NEWFOUNDLAND AND LABRADOR HYDRO
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
September 30, 2014
(Unaudited)

DIRECTORS

KEN MARSHALL
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

GILBERT BENNETT
Vice President, Lower Churchill Project

ROB HENDERSON
Vice President, Newfoundland and Labrador Hydro

PAUL HUMPHRIES
Vice President, System Operations and Planning

DERRICK STURGE
Vice President, Finance and Chief Financial Officer

GERARD McDONALD
Vice President, Human Resources and Organizational Effectiveness

JOHN MacISAAC
Vice President, Project Execution and Technical Services

WAYNE CHAMBERLAIN
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*Resigned October 16, 2014

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

(millions of Canadian dollars)	Notes	**September 30 2014**	December 31 2013	January 1 2013
ASSETS				
Current assets				
Cash and cash equivalents		**21.1**	18.0	11.6
Trade and other receivables		**55.6**	103.6	102.0
Inventories		**102.9**	75.2	62.0
Current portion of sinking fund		**-**	65.4	-
Prepayments		**7.3**	4.5	3.9
Derivative assets		**-**	0.2	-
Total current assets		**186.9**	266.9	179.5
Non-current assets				
Property, plant and equipment	4	**1,980.9**	1,865.5	1,820.3
Investment in joint venture		**1.4**	1.1	0.7
Other long-term assets	6	**270.1**	254.4	315.0
Total non-current assets		**2,252.4**	2,121.0	2,136.0
Total assets		**2,439.3**	2,387.9	2,315.5
Regulatory deferrals	5	**67.7**	64.4	65.1
Total assets and regulatory deferrals		**2,507.0**	2,452.3	2,380.6
LIABILITIES AND EQUITY				
Current liabilities				
Short-term borrowings		**-**	41.0	52.0
Trade and other payables		**125.1**	118.4	92.2
Current portion of long-term debt	7	**8.5**	82.2	8.2
Deferred credits		**0.9**	0.7	1.9
Current portion of deferred contributions	8	**0.6**	1.8	0.2
Derivative liabilities		**0.6**	0.4	-
Total current liabilities		**135.7**	244.5	154.5
Non-current liabilities				
Long-term debt	7	**1,241.6**	1,046.6	1,125.9
Decommissioning liabilities	9	**25.6**	24.8	26.7
Deferred contributions	8	**11.1**	9.5	9.9
Long-term payable		**2.1**	1.6	2.6
Employee benefit liability	10	**109.9**	105.4	109.0
Total non-current liabilities		**1,390.3**	1,187.9	1,274.1
Total liabilities		**1,526.0**	1,432.4	1,428.6
Shareholder’s equity				
Share capital	11	**22.5**	22.5	22.5
Shareholder contributions		**118.5**	118.4	116.7
Reserves		**3.6**	(5.8)	3.1
Retained earnings		**599.9**	626.2	607.5
Total equity		**744.5**	761.3	749.8
Total liabilities and equity		**2,270.5**	2,193.7	2,178.4
Regulatory deferrals	5	**236.5**	258.6	202.2
Total liabilities, equity and regulatory deferrals		**2,507.0**	2,452.3	2,380.6

See accompanying notes

Subsequent events (Note 20)

NEWFOUNDLAND AND LABRADOR HYDRO
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		**104.2**	104.1	**509.0**	496.6
Other revenue		**0.4**	1.7	**4.3**	5.5
Revenue		**104.6**	105.8	**513.3**	502.1
Fuels		**(32.4)**	(4.7)	**(203.6)**	(123.6)
Power purchased		**(13.3)**	(14.7)	**(52.4)**	(46.6)
Operating costs	12	**(55.5)**	(45.4)	**(155.0)**	(137.5)
Amortization and depreciation	4	**(16.2)**	(15.9)	**(51.1)**	(47.7)
Net finance income and expense	13	**(16.6)**	(18.1)	**(57.2)**	(54.5)
Other income and expense		**(3.0)**	3.2	**(5.3)**	3.3
Share of profit of joint venture		**0.1**	-	**0.3**	0.3
(Loss) profit, before regulatory adjustments		**(32.3)**	10.2	**(11.0)**	95.8
Regulatory adjustments	5	**23.1**	3.0	**25.4**	(43.6)
(Loss) profit for the period		**(9.2)**	13.2	**14.4**	52.2
Other comprehensive income (loss) for the period		**2.4**	(3.4)	**9.4**	(15.3)
Total comprehensive (loss) income for the period		**(6.8)**	9.8	**23.8**	36.9

