NALCOR ENERGY
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
September 30, 2014
Unaudited

DIRECTORS

KEN MARSHALL
Acting Chairperson
President – Atlantic Region
Rogers Cable

LEO ABBASS
Corporate Director

ALLAN HAWKINS*
Mayor, Grand Falls Windsor

ERIN BREEN
Partner, Simmons+ Partners Defence

ED 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
Acting Chairperson

ED MARTIN
President and Chief Executive Officer

DERRICK STURGE
Vice President, Finance and Chief Financial Officer

CHRIS KIELEY
Vice President, Strategic Planning
and Business Development

JIM KEATING
Vice President, Oil and Gas

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

DAWN DALLEY
Vice President, Corporate Relations

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

ROBERT HULL
General Manager, Finance

AUBURN WARREN
General Manager, Commercial, Treasury and Risk

*Resigned October 16, 2014

HEAD OFFICE
Nalcor Energy
P.O. Box 12800
Hydro Place, 500 Columbus Drive
St. John's, NL
Canada A1B 0C9

NALCOR ENERGY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Unaudited)

As at (millions of Canadian dollars)	Notes	**September 30 2014**	December 31 2013	January 1 2013
ASSETS				(Note 23)
Current assets				
Cash and cash equivalents		**68.2**	93.7	11.9
Restricted cash		**1,025.5**	525.5	-
Short-term investments		**1.0**	1.0	11.0
Trade and other receivables		**88.1**	149.8	124.7
Inventory		**103.0**	75.2	62.0
Current portion of sinking funds		**-**	65.4	-
Prepaid expenses		**15.4**	11.6	5.6
Derivative assets		**1.0**	0.2	0.1
Total current assets		**1,302.2**	922.4	215.3
Non-current assets				
Property, plant and equipment	4	**5,016.2**	3,742.6	2,802.4
Exploration and evaluation assets		**8.5**	-	-
Investment property		**1.0**	1.1	1.1
Other long-term assets	6	**429.6**	314.7	354.5
Investment in joint venture		**1.4**	1.1	0.7
Long-term investments	7	**3,361.1**	4,477.4	-
Total non-current assets		**8,817.8**	8,536.9	3,158.7
Total assets		**10,120.0**	9,459.3	3,374.0
Regulatory deferrals	5	**67.7**	64.4	65.1
Total assets and regulatory deferrals		**10,187.7**	9,523.7	3,439.1
LIABILITIES AND EQUITY				
Current liabilities				
Short-term borrowings	8	**-**	41.0	125.0
Trade and other payables		**703.1**	408.3	198.0
Current portion of long-term debt	8	**8.5**	82.2	8.2
Derivative liabilities		**0.9**	1.5	-
Current portion of other liabilities		**5.2**	7.2	8.5
Total current liabilities		**717.7**	540.2	339.7
Non-current liabilities				
Long-term debt	8	**6,242.8**	6,047.9	1,125.9
Class B limited partnership units	9	**77.7**	73.0	-
Deferred credits	10	**218.0**	96.9	28.0
Deferred contributions	11	**11.1**	9.5	9.9
Decommissioning liabilities	12	**34.2**	33.0	31.9
Long-term payables		**78.0**	78.3	82.4
Employee future benefits		**124.2**	118.3	119.9
Total non-current liabilities		**6,786.0**	6,456.9	1,398.0
Total liabilities		**7,503.7**	6,997.1	1,737.7
Shareholder’s equity				
Issued capital		**122.5**	122.5	122.5
Shareholder contributions		**1,263.2**	1,141.8	435.8
Accumulated other comprehensive loss		**(15.8)**	(28.1)	(2.7)
Retained earnings		**1,077.6**	1,031.8	943.6
Total equity		**2,447.5**	2,268.0	1,499.2
Total liabilities and equity		**9,951.2**	9,265.1	3,236.9
Regulatory deferrals	5	**236.5**	258.6	202.2
Total liabilities, equity and regulatory deferrals		**10,187.7**	9,523.7	3,439.1

See accompanying notes

Subsequent events (Note 22)

NALCOR ENERGY

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Unaudited)

		Three months ended		Nine months ended	
For the period ended September 30 (millions of Canadian dollars)	Notes	**2014**	2013	**2014**	2013
Energy sales		**115.4**	121.6	**565.9**	550.6
Other revenue		**8.3**	8.0	**24.0**	20.1
Revenue		**123.7**	129.6	**589.9**	570.7
Fuels		**(32.4)**	(4.7)	**(203.6)**	(123.6)
Power purchased		**(13.3)**	(15.0)	**(52.4)**	(46.8)
Operating costs	14	**(64.1)**	(54.3)	**(181.5)**	(159.8)
Depreciation and depletion	4	**(20.9)**	(20.1)	**(70.1)**	(66.0)
Exploration and evaluation		**-**	(2.1)	**-**	(2.8)
Net finance income and expense	15	**(16.8)**	(18.3)	**(58.4)**	(54.9)
Other income and expense		**(1.3)**	2.5	**(3.8)**	3.0
Share of profit of joint venture		**0.1**	-	**0.3**	0.3
(Loss) profit, before regulatory adjustments		**(25.0)**	17.6	**20.4**	120.1
Regulatory adjustments	5	**23.1**	3.0	**25.4**	(43.6)
(Loss) profit for the period		**(1.9)**	20.6	**45.8**	76.5
Other comprehensive income (loss) for the period		**2.9**	(3.4)	**12.3**	(17.7)
Total comprehensive income for the period		**1.0**	17.2	**58.1**	58.8

See accompanying notes

NALCOR ENERGY

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Unaudited)

(millions of Canadian dollars)	**Issued Capital**	**Shareholder Contributions**	**Fair Value Reserve**	**Employee Benefit Reserve**	**Retained Earnings**	**Total**
Balance at January 1, 2014	**122.5**	**1,141.8**	**10.6**	**(38.7)**	**1,031.8**	**2,268.0**
Profit for the period	**-**	**-**	**-**	**-**	**45.8**	**45.8**
Other comprehensive income						
Net change in fair value of available for sale financial instruments	**-**	**-**	**20.7**	**-**	**-**	**20.7**
Net change in fair value of financial instruments reclassified to profit or loss	**-**	**-**	**(8.4)**	**-**	**-**	**(8.4)**
Total comprehensive income (loss) for the period	**-**	**-**	**12.3**	**-**	**45.8**	**58.1**
Capital contributions	**-**	**121.4**	**-**	**-**	**-**	**121.4**
Balance at September 30, 2014	**122.5**	**1,263.2**	**22.9**	**(38.7)**	**1,077.6**	**2,447.5**
Balance at January 1, 2013	122.5	435.8	43.6	(46.3)	943.6	1,499.2
Profit for the period	-	-	-	-	76.5	76.5
Other comprehensive income						
Net change in fair value of available for sale financial instruments	-	-	(8.2)	-	-	(8.2)
Net change in fair value of financial instruments reclassified to profit or loss	-	-	(9.5)	-	-	(9.5)
Total comprehensive income (loss) for the period	-	-	(17.7)	-	76.5	58.8
Capital contributions	-	446.4	-	-	-	446.4
Balance at September 30, 2013	122.5	882.2	25.9	(46.3)	1,020.1	2,004.4

See accompanying notes

NALCOR ENERGY

CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

For the period ended September 30 (millions of Canadian dollars)	Notes	**Three months ended** **2014**	2013	**Nine months ended** **2014**	2013
Cash provided by (used in)					
Operating activities					
(Loss) profit for the period		**(1.9)**	20.6	**45.8**	76.5
Adjusted for items not involving a cash flow:					
Employee benefits		**1.9**	1.8	**5.9**	5.1
Depreciation and depletion		**20.9**	20.1	**70.1**	66.0
Accretion		**1.3**	1.4	**4.1**	4.1
Amortization of deferred contributions		**0.3**	-	**(0.5)**	-
Loss on disposal of property, plant and equipment		**0.5**	(0.3)	**0.9**	(0.2)
Decrease in long-term prepaid expenses		**1.0**	-	**1.0**	-
Share of profit of joint venture		**(0.1)**	-	**(0.3)**	(0.3)
Regulatory adjustments		**(23.1)**	(3.0)	**(25.4)**	43.6
Other		**(1.9)**	(0.5)	**(1.0)**	0.4
Changes in non-cash working capital balances	19	**214.8**	121.5	**324.9**	169.6
Net cash from operating activities		**213.7**	161.6	**425.5**	364.8
Investing activities					
Additions to property, plant and equipment		**(542.9)**	(312.4)	**(1,219.5)**	(608.8)
Additions to exploration and evaluation		**(8.5)**	**-**	**(8.5)**	-
(Increase) decrease in long-term receivables		**(6.6)**	1.6	**(94.7)**	0.5
Decrease (increase) in short-term investments		**11.9**	(1.7)	**-**	(3.2)
(Increase) decrease in sinking funds		**(9.5)**	(11.3)	**103.9**	(23.4)
Decrease (increase) in reserve fund		**1.0**	(0.1)	**0.8**	(0.2)
Decrease in long-term investments		**398.7**	-	**1,116.3**	-
Proceeds on disposal of property, plant and equipment		**-**	0.2	**-**	3.8
Net cash used in investing activities		**(155.9)**	(323.7)	**(101.7)**	(631.3)
Financing activities					
Issuance of long-term debt		**197.1**	-	**197.1**	-
Retirement of long-term debt		**-**	-	**(124.6)**	-
Increase in restricted cash		**(160.6)**	-	**(500.0)**	-
Increase in Class B limited partnership units		**-**	(67.7)	**-**	-
(Decrease) increase in short-term borrowings		**(103.5)**	30.0	**(41.0)**	(81.0)
Decrease in long-term payable and other liabilities		**(1.5)**	(1.5)	**(3.0)**	(4.5)
Increase in contributed capital		**33.6**	152.5	**121.4**	446.4
Increase in deferred contributions		**0.6**	0.9	**0.9**	1.1
Decrease in deferred credits		**(0.3)**	(18.1)	**(0.1)**	(0.2)
Net cash provided from (used in) financing activities		**(34.6)**	96.1	**(349.3)**	361.8
Net increase (decrease) in cash		**23.2**	(66.0)	**(25.5)**	95.3
Cash and cash equivalents, beginning of period		**45.0**	173.2	**93.7**	11.9
Cash and cash equivalents, end of period		**68.2**	107.2	**68.2**	107.2

Supplementary cash flow information (Note 19)

See accompanying notes

1. DESCRIPTION OF BUSINESS

Nalcor Energy (Nalcor) is incorporated under a special act of the Legislature of the Province of Newfoundland and Labrador (the Province) as a Crown corporation and its business includes the development, generation and sale of electricity, oil and gas, industrial fabrication and energy marketing. Nalcor's head office is located in St. John's, Newfoundland and Labrador.

