 2016 and the year ended December 31, 2015.

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
		March 31, 2016		December 31, 2015	
<i>(millions of Canadian dollars)</i>					
Financial assets					
Derivative assets	2,3	-	-	1.9	1.9
Sinking funds - investments in same Hydro issue	2	56.1	69.3	55.8	69.9
Sinking funds - other investments	2	248.4	248.4	242.6	242.6
Reserve fund	2	30.9	30.9	30.9	30.9
Long-term receivables ¹	2	0.3	0.3	0.3	0.3
Financial liabilities					
Derivative liabilities	2	50.2	50.2	61.2	61.2
Long-term debt (including amount due within one year before sinking funds)	2	1,296.2	1,618.0	1,296.2	1,650.0
Long-term payables ²	2	-	-	0.3	0.3

¹ At March 31, 2016, the long-term receivable relating to the Annual Energy Base of \$2.6 million (fair value - \$2.8 million) was classified to trade and other receivables.

² As at December 31, 2015, the long-term related party payable was reclassified to trade and other payables.

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

The fair values of Level 2 financial instruments are determined using quoted prices in active markets, which in some cases are adjusted for factors specific to the asset or liability. Level 2 derivative instruments are valued based on observable commodity future curves, broker quotes or other publicly available data. Level 2 fair values of other risk management assets and liabilities and long-term debt are determined using observable inputs other than unadjusted quoted prices, such as interest rate yield curves and currency rates.

The following table summarizes quantitative information about the valuation techniques and unobservable inputs used in the fair value measurement of Level 3 financial instruments as at March 31, 2016:

<i>(millions of Canadian dollars)</i>	Carrying Value	Valuation Techniques	Significant Unobservable Input(s)	Range
Derivative liability (PPA)	50.2	Modelled pricing	Volumes (MWh)	35-43% of available generation

The derivative liability arising under the PPA is designated as a Level 3 instrument as certain forward market prices and related volumes are not readily determinable to estimate a portion of the fair value of the derivative liability. Hence, fair value measurement of this instrument is based upon internal and external pricing and volume estimates. As at March 31, 2016, the effect of using reasonable alternative assumptions for volume inputs to valuation techniques may have resulted in a -\$0.7 million to a +\$3.2 million change in the carrying value of the power purchase derivative liability.

19. RELATED PARTY TRANSACTIONS

Hydro enters into various transactions with its parent 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 Hydro transacts are as follows:

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

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms.

- (a) Hydro is required to incur the costs of operations of the PUB as well as the cost of hearings and application costs. For the period ended March 31, 2016, Hydro incurred \$0.3 million (2015 - \$0.5 million) in costs related to the PUB. As at March 31, 2016 there is a balance of \$2.6 million (2015 - \$4.0 million) included in trade and other payables.

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- (b) As at March 31, 2016, Hydro has a payable to related parties of \$4.1 million (2015 - \$3.2 million) and a receivable from related parties for \$5.8 million (2015 - \$6.2 million). This payable/receivable consists of various intercompany operating costs and power purchases.
- (c) In March 2016, Hydro paid the Province a debt guarantee fee of \$4.5 million (2015 - \$4.5 million). For the three months ended March 31, 2016, \$1.1 million (2015 - \$1.1 million) has been recorded in net finance (income) expense.
- (d) Hydro recognized contributions in aid of construction totaling \$nil (2015 - \$nil) from the Province related to wind feasibility studies. As at March 31, 2016, \$0.4 million (2015 - \$0.4 million) has been recorded in deferred credits.
- (e) For the period ended March 31, 2016, Hydro recovered \$0.8 million (2015 - \$1.1 million) of operating costs from related parties and incurred costs of \$0.9 million (2015 - \$nil) representing the provision of administrative services.
- (f) For the period ended March 31, 2016, Hydro has purchased \$6.1 million (2015 - \$7.5 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 \$5.7 million (2015 - \$2.0 million).
- (g) For the period ended March 31, 2016, Hydro has incurred intercompany labour expense of \$0.5 million (2015 - \$0.2 million) and capitalized intercompany labour costs of \$0.9 million (2015 - \$0.7 million).
- (h) Hydro received \$0.9 million (2015 - \$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.
- (i) Hydro recorded \$0.6 million (2015 - \$0.6 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 March 31, 2016, there is a balance of \$0.2 million outstanding in trade and other receivables (2015 - \$0.4 million).
- (j) For the period ended March 31, 2016 Hydro charged \$4.9 million (2015 - \$nil) and \$0.8 million (2015 - \$nil) to Energy Marketing for transmission rights and power purchases, respectively.
- (k) 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 \$46.9 million (2015 - \$48.0 million), of which Hydro has recognized its share of \$30.5 million (2015 - \$31.6 million)
- (l) For the period ended March 31, 2016, approximately \$0.7 million (2015 - \$0.7 million) of operating costs were charged to Churchill Falls from Hydro and Nalcor for engineering, technical, management and administrative services.
- (m) 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 March 31, 2016, \$3.7 million (2015 - \$3.9 million) was payable to the Province. Hydro has recorded its share of \$2.4 million (2015-\$2.6 million)
- (n) 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 over the subsequent four year period.

The long-term receivable from Hydro-Québec as at March 31, 2016 is \$4.0 million (2015 - \$nil) and relates to September 1, 2012 to August 31, 2016. Hydro has recorded its share of \$2.6 million (2015 - \$nil).