See accompanying notes

NEWFOUNDLAND AND LABRADOR HYDRO

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Unaudited)

(millions of Canadian dollars)	Notes	Issued Capital	Shareholder Contributions	Fair Value Reserve	Employee Benefit Reserve	Retained Earnings	Total
Balance at January 1, 2014		**22.5**	**118.4**	**25.5**	**(31.3)**	**626.2**	**761.3**
Profit for the period		**-**	**-**	**-**	**-**	**14.4**	**14.4**
Other comprehensive income							
Net change in fair value of							
available for sale financial instruments		**-**	**-**	**17.9**	**-**	**-**	**17.9**
Net change in fair value of financial							
instruments reclassified to profit or loss		**-**	**-**	**(8.5)**	**-**	**-**	**(8.5)**
Total comprehensive income for the period		**-**	**-**	**9.4**	**-**	**14.4**	**23.8**
Capital contributions		**-**	**0.1**	**-**	**-**	**-**	**0.1**
Dividends	**11**	**-**	**-**	**-**	**-**	**(40.7)**	**(40.7)**
Balance at September 30, 2014		**22.5**	**118.5**	**34.9**	**(31.3)**	**599.9**	**744.5**
Balance at January 1, 2013		22.5	116.7	42.8	(39.7)	607.5	749.8
Profit for the period						52.2	52.2
Other comprehensive income							
Net change in fair value of							
available for sale financial instruments		-	-	(5.1)	-	-	(5.1)
Net change in fair value of financial							
instruments reclassified to profit or loss		-	-	(10.2)	-	-	(10.2)
Total comprehensive income for the period		-	-	(15.3)	-	52.2	36.9
Capital contributions		-	0.9	-	-	-	0.9
Dividends	11	-	-	-	-	(31.1)	(31.1)
Balance at September 30, 2013		22.5	117.6	27.5	(39.7)	628.6	756.5

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

		Three months ended		Nine months ended	
For the period ended September 30 (millions of Canadian dollars)	Notes	**2014**	2013	**2014**	2013
Cash provided by (used in)					
Operating activities					
(Loss) profit for the period		**(9.2)**	13.2	**14.4**	52.2
Adjusted for items not involving a cash flow:					
Depreciation		**16.2**	15.9	**51.1**	47.7
Amortization of deferred contributions	4	**0.4**	-	**(0.5)**	-
Accretion		**0.3**	0.3	**1.2**	1.0
Loss (gain) on disposal of property, plant and equipment		**0.6**	(0.1)	**1.0**	3.3
Employee benefits		**1.4**	1.4	**4.5**	4.2
Share of profit of joint venture		**(0.1)**	-	**(0.3)**	(0.3)
Regulatory adjustments		**(23.1)**	(3.0)	**(25.4)**	43.6
Other non-cash items		**(0.7)**	(0.6)	**0.4**	(0.1)
		(14.2)	27.1	**46.4**	151.6
Changes in non-cash working capital balances	17	**0.7**	(8.0)	**24.2**	(0.5)
Net cash (used in) from operating activities		**(13.5)**	19.1	**70.6**	151.1
Financing activity					
Issuance of long-term debt		**197.1**	-	**197.1**	-
Retirement of long-term debt		**(0.2)**	-	**(124.6)**	-
Dividends paid to Nalcor		**(12.1)**	(13.4)	**(40.7)**	(31.1)
Increase in contributed capital		**0.1**	0.4	**0.1**	0.9
(Decrease) increase in short-term borrowings		**(103.5)**	30.0	**(41.0)**	(8.0)
Decrease in long-term receivables		**2.3**	1.6	**1.7**	0.5
Increase (decrease) in long-term payables		**1.0**	(0.2)	**0.5**	(0.7)
(Decrease) increase in deferred credits		**-**	(0.3)	**0.2**	(0.6)
Increase in deferred contributions		**0.6**	0.9	**0.9**	1.1
Net cash from (used in) financing activity		**85.3**	19.0	**(5.8)**	(37.9)
Investing activities					
Additions to property, plant and equipment		**(68.7)**	(36.6)	**(167.5)**	(79.8)
(Increase) decrease in sinking fund		**(8.3)**	(11.2)	**105.0**	(22.6)
Decrease (increase) in short-term investments		**11.9**	(1.7)	**-**	(13.2)
Increase (decrease) in reserve fund		**0.6**	(0.3)	**0.8**	(0.2)
Proceeds from disposal of property, plant and equipment		**-**	-	**-**	0.2
Net cash used in investing activities		**(64.5)**	(49.8)	**(61.7)**	(115.6)
Net increase (decrease) in cash		**7.3**	(11.7)	**3.1**	(2.4)
Cash and cash equivalents at beginning of period		**13.8**	20.9	**18.0**	11.6
Cash and cash equivalents at end of period		**21.1**	9.2	**21.1**	9.2