1.1 Subsidiaries

Nalcor holds interests in the following subsidiaries:

A 100.0% interest in Newfoundland and Labrador Hydro (Hydro) whose principal activity is the generation, transmission and sale of electricity. Hydro's operations include both regulated and non-regulated activities.

A 100.0% interest in Nalcor Energy – Oil and Gas Inc. (Oil and Gas), a company with a broad mandate to engage in upstream and downstream sectors of the oil and gas industry including exploration, development, production, transportation and processing.

A 100.0% interest in Nalcor Energy – Bull Arm Fabrication Inc. (Bull Arm Fabrication), Atlantic Canada's largest industrial fabrication site with a fully integrated infrastructure to support large-scale fabrication and assembly. Its facilities include onshore fabrication halls and shops, a dry-dock and a deep water site.

A 100.0% interest in Muskrat Falls Corporation (Muskrat Falls) created to develop, construct, finance and operate the Muskrat Falls plant, an 824 megawatt (MW) hydroelectric generating facility in Labrador.

A 100.0% interest in Labrador Transmission Corporation (Transco) created to develop, construct, finance and operate transmission assets connecting the Muskrat Falls plant to the existing hydroelectric generating facility in Churchill Falls.

A limited partnership interest in the Labrador-Island Link Limited Partnership (LIL LP), created to develop, construct, finance and operate the assets and property constituting the Labrador-Island Link (LIL), a transmission link to be constructed between the Muskrat Falls plant and the Newfoundland and Labrador Island Interconnected System. LIL Holdco holds 100.0% of the Class A limited partnership units.

A 100.0% interest in Labrador-Island Link General Partner Corporation (LIL GP) and Labrador-Island Link Holding Corporation (LIL Holdco), both created to hold Nalcor's 65.0% interest in the LIL LP.

A 100.0% interest in the Labrador-Island Link Operating Corporation (LIL Opco), created to operate and maintain the LIL.

A 100.0% interest in the Lower Churchill Management Corporation (LCMC), created to carry out the project development and management functions for Phase 1 of the Lower Churchill Project including planning, engineering and design management, construction management, risk management, finance, procurement and supply chain management.

A 100.0% interest in the Nalcor Energy Marketing Corporation (NEM), a subsidiary established to market Nalcor's energy throughout North America. NEM was incorporated on March 24, 2014.

Nalcor also has two inactive subsidiaries, Gull Island Power Corporation (GIPCo) and Lower Churchill Development Corporation (LCDC).

1. DESCRIPTION OF BUSINESS (cont'd.)

1.2 Investments in Joint Arrangements

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

Nalcor holds a 33.3% indirect interest (through Churchill Falls) in Twin Falls Power Corporation (Twin Falls), a 225 MW hydroelectric generating plant on the Unknown River in Labrador. The plant has been inoperative since 1974.

1.3 Variable Interest Entities

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

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of Compliance and Basis of Measurement

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard (IAS) 34 - Interim Financial Reporting as issued by the International Accounting Standards Board (IASB). Nalcor adopted International Financial Reporting Standards (IFRS) as of January 1, 2014, with a date of transition effective January 1, 2013. Nalcor has adopted accounting policies which are based on the IFRS applicable as at September 30, 2014, and includes individual IFRS, IAS, and interpretations made by the IFRS Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC). Upon adoption, Nalcor followed the requirements of IFRS 1 - First time adoption of IFRS (IFRS 1) in its application of IFRS as disclosed in Note 21.

Previously, the Annual Audited Consolidated Financial Statements of Nalcor were prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP). An explanation of how the transition to IFRS has affected the financial position, financial performance and cash flows is provided in Note 21.

These condensed interim consolidated financial statements do not include all of the information required for full 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 winter months, revenue from electricity sales is higher during the first and fourth quarters.

These financial statements have been prepared on a historical cost basis, except for financial assets 'at fair value through profit or loss' and 'available-for-sale' 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. The financial statements were approved by the Board of Directors of Nalcor on November 28, 2014.

2.2 Basis of Consolidation

The consolidated financial statements include the financial statements of Nalcor, its subsidiary companies and its share of investments in joint arrangements. In addition, the financial statements of all variable interest entities for which Nalcor has been determined the primary beneficiary are included in these consolidated financial statements. Intercompany transactions and balances have been eliminated upon consolidation.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

2.2 Basis of Consolidation (cont'd.)

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 retains its 65.8% ownership interest, the agreement changed the nature of the relationship between Hydro and Hydro-Québec, with respect to Churchill Falls, from that of majority and minority shareholders, respectively, to that of a joint operation. Accordingly, Hydro has applied the proportionate consolidation method of accounting for 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. The investment is accounted for using the equity method.

Substantially all of Oil and Gas' activities are conducted jointly with others and accordingly these consolidated financial statements reflect only Nalcor's proportionate interest in such activities.

2.3 Cash and Cash Equivalents

Cash and cash equivalents and short-term investments consist of Canada Treasury Bills, Bankers' Acceptances (BAs) drawn on Schedule 1 Canadian Chartered Banks and Term Deposits issued by Schedule 1 Canadian Chartered Banks. Those with original maturities at date of purchase of three months or less are classified as cash equivalents whereas those with original maturities beyond three months and less than twelve months are classified as short-term investments. Cash and cash equivalents and short-term investments are measured at fair value.

2.4 Trade and Other Receivables

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

2.5 Inventory

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

2.6 Property, Plant and Equipment

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

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

2.6 Property, Plant and Equipment (cont'd.)

Hydro

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

Generation plant	
Hydroelectric	45 to 100 years
Thermal	35 and 65 years
Diesel	25 to 65 years
Transmission	
Lines	30 and 60 years
Terminal stations	40 to 55 years
Distribution system	30 to 55 years

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

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

Churchill Falls

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

Hydroelectric generation plant	45 to 100 years
Thermal	30 to 65 years
Diesel	7 to 45 years

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

Oil and Gas

(i) Development and Production Costs

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

2.6 Property, Plant and Equipment (cont'd.)

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

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

(ii) Subsequent Costs

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

(iii) Depletion

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

Proved and probable reserves are estimated using independent reserve engineer reports and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate, with a specified degree of certainty, to be recoverable in future years from known reservoirs and which are considered commercially viable. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves. Such reserves may be considered commercially producible if management has the intention of developing and producing them and such intention is based upon:

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

Lower Churchill Project

Since the assets associated with the Lower Churchill Project are under construction, there is no depreciation recognized until the assets are ready for use.

Other Assets

Other assets include telecontrol, computer software, buildings, vehicles, furniture, tools and equipment which are carried at cost less accumulated depreciation. Depreciation is recognized in profit or loss on a straight-line basis over estimated useful lives ranging from 3 to 50 years. Depreciation methods, useful lives and residual values are reviewed at each reporting date.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

2.7 Exploration and Evaluation Assets

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

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

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

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

2.8 Investment Property

Investment property is property held for the purpose of generating rental income or capital appreciation, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

2.9 Borrowing Costs

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

2.10 Impairment of Non-Financial Assets

At the end of each reporting period, Nalcor reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets may be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, Nalcor estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

2.11 Investments in Joint Arrangements

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

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 Hydro and Hydro-Québec representatives on the Board of Directors of Churchill Falls. Although Hydro retains its 65.8% ownership interest, the agreement changed the nature of the relationship between Hydro and Hydro-Québec, with respect to Churchill Falls, from that of majority and minority shareholders, respectively, to that of joint operators. This investment is accounted for using the proportionate consolidation method.

Hydro's joint operation, Churchill Falls, holds 33.33% of the equity share capital of Twin Falls and is a party with other shareholders in a participation agreement which gives Churchill Falls joint control of Twin Falls. This investment is accounted for using the equity method. Under the equity method, the interest in the joint venture is carried in the statement of financial position at cost plus post acquisition changes in Churchill Falls' share of net assets of the joint venture. The statements of profit and comprehensive income reflect the share of the profit or loss of the joint venture.

2.12 Employee Future Benefits

(i) <u>Pension Plan</u>

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

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

2.12 Employee Future Benefits (cont'd.)

(ii) Other Benefits

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

The cost of providing these benefits is determined using the Projected Benefit Method, with actuarial valuations being completed every three years and extrapolated at the end of each reporting period based on service and management's best estimate of salary escalation, retirement ages of employees and expected health care costs.

Actuarial gains and losses on Nalcor's defined benefit obligation as at the end of the prior year are recognized in other comprehensive income in the period in which they occur. Past service costs are recognized in operating costs as incurred.