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- (o) 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, \$4.9 million (2015 - \$4.8 million) has been received and \$43.0 thousand (2015 - \$17.0 thousand) has been accrued as receivable from the Trust. Hydro has recorded its share of \$28.0 thousand (2015 - \$11.0 thousand).
- (p) As at March 31, 2016, Churchill Falls capacity penalty payable was \$0.4 million (2015 - \$0.4 million), of which Hydro 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).

20. COMMITMENTS AND CONTINGENCIES

- (a) 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.
- (b) Outstanding commitments for capital projects total approximately \$68.9 million as at March 31, 2016 (2015 - \$30.4 million).
- (c) 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. These condensed <consolidated> interim financial statements have been adjusted to reflect Management's best estimate of the impact of the Prudence Review on regulatory deferrals and financial results, based upon Management's initial interpretation of the Order's impacts to the 2014 revenue requirement and the 2015 test year costs. Material adjustments may be required to the Statement of Financial Position, Profit and Comprehensive Income and Changes in Equity, pending further review through a compliance filing and final approval by the PUB. Please refer to Note 6, 6.1 and 6.2, 6.3 and 6.4 for additional information.

21. SUPPLEMENTARY CASH FLOW INFORMATION

<i>For the period ended March 31 (millions of Canadian dollars)</i>	Three months ended	
	2016	2015
Trade and other receivables	(5.3)	(8.2)
Prepayments	(3.4)	(4.1)
Inventories	0.6	5.1
Trade and other payables	(22.3)	(30.3)
Changes in non-cash working capital balances	(30.4)	(37.5)
Related to:		
Operating activities	(27.0)	(27.3)
Investing activities	(3.4)	(10.2)
	(30.4)	(37.5)

22. SEGMENT INFORMATION

Hydro operates in four business segments. Hydro regulated activities encompass sales of electricity to customers within the Province. Churchill Falls operates a hydroelectric generating facility and sells electricity primarily to Hydro-Québec. Energy marketing includes the sale of electricity to markets outside the Province and other non-regulated electricity sales. 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.

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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 March 31, 2016						
Energy sales	194.3	38.1	11.4	-	(1.0)	242.8
Other revenue	1.0	0.1	4.9	-	1.3	7.3
Revenue	195.3	38.2	16.3	-	0.3	250.1
Fuels	72.6	-	-	-	-	72.6
Power purchased	17.5	-	10.9	-	(1.0)	27.4
Operating costs	31.5	12.1	4.9	0.3	-	48.8
Depreciation and amortization	16.9	4.0	-	-	-	20.9
Net finance (income) expense	18.8	(0.3)	-	-	-	18.5
Other (income) expense	0.5	-	4.3	-	-	4.8
Profit (loss) for the year from operations	37.5	22.4	(3.8)	(0.3)	1.3	57.1
Preferred dividends	-	(1.3)	-	-	1.3	-
Profit (loss) before regulatory adjustments	37.5	23.7	(3.8)	(0.3)	-	57.1
Regulatory adjustments	40.3	-	-	-	-	40.3
(Loss) profit for the period	(2.8)	23.7	(3.8)	(0.3)	-	16.8
Capital expenditures	17.6	4.8	-	-	-	22.4
Total assets	2,228.7	544.9	58.2	-	(2.1)	2,829.7

	Hydro Regulated	Churchill Falls	Energy Marketing	Other	Inter- Segment	Total
<i>(millions of Canadian dollars)</i>						
For the three months ended March 31, 2015						
Energy sales	214.3	38.8	25.6	-	(0.9)	277.8
Other revenue	0.9	0.1	-	-	1.2	2.2
Revenue	215.2	38.9	25.6	-	0.3	280.0
Fuels	81.3	-	-	-	-	81.3
Power purchased	18.2	-	10.5	-	(0.9)	27.8
Operating costs	34.6	12.3	6.2	0.6	-	53.7
Depreciation and amortization	15.5	3.6	-	-	-	19.1
Net finance (income) expense	18.2	(0.2)	-	-	-	18.0
Other (income) expense	1.3	-	(2.3)	-	-	(1.0)
Profit (loss) for the year from operations	46.1	23.2	11.2	(0.6)	1.2	81.1
Preferred dividends	-	(1.2)	-	-	1.2	-
Profit (loss) before regulatory adjustments	46.1	24.4	11.2	(0.6)	-	81.1
Regulatory adjustments	47.7	-	-	-	-	47.7
Profit (loss) for the year	(1.6)	24.4	11.2	(0.6)	-	33.4
Capital expenditures	18.1	2.4	-	-	-	20.5
Total assets	2,175.3	513.6	4.0	-	-	2,692.9

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23. 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	Foreign exchange	Twin Block reclassification	Foreign exchange contract losses adjustments	Reclassified balance
Energy sales	269.2		8.6		277.8
Power purchased	19.2		8.6		27.8
Net finance (income) expense	20.1	(1.3)		(0.8)	18.0
Other (income) expense	(2.3)	1.3			(1.0)

(a) For the period ended March 31, 2015, \$0.8 million in foreign exchange forward contracts relating to Energy Marketing were incorrectly settled in Hydro. This was subsequently adjusted through intercompany and presented correctly in Hydro's annual audited financial statements at December 31, 2015.