Supplementary cash flow information (Note 17)

See accompanying notes

1. DESCRIPTION OF BUSINESS

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

Hydro holds interests in the following jointly controlled companies:

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

Twin Falls Power Corporation (Twin Falls) is incorporated under the laws of Canada and has developed a 225 MW hydroelectric generating plant on the Unknown River in Labrador. The plant has been inoperative since 1974.

Lower Churchill Development Corporation (LCDC) is incorporated under the laws of Newfoundland and Labrador and was established with the objective of developing all or part of the hydroelectric potential of the lower Churchill River. LCDC is inactive.

Hydro and its subsidiary and jointly controlled companies, other than Twin Falls, are exempt from paying income taxes under Section 149 (1) (d) of the Income Tax Act.

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). Hydro adopted International Financial Reporting Standards (IFRS) as of January 1, 2014, with a date of transition effective January 1, 2013. Hydro has adopted accounting policies which are based on the IFRS applicable as at September 30, 2014, and includes individual IFRS, International Accounting Standards (IAS), and interpretations made by the IFRS Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC). Upon adoption, Hydro followed the requirements of IFRS 1 - First time adoption of IFRS (IFRS 1) in its application of IFRS as disclosed in Note 19.

Previously, the Annual Audited Financial Statements of Hydro 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 19.

These condensed interim consolidated financial statements do not include all of the information required for Annual Audited Financial Statements. Interim results will fluctuate due to the seasonal nature of electricity demand and water flows, as well as timing and recognition of regulatory items. Due to higher electricity demand during the winter months, revenue from electricity sales is higher during the first and fourth quarters.

These 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.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

2.2 Cash and Cash Equivalents and Short-term Investments

Cash and cash equivalents and short-term investments consist of Canada Treasury Bills, Bankers' Acceptances 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.

2.3 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.

2.4 Inventories

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.

2.5 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 Hydro'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, Hydro 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 is not revalued for financial reporting purposes. Depreciation of these assets commences when the assets are ready for their intended use.

<u>Hydro</u>

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

Generation Plant	
Hydroelectric	45 to 100 years
Thermal	35 to 65 years
Diesel	25 to 65 years
Transmission	
Lines	30 to 65 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.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

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

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 from generating to transmission and to step down voltages for distribution.

Distribution system assets include poles, transformers, insulators, and conductors.

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

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
Transmission and terminals	30 to 65 years
Service facilities and other	7 to 45 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 property, plant and equipment is reviewed for impairment whenever events indicate that the carrying amounts of those assets may not be recoverable.

2.6 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.

2.7 Impairment of Non-Financial Assets

At the end of each reporting period, Hydro 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, Hydro 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. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

2.8 Investments in Joint Arrangements

A joint arrangement is an arrangement of which two or more parties have joint control. Control exists when Hydro 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 representatives of Hydro and Hydro-Québec on the Board of Directors of Churchill Falls. Although Hydro retains its 65.8% ownership interest, the agreement changed the nature of the relationship between Hydro and Hydro-Québec, with respect to Churchill Falls, from that of majority and minority shareholders, respectively, to that of joint operators. This investment is accounted for using the proportionate consolidation method.

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Control exists when Hydro has the power, directly or indirectly, to govern the financial and operating policies of an entity, so as to obtain benefits from its activities. 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.

2.9 Employee Future Benefits

(i) Pension Plan

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

(ii) Other Benefits

Hydro 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 carried out 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 Hydro'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. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

2.10 Provisions

A provision is a liability of uncertain timing or amount. A provision is recognized if Hydro 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.

2.11 Decommissioning, Restoration and Environmental Liabilities

Legal and constructive obligations associated with the retirement of property, plant and equipment are recorded as liabilities when those obligations are incurred and are measured as the present value of the expected costs to settle the liability, discounted at a rate specific to the liability. The liability is accreted up to the date the liability will be incurred with a corresponding charge to net finance income and 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.

2.12 Revenue Recognition

Revenue from the sale of energy is recognized when Hydro 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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

2.13 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.