The retirement benefit obligation recognized in the statement of financial position represents the present value of the defined benefit obligation.

2.13 Provisions

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

2.14 Decommissioning, Restoration and Environmental Liabilities

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

2.15 Revenue Recognition

Electricity Sales

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

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

Churchill Falls provides energy to three primary customers: Hydro-Québec, Hydro and Twin Falls.

A power contract with Hydro-Québec dated May 12, 1969 (the Power Contract) provides for the sale of a significant amount of the energy from Churchill Falls until 2041. The Power Contract has a 40-year term to 2016 which then renews for a further term of 25 years. The rate is predetermined in the Power Contract and decreases from the existing rate of 2.5426 mills per kWh to 2.0 mills per kWh upon renewal in 2016.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

2.15 Revenue Recognition (cont'd.)

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

The value of differences between energy delivered and the Annual Energy Base (AEB), as defined in the Power Contract, is tracked over a four year period and then either recovered from or refunded to Hydro-Québec over the subsequent four year period, unless the balance is less than $1.0 million in which case it is recovered or refunded immediately. These long-term receivables or long-term payables are subject to interest at 7% per annum (2013 - 7%).

Under the Power Contract, Churchill Falls has the right to recall 300 MW (Recall Power). All of the Recall Power is sold by Churchill Falls to Hydro and it is used to service Labrador, with any unused portion used for export sales. Churchill Falls also provides 225 MW to Twin Falls to service the mining industry in Labrador West.

<u>Oil Sales</u>
Revenue from the sale of crude oil is recognized when the amount of revenue can be reasonably measured, the significant risks and rewards of ownership have passed, Nalcor retains no continuing managerial involvement or control and collection is reasonably assured.

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

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

<u>Lease Revenue</u>
Lease revenue is recognized when services have been rendered, recovery of the consideration is probable, and the amount of revenue can be reliably estimated.

2.16 Net Finance Income and Expense

For all financial instruments measured at amortized cost and interest bearing financial assets classified as available for sale, interest income or expense is recorded using the effective interest rate, which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability.

2.17 Foreign Currencies

Transactions in currencies other than Nalcor's functional currency (foreign currencies) are recognized using the prior month end close rate. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates of exchange in effect at the period end date. Foreign exchange gains and losses are included in income as finance income and costs.

2.18 Income Taxes

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

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

2.19 Financial Instruments

Financial assets and financial liabilities are recognized in the statement of financial position when Nalcor becomes a party to the contractual provisions of the instrument and are initially measured at fair value. Subsequent measurement is based on classification. Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

<u>Classification of Financial Instruments</u>

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

Cash and cash equivalents	Loans and receivables
Short-term investments	AFS financial assets
Trade and other receivables	Loans and receivables
Derivative assets	Financial assets at FVTPL
Sinking funds – investments in same Hydro issue	Held-to-maturity investments
Sinking funds – other investments	AFS financial assets
Long-term receivable	Loans and receivables
Trade and other payables	Other financial liabilities
Derivative liabilities	Other financial liabilities
Short-term borrowings	Other financial liabilities
Long-term debt	Other financial liabilities
Long-term payable	Other financial liabilities

(i) Effective Interest Method

The effective interest method is a method of calculating the amortized cost of a debt instrument and allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

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

<u>Financial Assets</u>

(ii) Financial Assets at FVTPL

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

A financial asset is classified as held for trading if:

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

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

2.19 Financial Instruments (cont'd)

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

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

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

(iii) Held-to-Maturity Investments

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

(iv) AFS Financial Assets

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

(v) Loans and Receivables

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

Financial Liabilities and Equity Instruments

(vi) Classification as Debt or Equity

Debt and equity instruments are classified as either financial liabilities or equity in accordance with the substance of the contractual arrangement.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

2.19 Financial Instruments (cont'd)

(vii) Financial Liabilities

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

2.20 Derecognition of Financial Instruments

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

2.21 Impairment of Financial Assets

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

Evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

3.1 Use of Estimates

(i) Property, Plant and Equipment

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

(ii) Oil and Natural Gas Reserves

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

(iii) Decommissioning Liabilities

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

(iv) Employee Benefits

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

(v) Revenue

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (cont'd.)

3.2 Use of Judgments

(i) Property, Plant and Equipment

Nalcor's accounting policy relating to property, plant and equipment is described in Note 2.6. In applying this policy, judgment is used in determining whether certain costs are additions to the carrying amount of the property, plant and equipment as opposed to repairs and maintenance. If an asset has been developed, judgment is required to identify the point at which the asset is capable of being used as intended and to identify the directly attributable borrowing costs to be included in the carrying value of the development asset. Judgment is also used in determining the appropriate componentization structure for Nalcor's property, plant and equipment.

4. PROPERTY, PLANT AND EQUIPMENT

(millions of Canadian dollars)	Generation Plant	Transmission and Distribution	Petroleum and Natural Gas Properties	Other	Construction in Progress	Total
Cost						
Balance at January 1, 2013	1,425.5	610.2	405.6	175.9	659.6	3,276.8
Additions	-	-	190.6	-	849.3	1,039.9
Disposals	(7.0)	(1.6)	-	(1.5)	-	(10.1)
Transfers	60.5	54.2	-	25.4	(140.1)	-
Other adjustments	(1.8)	(0.5)	-	0.1	-	(2.2)
Balance at December 31, 2013	**1,477.2**	**662.3**	**596.2**	**199.9**	**1,368.8**	**4,304.4**
Additions	**-**	**0.1**	**177.9**	**0.5**	**1,166.1**	**1,344.6**
Disposals	**(1.7)**	**(0.9)**	**-**	**(0.4)**	**-**	**(3.0)**
Transfers	**0.7**	**(0.1)**	**-**	**1.0**	**(1.6)**	**-**
Balance at September 30, 2014	**1,476.2**	**661.4**	**774.1**	**201.0**	**2,533.3**	**5,646.0**
Depreciation and depletion						
Balance at January 1, 2013	301.1	81.0	49.5	42.8	-	474.4
Depreciation and depletion	33.8	18.3	25.1	12.7	-	89.9
Disposals	(1.9)	(0.4)	-	(0.6)	-	(2.9)
Other adjustments	0.2	0.1	-	0.1	-	0.4
Balance at December 31, 2013	**333.2**	**99.0**	**74.6**	**55.0**	**-**	**561.8**
Depreciation and depletion	**26.8**	**15.4**	**18.6**	**9.3**	**-**	**70.1**
Disposals	**(1.1)**	**(0.2)**	**-**	**(0.4)**	**-**	**(1.7)**
Other adjustments	**(1.0)**	**0.6**	**-**	**-**	**-**	**(0.4)**
Balance at September 30, 2014	**357.9**	**114.8**	**93.2**	**63.9**	**-**	**629.8**
Carrying value						
Balance at January 1, 2013	1,124.4	529.2	356.1	133.1	659.6	2,802.4
Balance at December 31, 2013	1,144.0	563.3	521.6	144.9	1,368.8	3,742.6
Balance at September 30, 2014	**1,118.3**	**546.6**	**680.9**	**137.1**	**2,533.3**	**5,016.2**

5. REGULATORY ASSETS AND LIABILITIES

	January 1 2013	Regulatory activity	December 31 2013	Regulatory activity	**September 30 2014**	**Remaining Recovery Settlement Period (years)**
Regulatory assets						
Foreign exchange losses	62.6	(2.1)	60.5	(1.6)	**58.9**	27.25
Foreign exchange on fuel	0.1	(0.1)	-	0.6	**0.6**	n/a
Deferred lease costs	-	-	-	3.0	**3.0**	n/a
Deferred energy conservation costs	2.4	1.5	3.9	1.3	**5.2**	n/a
	65.1	(0.7)	64.4	3.3	**67.7**	
Regulatory liabilities						
Rate stabilization plan (RSP)	(201.7)	(52.1)	(253.8)	21.7	**(232.1)**	n/a
Insurance proceeds	-	(4.3)	(4.3)	0.4	**(3.9)**	n/a
Deferred power purchase savings	(0.5)	-	(0.5)	-	**(0.5)**	12.75
	(202.2)	(56.4)	(258.6)	22.1	**(236.5)**	

5.1 Regulatory Adjustments Recorded in the Consolidated Statement of Income

		Three months ended		**Nine months ended**	
For the period ended September 30 (millions of Canadian dollars)		**2014**	2013	**2014**	2013
RSP recovery		**8.7**	4.1	**26.5**	50.5
Rural rate adjustment		**2.1**	1.4	**7.7**	6.1
RSP fuel deferral		**(36.8)**	(15.8)	**(69.6)**	(29.9)
RSP interest		**4.4**	4.4	**13.7**	12.5
Amortization of deferred foreign exchange losses		**0.5**	0.5	**1.6**	1.6
Deferred foreign exchange (losses) gains on fuel		**(0.4)**	-	**(0.6)**	-
Deferred energy conservation		**(0.7)**	(0.4)	**(1.3)**	(1.0)
Insurance proceeds (net of amortization)		**(0.1)**	2.8	**(0.4)**	3.8
Deferred lease costs	**(a)**	**(0.8)**	-	**(3.0)**	-
		(23.1)	(3.0)	**(25.4)**	43.6

(a) Pursuant to Order No. P.U. 38 (2013), the PUB approved the deferral of the lease costs associated with the diesel units at the Holyrood Thermal Generating Station. In the absence of rate regulation, IFRS would require that Hydro expense the lease costs in the year incurred. For the nine months ended September 30, 2014, $3.0 million of operating costs were deferred.