2.14 Foreign Currencies

Transactions in currencies other than Hydro'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 profit as finance income and expense.

2.15 Income Taxes

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

2.16 Financial Instruments

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

Cash and cash equivalents	Loans and receivables
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
Reserve fund	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.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

2.16 Financial Instruments (cont'd.)

Financial Assets

(ii) Financial Assets at FVTPL

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

A financial asset is classified as held for trading if:

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

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

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with Hydro'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 dividend or interest earned.

(iii) Held-to-Maturity Investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity dates that Hydro 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.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

2.16 Financial Instruments (cont'd.)

Financial Assets (cont'd.)

(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.

(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.

2.17 Derecognition of Financial Instruments

Hydro 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 Hydro 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 an associated liability for amounts it may have to pay is recognized. If Hydro retains substantially all the risks and rewards of ownership of a transferred financial asset, it continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received. Hydro derecognizes financial liabilities when, and only when, its obligations are discharged, cancelled or they expire.

2.18 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 Hydro'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.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

2.18 Impairment of Financial Assets (cont'd.)

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 materially from these estimates, including changes as a result of future decisions made by the PUB. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is 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 Hydro's assets. The useful lives of property, plant and equipment are determined by independent specialists and reviewed annually by Hydro. 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) Decommissioning Liabilities
Hydro 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.

(iii) Employee Benefits
Hydro 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.

(iv) Revenue
In the absence of a signed agreement with Hydro-Québec relating to the Annual Energy Base (AEB), Hydro 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.)

3.1 Use of Estimates (cont'd.)

(iv) Power Purchased
In the absence of a formal agreement with Nalcor and the Province, Hydro will continue to pay Nalcor $0.04 per kilowatt-hour (kWh) for energy from the Exploits Generation assets. The previous agreement expired on June 30, 2014.

3.2 Use of Judgments

(i) Property, Plant and Equipment
Hydro's accounting policy relating to property, plant and equipment is described in Note 2.5. 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 Hydro's property, plant and equipment.

4. PROPERTY, PLANT AND EQUIPMENT

(millions of Canadian dollars)	Generation Plant	Transmission and Distribution	Other	Construction in Progress	Total
Cost					
Balance at January 1, 2013	1,425.5	602.9	173.2	43.2	2,244.8
Additions	(2.0)	(0.6)	-	119.3	116.7
Disposals	(7.0)	(1.6)	(1.5)	-	(10.1)
Transfers	60.5	54.2	25.4	(140.1)	-
Other adjustments	0.2	0.1	-	-	0.3
Balance at December 31, 2013	**1,477.2**	**655.0**	**197.1**	**22.4**	**2,351.7**
Additions	**-**	**0.1**	**0.5**	**166.9**	**167.5**
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**	**654.1**	**198.2**	**187.7**	**2,516.2**
Depreciation and impairment					
Balance at January 1, 2013	301.1	80.8	42.6	-	424.5
Depreciation expense	33.8	18.0	12.5	-	64.3
Disposals	(1.9)	(0.4)	(0.6)	-	(2.9)
Other adjustments	0.1	0.1	0.1	-	0.3
Balance at December 31, 2013	**333.1**	**98.5**	**54.6**	**-**	**486.2**
Depreciation expense	**28.9**	**13.0**	**9.2**	**-**	**51.1**
Disposals	**(1.1)**	**(0.2)**	**(0.3)**	**-**	**(1.6)**
Other adjustments	**(3.1)**	**2.7**	**-**	**-**	**(0.4)**
Balance at September 30, 2014	**357.8**	**114.0**	**63.5**	**-**	**535.3**
Carrying value					
Balance at January 1, 2013	1,124.4	522.1	130.6	43.2	1,820.3
Balance at December 31, 2013	1,144.1	556.5	142.5	22.4	1,865.5
Balance at September 30, 2014	**1,118.4**	**540.1**	**134.7**	**187.7**	**1,980.9**

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**	
(millions of dollars)		**September 30 2014**	September 30 2013	**September 30 2014**	September 30 2013
RSP amortization		**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 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 ending 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	**-**	1.7	0.8
Reserve fund	**49.7**	50.5	50.9
Sinking funds	**220.4**	202.2	263.3
	270.1	254.4	315.0

7. LONG-TERM DEBT

Details of long-term debt are as follows:

(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**	-	-
Total debentures	1,300.4				**1,295.6**	1,222.7	1,222.2
Less: sinking fund investments in own debentures					**45.5**	93.9	88.1
					1,250.1	1,128.8	1,134.1
Less: payments due within one year					**8.5**	82.2	8.2
Total debentures					**1,241.6**	1,046.6	1,125.9

* Sinking funds have been established for these issues.

Hydro's promissory notes and debentures are unsecured and unconditionally guaranteed as to principal and interest and, where applicable, sinking fund payments, by the Province. The Province charges Hydro a guarantee fee of 25 basis points annually on the total debt (net of sinking funds) with a remaining term to maturity less than 10 years and 50 basis points annually on total debt (net of sinking funds) with a remaining term to maturity greater than 10 years. The fee for the nine months ended September 30, 2014 was $2.8 million (2013 - $2.8 million).

On September 15, 2014, Hydro issued new long-term debt through the sale of $200.0 million of Series AF debentures to its underwriting syndicate. The debentures mature on December 31, 2045 with a coupon rate of 3.6% paid semi-annually.

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

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

8. DEFERRED CONTRIBUTIONS

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

(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

9. DECOMMISSIONING LIABILITIES

Hydro has recognized liabilities associated with the retirement of portions of the Holyrood Thermal Generation Station (HTGS) and disposal of polychlorinated biphenyls. The reconciliation of the beginning and ending carrying amount of decommissioning liabilities is as follows:

(millions of Canadian dollars)	**September 30 2014**	December 31 2013
Decommissioning liabilities, beginning of period	**24.8**	26.7
Liabilities incurred	**-**	(0.2)
Liabilities settled	**-**	(0.7)
Accretion	**0.6**	0.9
Revisions	**0.2**	(1.9)
Decommissioning liabilities, end of period	**25.6**	24.8

10. EMPLOYEE BENEFIT LIABILITY

10. 1 Pension Plan

Employees participate in the Province's Public Service Pension Plan, a multi-employer defined benefit plan. The employer's contributions of $4.7 million (2013 - $4.0 million) were expensed as incurred.

10.2 Other Benefits

Additionally, Hydro provides group life insurance and healthcare 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 benefits plans were $2.3 million (2013 - $2.4 million). The most recent 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.

	Three months ended		**Nine months ended**	
(millions of Canadian dollars)	**September 30 2014**	September 30 2013	**September 30 2014**	September 30 2013
Component of benefit cost recognized in the period				
Current service cost	**0.9**	1.2	**2.7**	3.2
Interest cost	**1.3**	1.2	**4.1**	3.4
Benefit expense	**2.2**	2.4	**6.8**	6.6

11. SHAREHOLDER'S EQUITY

11.1 Issued Capital

(millions of Canadian dollars)	**September 30 2014**	December 31 2013	January 1 2013
Common shares of par value $1 each			
Authorized: 25,000,000			
Issued and outstanding: 22,503,942	**22.5**	22.5	22.5

11. SHAREHOLDER'S EQUITY (cont'd.)

11.2 Dividends

	Nine months ended	
	September 30	September 30
(millions of Canadian dollars)	**2014**	2013
Declared during the period		
Final dividend for prior period: $0.15 per share (2013 - $0.10)	**3.5**	2.2
Interim dividend for current period: $1.65 per share (2013 - $1.28)	**37.2**	28.9
	40.7	31.1

12. OPERATING COSTS

	Three months ended		Nine months ended	
	September 30	September 30	**September 30**	September 30
(millions of Canadian dollars)	**2014**	2013	**2014**	2013
Salaries and benefits expense	**28.7**	26.8	**83.4**	78.5
Transmission rental	**5.3**	5.1	**15.0**	15.5
Maintenance and materials	**10.8**	7.0	**25.1**	21.2
Professional services	**5.6**	2.7	**13.8**	8.5
Rental and royalty	**(0.2)**	0.1	**1.8**	2.5
Other operating costs	**5.3**	3.7	**15.9**	11.3
	55.5	45.4	**155.0**	137.5

13. NET FINANCE INCOME AND COSTS

	Three months ended		Nine months ended	
	September 30	September 30	**September 30**	September 30
(millions of Canadian dollars)	**2014**	2013	**2014**	2013
Finance income				
Interest on sinking fund	**3.2**	5.0	**12.6**	14.4
Interest on reserve fund	**0.4**	0.4	**1.1**	1.1
Other interest income	**(0.3)**	(0.3)	**(3.4)**	-
	3.3	5.1	**10.3**	15.5
Finance costs				
Long-term debt	**19.7**	22.6	**64.9**	67.8
Debt guarantee fee	**1.0**	0.9	**2.8**	2.8
Accretion	**0.3**	0.3	**1.2**	1.0
Other	**0.6**	0.2	**1.1**	0.5
	21.6	24.0	**70.0**	72.1
Interest capitalized during construction	**(1.7)**	(0.8)	**(2.5)**	(2.1)
	16.6	18.1	**57.2**	54.5

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

14.1 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 Hydro might receive or incur in actual market transactions.