6. OTHER LONG-TERM ASSETS

(millions of Canadian dollars)		**September 30 2014**	December 31 2013	January 1 2013
Long-term receivables	**(a)**	**111.4**	16.7	0.8
Long-term prepaid expenses		**8.6**	9.6	-
Reserve fund		**49.7**	50.5	50.9
Sinking funds		**259.9**	237.9	302.8
		429.6	314.7	354.5

(a) As at September 30, 2014, long-term receivables include $102.4 million (2013 - $15.0 million) related to a long-term advance to a supplier in relation to construction of the Muskrat Falls hydroelectric plant. The advance is secured by a $102.4 million letter of credit from a Schedule 1 Canadian Bank.

7. LONG-TERM INVESTMENTS

As at September 30, 2014, long-term investments consist of structured deposit notes of $1,217.0 million (2013 - $1,807.3 million) related to Muskrat Falls, $267.1 million (2013 - $396.7 million) related to Transco and $1,877.0 million (2013 - $ 2,273.4 million) related to the LIL Partnership. These notes were acquired on December 20, 2013.

(millions of Canadian dollars)	**September 30 2014**	December 31 2013
Long-term investments at beginning of period	**4,477.4**	-
Contributions	**-**	4,749.6
Redemptions	**(1,164.7)**	(274.5)
Earnings	**48.4**	2.3
Long-term investments at end of period	**3,361.1**	4,477.4

8. DEBT

8.1 Short-term Borrowings

During April 2014, Nalcor converted a $250.0 million (2013 - $250.0 million) unsecured demand operating credit facility with its banker to a $250.0 million committed revolving term credit facility, with a maturity date of January 31, 2016. There were no amounts drawn on this facility at the nine month period ended September 30, 2014. Borrowings in CAD may take the form of Prime Rate Advances, BAs and Letters of Credit. Borrowings in USD may take the form of Base Rate Advances, LIBOR Advances and Letters of Credit. The facility also provides coverage for overdrafts on Nalcor's bank accounts, with interest calculated at the Prime Rate.

On September 18, 2014, Nalcor issued a $1.2 million USD letter of credit to New York Independent System Operator Inc., relating to collateral required for NEM to participate in the New York energy markets.

Hydro maintains a $50.0 million CAD or USD equivalent unsecured demand operating credit facility with its banker and at the nine month period ended September 30, 2014 there were no amounts drawn on this facility (2013 - $Nil). Advances may take the form of a Prime Rate Advance or the issuance of a BA with interest calculated at the Prime Rate or prevailing Government BA fee. The facility also provides coverage for overdrafts on Hydro's bank accounts, with interest calculated at the Prime Rate.

Churchill Falls maintains a $10.0 million CAD or USD equivalent unsecured demand operating credit facility with its banker and at the nine month period ended September 30, 2014 there were no amounts drawn on this facility (2013 - $Nil). Advances may take the form of a Prime Rate Advance or the issuance of a BA with interest calculated at the Prime Rate or prevailing Government BA fee. Churchill Falls has issued three irrevocable letters of credit, totaling $2.0 million, to ensure satisfactory management of its waste management and compliance with a certificate of approval for the transportation of special hazardous wastes granted by the Department of Environment and Conservation.

Oil and Gas maintains a $5.0 million unsecured credit facility. There were no amounts drawn on this facility at the nine month period ended September 30, 2014 (2013 - $Nil).

There were no outstanding promissory notes in Hydro at the nine month period ended September 30, 2014 (December 31, 2013 - $41.0 million).

8. DEBT (cont'd.)

8.2 Long-term Debt

(millions of Canadian dollars)	Face Value	Coupon Rate %	Year of Issue	Year of Maturity	**September 30 2014**	December 31 2013	January 1 2013
Hydro							
V*	0.4	10.50	1989	2014	**0.4**	125.0	124.8
X*	150.0	10.25	1992	2017	**149.6**	149.5	149.4
Y*	300.0	8.40	1996	2026	**294.3**	294.0	293.8
AB*	300.0	6.65	2001	2031	**306.0**	306.1	306.3
AD*	125.0	5.70	2003	2033	**123.7**	123.7	123.7
AE	225.0	4.30	2006	2016	**224.5**	224.4	224.2
AF	200.0	3.60	2014	2045	**197.1**	-	-
LIL LP							
Tranche A	725.0	3.76	2013	2033	**725.3**	725.3	-
Tranche B	600.0	3.86	2013	2045	**600.1**	600.1	-
Tranche C	1,075.0	3.85	2013	2053	**1,075.2**	1,075.2	-
Lab Transco/Muskrat Falls							
Tranche A	650.0	3.63	2013	2029	**650.3**	650.3	-
Tranche B	675.0	3.83	2013	2037	**675.1**	675.1	-
Tranche C	1,275.0	3.86	2013	2048	**1,275.2**	1,275.3	-
Total debentures	6,300.4				**6,296.8**	6,224.0	1,222.2
Less: Sinking fund investments in own debentures					**45.5**	93.9	88.1
					6,251.3	6,130.1	1,134.1
Less: payments due within one year					**8.5**	82.2	8.2
Total debentures					**6,242.8**	6,047.9	1,125.9

***Sinking funds have also 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 nine months ending September 30, 2014 was $2.8 million (2013 - $2.8 million).

On September 15, 2014, Hydro raised new long-term debt through the sale of $200 million of Series AF debentures to its underwriting syndicate. The debentures mature on December 31, 2045 with a coupon of 3.6% paid semi-annually.

On November 29, 2013, the Project Trust entered into the IT Project Finance Agreement (IT PFA) with the Labrador-Island Link Funding Trust (LIL Funding Trust). Under the terms and conditions of the IT PFA, the LIL Funding Trust agreed to provide a non-revolving credit facility in the amount of $2.4 billion available in three tranches (Tranches A, B and C) to the LIL LP. The purpose of the LIL Funding Trust is to issue long-term debentures to the public, which debt is guaranteed by the Government of Canada and to on-lend the proceeds to the Project Trust. The proceeds of the facility are to be used exclusively for the construction of the LIL.

On December 13, 2013, all three tranches of the construction facility were drawn down by way of a single advance to the Project Trust of $2.4 billion. Under the terms of the IT PFA, the $2.4 billion advance is held in an account administered by a collateral agent with a portion of the funds invested in structured deposits notes. The LIL LP draws funds from this account on a monthly basis in accordance with procedures set out in the IT PFA.

8. DEBT (cont'd.)

8.2. Long-term Debt (cont'd.)

The role of the collateral agent is to act on behalf of the lending parties, including the LIL Funding Trust and the Government of Canada. The collateral agent oversees the lending and security arrangements, the various project accounts and the compliance with covenants.

As security for these debt obligations, the LIL LP has granted to the collateral agent first ranking liens on all present and future assets. On the date of the release of the final funding request from the collateral agent, sinking funds are required to be set up for each of the three tranches to be held in a sinking fund account administered by the collateral agent.

On November 29, 2013, Muskrat Falls entered into the Project Finance Agreement (PFA) with the MF/LTA Funding Trust and Transco. Under the terms and conditions of the PFA, the MF/LTA Funding Trust agreed to provide a non-revolving credit facility in the amount of $2.6 billion available in three tranches (Tranches A, B and C). The purpose of the MF/LTA Funding Trust is to issue long-term debentures to the public, which debt is guaranteed by the Government of Canada and to on-lend the proceeds to Muskrat Falls and Transco. Muskrat Falls and Transco are both jointly and severally liable for the full amount of the credit facility.

On December 13, 2013, all three tranches of the construction facility were drawn down by way of a single advance of $2.6 billion. Under the terms of the PFA, the $2.6 billion advance is held in an account administered by the collateral agent with a portion of the funds invested in structured deposits notes. Muskrat Falls and Transco draw funds from this account on a monthly basis in accordance with procedures set out in the PFA. Muskrat Falls' portion of the drawings under the facility totals $2.1 billion and is to be used exclusively for the construction of the Muskrat Falls hydro-electric facility.

As security for these debt obligations, Muskrat Falls and Transco have granted to the collateral agent first ranking liens on all present and future assets. On the date of the release of the final funding requests from the collateral agent, sinking funds are required to be set up for each of the three tranches to be held in an account administered by the collateral agent.

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

(millions of Canadian dollars)	2015	2016	2017	2018	2019
Long-term debt repayment	-	225.0	150.0	-	-

9. CLASS B LIMITED PARTNERSHIP UNITS

The Class B limited partnership units issued represent Emera's interest in the LIL LP. The Class B limited partnership units have certain rights and obligations, including mandatory distributions, that result in the classification of these units as financial liabilities. The partnership units are measured at amortized cost using the effective interest method. The return on the units is classified as a finance expense and capitalized as non-cash additions to property, plant and equipment.

9. CLASS B LIMITED PARTNERSHIP UNITS (cont'd.)

In 2013, the Class B limited partnership units were issued to Emera NL which contributed cash of $67.7 million to the Class B partnership account. The components of the change in balances in the Class B limited partnership units are as follows:

	September 30		December 31	
(millions of Canadian dollars)	**Units**	**2014**	Units	2013
Class B limited partnership units at beginning of period	**25**	**73.0**	-	-
Units issued	**-**	**-**	25	67.7
Accrued interest	**-**	**4.7**	-	5.3
Class B limited partnership units at end of period	**25**	**77.7**	25	73.0

10. DEFERRED CREDITS

Deferred credits consist of funding from the Province, deferred revenue from Emera, deferred lease revenue and oil production.

(millions of Canadian dollars)	**Hydro Wind Credits**	**Oil and Gas Program Funding**	**Deferred Energy Sales**	**Other**	**Total**
Balance at January 1, 2013	1.9	4.8	28.0	0.5	35.2
Additions	-	1.5	67.1	1.4	70.0
Amortization	(1.2)	(2.1)	-	(0.5)	(3.8)
Balance at December 31, 2013	**0.7**	**4.2**	**95.1**	**1.4**	**101.4**
Additions	**-**	**0.5**	**120.4**	**0.3**	**121.2**
Amortization	**-**	**(0.9)**	**-**	**-**	**(0.9)**
	0.7	**3.8**	**215.5**	**1.7**	**221.7**
Less: current portion	**(0.7)**	**(1.5)**	**-**	**(1.5)**	**(3.7)**
Deferred credits, end of period	**-**	**2.3**	**215.5**	**0.2**	**218.0**

Hydro has received funding from the Province for wind feasibility studies in Labrador. Oil and Gas has received funding from the Province for oil and gas exploration initiatives. Funding related to studies and programs are amortized to income directly against the related expenditures as the costs are incurred.

In July 2012, Nalcor entered into agreements with Emera related to Phase 1 of the Lower Churchill Project. Under these agreements, Emera is constructing the Maritime Link in exchange for the provision of power and energy by Nalcor for a 35 year period. Nalcor has recorded deferred revenue of $215.5 million (2013 - $95.1 million) which equals the construction costs to date incurred by Emera. Nalcor has determined that it controls the Maritime Link asset for financial reporting purposes, and as such, has recorded the costs as a component of property, plant and equipment under construction.

11. DEFERRED CONTRIBUTIONS

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

(millions of Canadian dollars)	**September 30 2014**	December 31 2013
Deferred contributions, beginning of period	**11.3**	10.1
Additions	**0.9**	1.9
Amortization	**(0.5)**	(0.7)
	11.7	11.3
Less: current portion	**(0.6)**	(1.8)
Deferred contributions, end of period	**11.1**	9.5

12. DECOMMISSIONING LIABILITIES

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

The reconciliation of the beginning and ending carrying amounts of decommissioning liabilities for September 30, 2014 and December 31, 2013 are as follows:

(millions of Canadian dollars)	**September 30 2014**	December 31 2013
Decommissioning liabilities, beginning of period	**33.9**	33.0
Liabilities incurred	**0.2**	-
Accretion	**1.0**	0.9
Decommissioning liabilities, end of period	**35.1**	33.9
Less: current portion	**0.9**	0.9
Decommissioning liabilities, end of period	**34.2**	33.0

13. EMPLOYEE FUTURE BENEFITS

13.1 Pension Plan

Employees participate in the Province's Public Service Pension Plan, a multi-employer defined benefit plan. The employer's contributions of $6.5 million (2013 - $5.0 million) are expensed as incurred.

13.2 Other Benefits

Nalcor provides group life insurance and health care benefits on a cost shared basis to retired employees, and in certain cases, their surviving spouses, in addition to a severance payment upon retirement. In 2014, cash payments to beneficiaries for its unfunded other employee future benefits were $2.3 million (2013 - $2.5 million). An actuarial valuation was performed as at December 31, 2012, with an extrapolation to December 31, 2013. The next actuarial valuation will be performed at December 31, 2015.

13. EMPLOYEE FUTURE BENEFITS (cont'd.)

	Three months ended		Nine months ended	
For the period ended September 30 (millions of Canadian dollars)	**2014**	2013	**2014**	2013
Component of benefit				
Current service cost	**1.2**	1.3	**3.6**	3.9
Interest cost	**1.5**	1.2	**4.6**	3.7
Benefit expense	**2.7**	2.5	**8.2**	7.6

14. OPERATING COSTS

	Three months ended		Nine months ended	
For the period ended September 30 (millions of Canadian dollars)	**2014**	2013	**2014**	2013
Salaries and benefits expense	**31.9**	30.2	**93.7**	88.2
Transmission rental	**5.3**	5.1	**15.0**	15.5
Maintenance and materials	**10.9**	7.1	**25.3**	21.4
Oil and gas production costs	**2.7**	2.1	**8.6**	6.2
Professional services	**7.4**	3.9	**18.1**	10.9
Other operating costs	**5.9**	5.9	**20.8**	17.6
	64.1	54.3	**181.5**	159.8

15. NET FINANCE INCOME AND EXPENSE

	Three months ended		Nine months ended	
For the period ended September 30 (millions of Canadian dollars)	**2014**	2013	**2014**	2013
Finance income				
Interest on sinking fund	**3.5**	5.3	**13.6**	15.4
Interest on reserve fund	**0.4**	0.4	**1.1**	1.1
Other interest income	**19.1**	-	**54.2**	0.9
	23.0	5.7	**68.9**	17.4
Finance expense				
Long-term debt	**60.1**	22.6	**210.8**	67.8
Class B Limited Partnership Units	**1.6**	-	**4.7**	-
Debt guarantee fee	**1.0**	0.9	**2.8**	2.8
Accretion	**1.3**	1.4	**4.1**	4.1
Other	**0.7**	0.3	**1.8**	1.0
	64.7	25.2	**224.2**	75.7
Interest capitalized during construction	**(24.9)**	(1.2)	**(96.9)**	(3.4)
	39.8	24.0	**127.3**	72.3
Net finance expense	**16.8**	18.3	**58.4**	54.9

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

16.1 Fair Value

The estimated fair values of financial instruments as at September 30, 2014 and December 31, 2013 are based on relevant market prices and information available at the time. Fair value estimates are based on valuation techniques which are significantly affected by the assumptions used including the amount and timing of future cash flows and discount rates reflecting various degrees of risk. As such, the fair value estimates below are not necessarily indicative of the amounts that Nalcor might receive or incur in actual market transactions.

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd.)

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

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

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

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

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

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.

The fair value of cash and cash equivalents, restricted cash, 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.

Market Risk
In January 2014, Bull Arm Fabrication entered into a total of 11 forward contracts with a notional value of USD $11.7 million to mitigate USD/CAD currency exposure on a portion of its USD denominated lease revenues. These contracts provide Bull Arm Fabrication with an average fixed price of $1.09 CAD per USD. Combined with the hedges in place as of December 31, 2013, 94.0% of the expected USD lease revenue for 2014 is hedged, at a weighted average price of $1.07 CAD per USD.

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd.)

	Level	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value	Carrying Value	Fair Value
(millions of Canadian dollars)		**September 30, 2014**		December 31, 2013		January 1, 2013	
Financial assets							
Cash and cash equivalents	**1**	**68.2**	**68.2**	93.7	93.7	11.9	11.9
Restricted cash	**1**	**1,025.5**	**1,025.5**	525.5	525.5	-	-
Short-term investments	**1**	**1.0**	**1.0**	1.0	1.0	11.0	11.0
Trade and other receivables	**1**	**88.1**	**88.1**	149.8	149.8	124.7	124.7
Derivative assets	**2**	**1.0**	**1.0**	0.2	0.2	0.1	0.1
Sinking funds - investments in same Hydro issue	**2**	**45.5**	**58.3**	93.9	105.1	88.1	107.3
Sinking funds - other investments	**2**	**259.9**	**259.9**	303.3	303.3	302.8	302.8
Long-term investments	**2**	**3,361.1**	**3,362.2**	4,477.4	4,476.2	-	-
Reserve fund	**2**	**49.7**	**49.7**	50.5	50.5	50.9	50.9
Long-term receivables	**2**	**111.4**	**111.4**	16.7	16.8	0.8	0.8
Financial liabilities							
Short-term borrowings	**1**	**-**	**-**	41.0	41.0	125.0	125.0
Trade and other payables	**1**	**703.1**	**703.1**	408.3	408.3	198.0	198.0
Derivative liabilities	**2**	**0.9**	**0.9**	1.5	1.5	-	-
Long-term debt including amount due within one year (before sinking funds)	**2**	**6,296.8**	**7,257.7**	6,224.0	6,626.6	1,222.2	1,668.6
Class B limited partnership units	**3**	**77.7**	**77.7**	73.0	73.0	-	-
Long-term payables	**2**	**78.0**	**82.0**	78.3	83.2	82.4	82.6

17. RELATED PARTY TRANSACTIONS

Nalcor 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 Nalcor transacts are as follows:

Related Party	Relationship
The Province	100.0% shareholder of Nalcor Energy
Churchill Falls	Jointly controlled subsidiary 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
LIL LP	Partnership in which Nalcor holds 75 Class A Partnership Units
PUB	Agency of the Province

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

18. COMMITMENTS AND CONTINGENCIES

Nalcor and its subsidiaries have received claims instituted by various companies and individuals with respect to outages and other miscellaneous matters. Although such matters cannot be predicted with certainty, management believes Nalcor's exposure to such claims and litigation, to the extent not covered by insurance or otherwise provided for, is not expected to materially affect its financial position.

18. COMMITMENTS AND CONTINGENCIES (cont'd.)

On July 24, 2014, Churchill Falls received the judgment from the Québec Superior Court on the motion it filed in February 2010 regarding the disparities of the 1969 Power Contract between Churchill Falls and Hydro-Québec. The ruling requires Churchill Falls to pay the court costs of $1.4 million to Hydro-Québec. On August 26, 2014, Churchill Falls filed an Inscription in Appeal with the Quebec Court of Appeal regarding the judgment of the Quebec Superior Court.

Outstanding commitments for capital projects total approximately $3,374.7 million as at September 30, 2014 (2013 - $2,424.6 million). In addition, Oil and Gas has committed to fund its share of all exploration and development projects.

19. SUPPLEMENTARY CASH FLOW INFORMATION

	Three months ended		**Nine months ended**	
For the period ended September 30 (millions of Canadian dollars)	**2014**	2013	**2014**	2013
Trade and other receivables	**29.0**	6.7	**61.7**	47.2
Prepaid expenses	**(5.3)**	(1.2)	**(3.8)**	(2.6)
Inventories	**(10.4)**	1.5	**(27.8)**	(28.0)
Trade and other payables	**201.5**	114.5	**294.8**	153.0
Changes in non-cash working capital balances	**214.8**	121.5	**324.9**	169.6
Interest received	**18.4**	0.7	**75.7**	2.0
Interest paid	**34.4**	34.4	**168.1**	80.2

20. SEGMENT INFORMATION

Nalcor operates in seven business segments. Hydro Regulated encompasses sales of electricity to customers within the Province. Churchill Falls operates a hydroelectric generating facility which sells electricity to Hydro-Québec, Hydro and industrial customers in Labrador. Oil and Gas activities include exploration, development, production, transportation and processing sectors of the oil and gas industry. Energy Marketing includes the sale of electricity to markets outside the province and other non-regulated electricity sales. Corporate and other activities encompass development activities including Phase 2 of the Lower Churchill Project and corporate activities. Phase 1 of the Lower Churchill Project includes investments in the Muskrat Falls hydroelectric plant, the Labrador-Island Link and the Labrador Transmission Assets. Bull Arm Fabrication consists of an industrial fabrication site which is leased for major construction of development projects. The segments' accounting policies are the same as those described in Note 2 of these consolidated financial statements. The designation of segments has been based on a combination of regulatory status and management accountability.

(millions of Canadian dollars)	Hydro Regulated	Churchill Falls	Oil and Gas	Energy Marketing	Corporate and Other Activities	Phase 1 Lower Churchill Project	Bull Arm	Inter-Segment	Total
					For the nine months ended September 30, 2014				
Revenue									
Energy sales	400.8	48.2	55.7	64.1	0.1	-	-	(3.0)	565.9
Other revenue	1.6	0.7	6.4	-	0.1	-	13.2	2.0	24.0
	402.4	48.9	62.1	64.1	0.2	-	13.2	(1.0)	589.9
Expenses									
Fuels	(203.6)	-	-	-	-	-	-	-	(203.6)
Power purchased	(49.3)	-	-	(6.1)	-	-	-	3.0	(52.4)
Operating costs	(102.3)	(30.7)	(16.7)	(20.7)	(10.2)	(0.2)	(0.7)	-	(181.5)
Depreciation and depletion	(41.0)	(10.1)	(18.6)	-	(0.4)	-	-	-	(70.1)
Net finance income and expense	(58.0)	1.0	-	(0.1)	(1.0)	-	(0.3)	-	(58.4)
Other income and expense	(0.8)	(1.8)	1.4	(2.7)	0.1	-	-	-	(3.8)
Share in profit of joint venture	-	0.3	-	-	-	-	-	-	0.3
Preferred dividends	-	2.0	-	-	-	-	-	(2.0)	-
(Loss) profit before regulatory adjustments	(52.6)	9.6	28.2	34.5	(11.3)	(0.2)	12.2	-	20.4
Regulatory adjustments	25.4	-	-	-	-	-	-	-	25.4
(Loss) profit for the period	(27.2)	9.6	28.2	34.5	(11.3)	(0.2)	12.2	-	45.8
Capital expenditures*	142.9	23.9	186.5	0.7	0.9	998.2	-	-	1,353.1
Total assets	2,011.6	488.1	708.0	7.3	281.3	6,687.7	3.7	-	10,187.7

***Capital expenditures include non-cash additions of $120.4 million related to the Maritime Link and $4.7 million related to Class B Limited Partnership Unit accrued interest.**

20. SEGMENT INFORMATION (cont'd.)

(millions of Canadian dollars)	Hydro Regulated	Churchill Falls	Oil and Gas	Energy Marketing	Corporate and Other Activities	Phase 1 Lower Churchill Project	Bull Arm	Inter-Segment	Total
	For the nine months ended September 30, 2013								
Revenue									
Energy sales	394.7	53.1	52.7	53.0	0.1	-	-	(3.0)	550.6
Other revenue	2.3	0.7	2.0	-	0.2	-	12.4	2.5	20.1
	397.0	53.8	54.7	53.0	0.3	-	12.4	(0.5)	570.7
Expenses									
Fuels	(123.6)	-	-	-	-	-	-	-	(123.6)
Power purchased	(43.9)	-	-	(5.9)	-	-	-	3.0	(46.8)
Operating costs	(85.3)	(31.2)	(13.2)	(20.4)	(9.0)	-	(0.7)	-	(159.8)
Depreciation and depletion	(38.3)	(9.4)	(18.0)	-	(0.3)	-	-	-	(66.0)
Exploration and evaluation	-	-	(2.8)	-	-	-	-	-	(2.8)
Net finance income and expense	(55.6)	1.1	-	(0.2)	(0.3)	-	0.1	-	(54.9)
Other income and expense	3.7	(0.4)	-	(0.2)	-	-	(0.1)	-	3.0
Share in profit of joint venture	-	0.3	-	-	-	-	-	-	0.3
Preferred dividends	-	2.5	-	-	-	-	-	(2.5)	-
Profit (loss) before regulatory adjustments	54.0	16.7	20.7	26.3	(9.3)	-	11.7	-	120.1
Regulatory adjustments	(43.6)	-	-	-	-	-	-	-	(43.6)
Profit (loss) for the period	10.4	16.7	20.7	26.3	(9.3)	-	11.7	-	76.5
Capital expenditures	59.2	20.6	123.1	-	0.1	442.4	-	-	645.4
Total assets	1,921.9	479.6	477.6	2.6	916.6	295.3	3.6	-	4,097.2

20. SEGMENT INFORMATION (cont'd.)

(millions of Canadian dollars)	Hydro Regulated	Churchill Falls	Oil and Gas	Energy Marketing	Corporate and Other Activities	Phase 1 Lower Churchill Project	Bull Arm	Inter-Segment	Total
	For the three months ended September 30, 2014								
Revenue									
Energy sales	79.1	8.2	11.1	17.9	0.1	-	-	(1.0)	115.4
Other revenue	(0.3)	0.2	3.6	-	(0.1)	-	4.4	0.5	8.3
	78.8	8.4	14.7	17.9	-	-	4.4	(0.5)	123.7
Expenses									
Fuels	(32.4)	-	-	-	-	-	-	-	(32.4)
Power purchased	(11.7)	-	-	(2.6)	-	-	-	1.0	(13.3)
Operating costs	(36.9)	(9.9)	(5.5)	(7.7)	(3.7)	-	(0.4)	-	(64.1)
Depreciation and depletion	(12.8)	(3.4)	(4.5)	-	(0.2)	-	-	-	(20.9)
Net finance income and expense	(17.2)	0.3	0.4	0.3	(0.5)	-	(0.1)	-	(16.8)
Other income and expense	(1.4)	(1.2)	1.8	(0.3)	-	-	(0.2)	-	(1.3)
Share in profit of joint venture	-	0.1	-	-	-	-	-	-	0.1
Preferred dividends	-	0.5	-	-	-	-	-	(0.5)	-
(Loss) profit before regulatory adjustments	(33.6)	(5.2)	6.9	7.6	(4.4)	-	3.7	-	(25.0)
Regulatory adjustments	23.1	-	-	-	-	-	-	-	23.1
(Loss) profit for the period	(10.5)	(5.2)	6.9	7.6	(4.4)	-	3.7	-	(1.9)
Capital expenditures*	59.7	8.7	73.2	0.2	(1.2)	465.8	-	-	606.4
Total assets	2,011.6	488.1	708.0	7.3	281.3	6,687.7	3.7	-	10,187.7

*Capital expenditures include non-cash additions of $53.4 million related to the Maritime Link and $1.6 million related to Class B Limited Partnership Unit accrued interest.

20. SEGMENT INFORMATION (cont'd.)

(millions of Canadian dollars)	Hydro Regulated	Churchill Falls	Oil and Gas	Energy Marketing	Corporate and Other Activities	Phase 1 Lower Churchill Project	Bull Arm	Inter-Segment	Total
	For the three months ended September 30, 2013								
Revenue									
Energy sales	74.8	11.2	16.8	19.7	0.1	-	-	(1.0)	121.6
Other revenue	0.7	0.3	2.0	-	0.1	-	4.2	0.7	8.0
	75.5	11.5	18.8	19.7	0.2	-	4.2	(0.3)	129.6
Expenses									
Fuels	(4.7)	-	-	-	-	-	-	-	(4.7)
Power purchased	(13.3)	-	-	(2.5)	(0.2)	-	-	1.0	(15.0)
Operating costs	(27.9)	(11.3)	(5.8)	(6.4)	(2.6)	-	(0.3)	-	(54.3)
Depreciation and depletion	(12.9)	(3.0)	(4.0)	-	(0.2)	-	-	-	(20.1)
Exploration and evaluation	-	-	(2.1)	-	-	-	-	-	(2.1)
Net finance income and expense	(18.2)	0.3	(0.2)	(0.4)	0.2	-	-	-	(18.3)
Other income and expense	2.7	(0.4)	(0.8)	0.8	-	-	0.2	-	2.5
Preferred dividends	-	0.7	-	-	-	-	-	(0.7)	-
Profit (loss) before regulatory adjustments	1.2	(2.2)	5.9	11.2	(2.6)	-	4.1	-	17.6
Regulatory adjustments	3.0	-	-	-	-	-	-	-	3.0
Profit (loss) for the period	4.2	(2.2)	5.9	11.2	(2.6)	-	4.1	-	20.6
Capital expenditures	24.2	12.4	58.8	-	(1.2)	234.2	-	-	328.4
Total assets	1,921.9	479.6	477.6	2.6	916.6	295.3	3.6	-	4,097.2

21. EXPLANATION OF TRANSITION TO IFRS

Nalcor adopted IFRS as of January 1, 2014, with a date of transition effective January 1, 2013. Prior to the adoption of IFRS, Nalcor prepared its financial statements in accordance with Canadian Generally Accepted Accounting Principles (GAAP).

These condensed interim consolidated financial statements have been prepared with the accounting policies described in Note 2 and in accordance with the existing IFRS with an effective date of September 30, 2014 or earlier. Related comparatives have also been prepared under IFRS effective at January 1, 2013. In preparing its opening IFRS statement of financial position, Nalcor has adjusted amounts reported previously in financial statements prepared in accordance with GAAP. An explanation of how the transition from GAAP to IFRS has affected Nalcor's financial position, financial performance and cash flow is set out in the following tables and the notes that accompany the tables.

IFRS 1 sets out the guidance for first time adoption of IFRS. Under IFRS 1, the standards are applied retrospectively at the date of transition unless certain exceptions are applied.

The following mandatory IFRS exceptions were applied at the transition date:

Estimates
Hindsight was not used to create or revise estimates. The estimates previously made by Nalcor under GAAP are consistent with their applications under IFRS.

Classification and Measurement of Financial Assets
Nalcor has not retroactively applied the derecognition requirements in IFRS 9 occurring on or after the transition date.

The following optional IFRS exceptions were applied at the transition date:

Property, plant and equipment – deemed cost
Prior to transition to IFRS, the carrying amount of property, plant and equipment included amounts that were determined through rate regulated guidance. On transition to IFRS, Nalcor's subsidiary, Hydro, has elected to use the carrying amount of property, plant and equipment as the deemed cost at January 1, 2013. The decommissioning liabilities are not exempt from IFRS 1 and were adjusted to reflect their IFRS cost.

Borrowing Costs
Nalcor's subsidiary, Hydro, has elected to apply the transitional exemption allowing the borrowing costs to be capitalized prospectively from the date of transition.

21. EXPLANATION OF TRANSITION TO IFRS (cont'd.)

21.1 Reconciliation of Equity

(millions of Canadian dollars)	Notes	January 1, 2013 Previous GAAP	January 1, 2013 Effect of Transition to IFRS	January 1, 2013 IFRS	December 31, 2013 Previous GAAP	December 31, 2013 Effect of Transition to IFRS	December 31, 2013 IFRS
ASSETS							
Current assets							
Cash and cash equivalents	a	12.1	(0.2)	11.9	94.0	(0.3)	93.7
Restricted cash		-	-	-	525.5	-	525.5
Short-term investments	a	11.5	(0.5)	11.0	1.7	(0.7)	1.0
Trade and other receivables	a	125.0	(0.3)	124.7	150.2	(0.4)	149.8
Current portion of regulatory assets	i	2.2	(2.2)	-	2.2	(2.2)	-
Current portion of sinking funds		-	-	-	65.4	-	65.4
Prepaid expenses		5.6	-	5.6	11.6	-	11.6
Inventory	a,i	62.1	(0.1)	62.0	75.2	-	75.2
Derivative assets		0.1	-	0.1	0.2	-	0.2
Total current assets		218.6	(3.3)	215.3	926.0	(3.6)	922.4
Non-current assets							
Property, plant and equipment	a,b,c,d,e,f,g,i	2,435.0	367.4	2,802.4	3,204.3	538.3	3,742.6
Petroleum and natural gas properties	b,d,e	376.0	(376.0)	-	552.6	(552.6)	-
Investment property	b,c	-	1.1	1.1	-	1.1	1.1
Regulatory assets	i	62.8	(62.8)	-	62.2	(62.2)	-
Other long-term assets	a	354.5	-	354.5	305.1	-	305.1
Investments in joint ventures	a	-	0.7	0.7	-	1.1	1.1
Long-term prepaid expenses		-	-	-	9.6	-	9.6
Long-term investments		-	-	-	4,477.4	-	4,477.4
Total non-current assets		3,228.3	(69.6)	3,158.7	8,611.2	(74.3)	8,536.9
Total assets		3,446.9	(72.9)	3,374.0	9,537.2	(77.9)	9,459.3
Regulatory deferrals	i	-	65.1	65.1	-	64.4	64.4
Total assets and regulatory deferrals		3,446.9	(7.8)	3,439.1	9,537.2	(13.5)	9,523.7

21. EXPLANATION OF TRANSITION TO IFRS (cont'd.)

21.1 Reconciliation of Equity (cont'd.)

		January 1, 2013			December 31, 2013		
(millions of Canadian dollars)	**Note**	**Previous GAAP**	**Effect of Transition to IFRS**	**IFRS**	**Previous GAAP**	**Effect of Transition to IFRS**	**IFRS**
LIABILITIES AND EQUITY							
Current liabilities							
Short-term borrowings		125.0	-	125.0	41.0	-	41.0
Trade and other payables	a	198.1	(0.1)	198.0	408.3	-	408.3
Current portion of long-term debt		8.2	-	8.2	82.2	-	82.2
Current portion of regulatory liabilities	i	169.0	(169.0)	-	214.0	(214.0)	-
Current portion of other liabilities	a,f	8.6	(0.1)	8.5	5.8	1.4	7.2
Derivative liabilities		-	-	-	1.5	-	1.5
Total current liabilities		508.9	(169.2)	339.7	752.8	(212.6)	540.2
Non-current liabilities							
Long-term debt		1,125.9	-	1,125.9	6,047.9	-	6,047.9
Class B partnership units		-	-	-	73.0	-	73.0
Regulatory liabilities	b,i	33.2	(33.2)	-	40.3	(40.3)	-
Deferred credits		28.0	-	28.0	96.9	-	96.9
Deferred contributions	b,f	-	9.9	9.9	-	9.5	9.5
Decommissioning liabilities	a,b,g	30.0	1.9	31.9	33.1	(0.1)	33.0
Employee future benefits	h	73.6	46.3	119.9	81.4	36.9	118.3
Long-term payable		82.4	-	82.4	78.3	-	78.3
Total non-current liabilities		1,373.1	24.9	1,398.0	6,450.9	6.0	6,456.9
Total liabilities		1,882.0	(144.3)	1,737.7	7,203.7	(206.6)	6,997.1
Equity							
Issued capital		122.5	-	122.5	122.5	-	122.5
Shareholder contributions		435.8	-	435.8	1,141.8	-	1,141.8
Accumulated other comprehensive income	h	43.6	(46.3)	(2.7)	10.6	(38.7)	(28.1)
Retained earnings	b,d,h	963.0	(19.4)	943.6	1,058.6	(26.8)	1,031.8
Total equity		1,564.9	(65.7)	1,499.2	2,333.5	(65.5)	2,268.0
Total liabilities and equity		3,446.9	(210.0)	3,236.9	9,537.2	(272.1)	9,265.1
Regulatory deferrals	i	-	202.2	202.2	-	258.6	258.6
Total liabilities, equity and regulatory deferrals		3,446.9	(7.8)	3,439.1	9,537.2	(13.5)	9,523.7

21. EXPLANATION OF TRANSITION TO IFRS (cont'd.)

21.2 Reconciliation of Comprehensive Income for the Nine Months Ended September 30, 2013

(millions of Canadian dollars)	Notes	Previous GAAP	Effect of Transition to IFRS	IFRS
Energy sales	a	551.2	(0.6)	550.6
Other revenue	a, f	19.2	0.9	20.1
Revenue		**570.4**	**0.3**	**570.7**
Fuels		(123.6)	-	(123.6)
Power purchased		(46.8)	-	(46.8)
Operating costs	a,h	(161.9)	2.1	(159.8)
Depreciation and depletion	a,b,d,e,f,g	(64.1)	(1.9)	(66.0)
Exploration and evaluation	d	-	(2.8)	(2.8)
Net finance income and expense	b,g	(54.2)	(0.7)	(54.9)
Other income and expense	a	2.6	0.4	3.0
Share of profit of joint venture	a	-	0.3	0.3
Profit for the period, before regulatory adjustments		**122.4**	**(2.3)**	**120.1**
Regulatory adjustments	h	(42.4)	(1.2)	(43.6)
Profit for the period		**80.0**	**(3.5)**	**76.5**
Other comprehensive income:				
Net change in fair value of available for sale financial instruments		(17.7)	-	(17.7)
Net change in fair value of financial instruments reclassified to profit or loss		-	-	-
Net change in fair value of employee benefit liability		-	-	-
Total comprehensive income for the period		**62.3**	**-**	**58.8**

21.3 Reconciliation of Cash Flows for the Nine Months Ended September 30, 2013

(millions of Canadian dollars)	Previous GAAP	Effect of Transition to IFRS	IFRS
Cash provided by (used in):			
Operating activities	372.4	(7.6)	364.8
Investing activities	(665.4)	34.1	(631.3)
Financing activities	388.1	(26.3)	361.8
Net increase in cash	95.1	0.2	95.3

21. EXPLANATION OF TRANSITION TO IFRS (cont'd.)

21.4 Notes to the Reconciliation

(a) Accounting for Joint Arrangements
Under GAAP, Nalcor accounted for its interests in subsidiaries in which it has joint control using proportionate consolidation. IFRS 11 requires joint arrangements to be classified as either joint operations or joint ventures. Nalcor has determined that Churchill Falls is a joint operation and therefore must be accounted for using the proportionate consolidation method.

Churchill Falls holds 33.33% of the equity share capital of Twin Falls and is a party with other shareholders in a participation agreement which gives Churchill Falls joint control of Twin Falls. This arrangement is a joint venture and is accounted for using the equity method under IFRS 11, but was previously proportionately consolidated under GAAP. Under the equity method, the interest in the joint venture is carried in the statement of financial position at cost plus post acquisition changes in Churchill Falls' share of net assets of the joint venture. The statements of profit and comprehensive income reflect the share of the profit or loss of the joint venture.

(b) Property, Plant and Equipment

Regulated Hydro
Prior to transition to IFRS, the carrying amount of property, plant and equipment included amounts that were determined through rate regulated guidance. On transition to IFRS, Hydro has elected to use the carrying amount of property, plant and equipment at its deemed cost at January 1, 2013.

Other Property, Plant and Equipment
Under GAAP, Nalcor allocated the cost of an item of property, plant and equipment to significant separable components only when practicable. IAS 16 requires that each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item be depreciated separately. Nalcor also reviewed replacement of major components to determine if assets replaced prior to the end of their useful life required derecognition under IFRS.

A reconciliation of the property, plant and equipment is as follows:

(millions of Canadian dollars)	December 31 2013	January 1 2013
Property, plant and equipment as reported under Canadian GAAP	3,204.3	2,435.0
Remove Twin Falls' property, plant and equipment	(0.1)	(0.1)
Reclassify Churchill Falls' contributions in aid of construction	9.7	10.1
Reclassify Hydro contributions in aid of construction	1.6	-
Reclassify insurance proceeds to regulatory deferrals	4.3	-
Revision of Hydro decommissioning liabilities	0.1	2.1
Revision of Oil & Gas decommissioning liabilities	(0.2)	(0.2)
Remove capitalized overhead	(1.6)	(1.6)
Revision of depletion policy	5.4	9.3
Remove pre-license exploration costs	(12.1)	(4.7)
Impairment of exploration and evaluation assets	(25.2)	(25.2)
Reclassify petroleum and natural gas properties	552.6	376.0
Reclassify investment property	(1.1)	(1.1)
Other property, plant and equipment adjustments	4.9	2.8
Property, plant and equipment as reported under IFRS	3,742.6	2,802.4

21. EXPLANATION OF TRANSITION TO IFRS (cont'd.)

21.4 Notes to the Reconciliation (cont'd.)

(c) Investment Property
Under GAAP, property held for the purpose of generating rental income or capital appreciation was included in property, plant and equipment. Under IFRS, such property is classified as investment property.

(d) Exploration and Evaluation Expenditures and Petroleum and Natural Gas Properties
Under GAAP, Nalcor employed the full cost method of accounting whereby all costs related to the acquisition, exploration for and development of petroleum and natural gas assets were capitalized. Under IFRS, pre-license exploration and evaluation costs are recognized in the statement of comprehensive income as incurred. On January 1, 2013, upon transition to IFRS, $4.7 million of pre-license exploration and evaluation costs were recorded in retained earnings. As at December 31, 2013, the amount recorded in retained earnings was $12.1 million. Under IFRS, Nalcor recognized $2.8 million associated with exploration programs in exploration and evaluation expense for the nine months ended September 30, 2013.

In addition, exploration and evaluation assets are classified separately from property, plant and equipment subject to depletion and depreciation. Under GAAP, exploration and evaluation assets subject to impairment are included in the calculation of depletion. Under IFRS, such impaired exploration and evaluation assets are included in profit or loss in the period in which the impairment occurs. On January 1, 2013, upon transition to IFRS, $25.2 million of exploration and evaluation assets were determined to be impaired and were recorded in retained earnings.

Effective January 1, 2014, Nalcor obtained new information impacting its treatment of exploration and evaluation expenditures. Management believes this new information supports capitalization of exploration and evaluation expenditures associated with investments in seismic research. Nalcor has applied this new information prospectively.

(e) Depletion
Under Canadian GAAP, depletion of petroleum and natural gas properties was determined using cash flows and reserve estimates based on proved reserves. Under IFRS, entities may select to determine depletion using either proved reserves or proved and probable reserves. Nalcor has selected a policy of calculating depletion using cash flows and reserve estimates based on proved and probable reserves. On January 1, 2013, the selected policy resulted in a decrease in accumulated depletion of $9.3 million. As at December 31 2013, the policy change resulted in a decrease in accumulated depletion of $5.4 million. The selected policy resulted in an increase of $1.9 million in depletion for the nine months ended September 30, 2013.

(f) Contributions in Aid of Construction
Under GAAP, Nalcor recorded contributions in aid of construction as a reduction to the carrying value of property, plant and equipment. IFRIC 18 and IAS 18 requires contributions to be recorded as revenue with the unearned portion recorded as deferred revenue and amortized to profit or loss as earned.

(g) Decommissioning Liabilities
Under GAAP, decommissioning liabilities were measured based upon the estimated futures cash flows required to settle the obligation, discounted using the credit-adjusted risk-free rate upon recognition. Subsequent measurement reflected changes to estimated timing and amount of cash flows, but not changes to the discount rate. Under IFRS, decommissioning liabilities are measured using a discount rate reflecting risks specific to the liability. Subsequent measurement reflects changes in the estimated timing and amount of cash flows as well as changes to reflect market interest rates. The change resulted in an increase in decommissioning liabilities of $1.9 million on transition to IFRS at January 1, 2013. As at December 31, 2013, this resulted in a decrease of $0.1 million in decommissioning liabilities and a corresponding decrease in property, plant and equipment. Under GAAP, $0.9 million of accretion costs were presented in amortization for the nine months ended September 30, 2013. Under IFRS, accretion has been reclassified as a finance cost.

21. EXPLANATION OF TRANSITION TO IFRS (cont'd.)

21.4 Notes to the Reconciliation (cont'd.)

(h) Employee Benefits
Adoption of IAS 19, as amended in 2011, resulted in an increase in the employee benefit liability as at January 1, 2013 of $46.3 million and a corresponding decrease in reserves of $46.3 million.

In addition, for the nine months ended September 30, 2013, adoption of the amended IAS 19 also resulted in a decrease in operating costs of $1.8 million. For the year ended December 31, 2013, adoption of the amended IAS 19 resulted in an increase in the employee benefit liability of $36.9 million, an increase in retained earnings of $1.8 million, and a decrease in other comprehensive income of $38.7 million.

(i) Regulatory deferrals
Under GAAP, Nalcor included certain regulatory deferrals in inventories and property, plant and equipment. IFRS 14 requires that all regulatory assets and liabilities be disclosed separately in the statement of financial position. As a result, Nalcor reclassified $0.1 million from inventories to regulatory deferrals at January 1, 2013, and reclassified $4.3 million from property, plant and equipment to regulatory deferrals at December 31, 2013.

Due to uncertainties surrounding the timing of the reversal of regulatory deferral balances, IFRS 14 does not require classification of such balances between current and non-current.

22. SUBSEQUENT EVENTS

In October 2014, Nalcor issued a $1.3 million USD irrevocable letter of credit to ISO New England Inc., and a $0.2 million irrevocable letter of credit to Independent Electricity System Operator. These letters relate to collateral required for NEM to participate in the New England and Ontario energy markets, respectively. In November 2014, Nalcor issued a $1.0 million irrevocable letter of credit to Hydro Quebec relating to collateral requirements for Hydro Quebec transmission customers.

Subsequent to September 30, 2014, Nalcor entered into new commitments totaling $320.8 million, related to the Muskrat Falls Project.

Alderon Iron Ore Corp (Alderon) is proposing to develop the Kami Iron Ore Project (Kami Project) an open-pit iron ore mine in western Labrador and to build associated infrastructure at Port of Sept-Îles, Quebec. As part of the Kami Project, Hydro has partnered with Alderon to construct a third transmission line between Churchill Falls and Labrador West. The development of this transmission line has been temporarily suspended until Alderon secures additional financing for the Kami Project. To date, 20 kilometers have been cleared in preparation for the installation of the line. All project costs incurred to date are covered by the security Alderon has already provided. Construction will proceed once Alderon provides additional security to Hydro.

In October 2014, Nalcor's Board of Directors approved an unconditional and irrevocable guarantee of NEM's $20 million demand operating credit facility with its bank. This loan was approved by the NEM Board of Directors in November 2014 but has not yet been made available to NEM. In the interim, the Board agreed to provide up to $2.0 million in financial support to NEM, until such time as the Power Purchase Agreement between Hydro and NEM is executed.

On October 31, 2014, Oil and Gas entered into a series of fixed price swaps with a Canadian Schedule 1 bank to mitigate commodity price exposure in 2015. These contracts, which have a notional value of $22.6 million USD, provide for an average fixed price of $87.44 USD on 26% of budgeted 2015 production.

22. SUBSEQUENT EVENTS (cont'd.)

On November 3, 2014 Nalcor received authorization from the Province to remove the $0.8 million distribution payable to the Province that was recorded as a liability in Bull Arm when Nalcor purchased the shares of Bull Arm from the Province. This amount was not recognized by the Province as an amount receivable at the time of share purchase, nor is it currently recognized by the Province as an amount receivable.

On November 10, 2014 Hydro filed an amended general rate application ("GRA") with the PUB. The amended filing requests new rates effective January 1, 2015 in conjunction with a proposed mechanism to provide interim earnings relief as of January 1, 2015 until a final regulatory decision has been obtained. The application is also seeking interim earnings relief for 2014.

On November 28, 2014, Nalcor's Board of Directors approved an unconditional and irrevocable guarantee for the International Swaps and Derivatives Association Master Agreements (and related schedules) between Nalcor Energy Marketing Corporation and Royal Bank of Canada. These agreements, not yet in place, will allow NEM to enter into commodity price swaps with Royal Bank of Canada.

23. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform with presentation adopted during the current reporting period.