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

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

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

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

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

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

	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**	**21.1**	**21.1**	18.0	18.0	11.6	11.6
Trade and other receivables	**1**	**55.6**	**55.6**	103.6	103.6	102.0	102.0
Derivative assets	**2**	**-**	**-**	0.2	0.2	-	-
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**	**220.4**	**220.4**	267.6	267.6	263.3	263.3
Reserve fund	**2**	**49.7**	**49.7**	50.5	50.5	50.9	50.9
Long-term receivables	**2**	**-**	**-**	1.7	1.8	0.8	0.8
Financial liabilities							
Trade and other payables	**1**	**125.1**	**125.1**	118.4	118.4	92.2	92.2
Short-term borrowings	**1**	**-**	**-**	41.0	41.0	52.0	52.0
Derivative liabilities	**2**	**0.6**	**0.6**	0.4	0.4	-	-
Long-term debt including amount due within one year (before sinking funds)	**2**	**1,295.6**	**1,657.4**	1,222.7	1,545.5	1,222.2	1,668.6
Long-term payable	**2**	**2.1**	**2.2**	1.6	1.7	2.6	2.8

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

15. RELATED PARTY TRANSACTIONS

Hydro enters into various transactions with its parents, subsidiaries and other affiliates. These transactions occur within the normal course of operations and are measured at the exchange amount, which is the amount of consideration agreed to by the related parties. Related parties with which Hydro transacts are as follows:

Related Party	Relationship
Nalcor Energy (Nalcor)	100% shareholder of Hydro
The Province	100% shareholder of Nalcor
Churchill Falls	Jointly controlled subsidiary of Hydro
Twin Falls	Jointly controlled subsidiary of Churchill Falls
The Churchill Falls (Labrador) Corporation Trust	Created by the Province with Churchill Falls as the beneficiary
Nalcor Energy – Bull Arm Fabrication	Wholly owned subsidiary of Nalcor
Nalcor Energy – Oil and Gas	Wholly owned subsidiary of Nalcor
PUB	Agency of the Province
Labrador-Island Link Limited Partnership	Partnership in which Nalcor owns 75 Class A Units
Muskrat Falls	Wholly owned subsidiary of Nalcor
Lower Churchill Management Corporation	Wholly owned subsidiary of Nalcor

16. COMMITMENTS AND CONTINGENCIES

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

Outstanding commitments for capital projects total approximately $85.9 million as at September 30, 2014 (2013 - $25.4 million).

17. SUPPLEMENTARY CASH FLOW INFORMATION

	Three months ended		**Nine months ended**	
	September 30	September 30	**September 30**	September 30
(millions of Canadian dollars)	**2014**	2013	**2014**	2013
Trade and other receivables	**1.3**	7.4	**48.0**	46.2
Prepayments	**(1.4)**	(1.4)	**(2.8)**	(3.0)
Inventories	**(10.3)**	1.5	**(27.7)**	(28.0)
Trade and other payables	**11.1**	(15.5)	**6.7**	(15.7)
Changes in non-cash working capital balances	**0.7**	(8.0)	**24.2**	(0.5)
Interest received	**1.2**	0.5	**18.6**	1.6
Interest paid	**34.3**	34.2	**80.2**	79.8

18. SEGMENT INFORMATION

Hydro operates in four business segments. Hydro Regulated activities encompass sales of electricity to customers within the Province. Churchill Falls operates a hydroelectric generating facility and sells electricity primarily to Hydro-Québec. Hydro's Energy Marketing activities include the sale of electricity to markets outside the Province. Other encompasses other non-regulated activities. The designation of segments has been based on a combination of regulatory status and Management accountability. The segments' accounting policies are the same as those previously described in Note 2.

Segments	**Hydro Regulated**	**Churchill Falls**	**Energy Marketing**	**Other**	**Inter-segment**	**Total**
(millions of dollars)	**For the nine months ended September 30, 2014**					
Energy sales	**400.8**	**48.2**	**63.0**	**-**	**(3.0)**	**509.0**
Other revenue	**1.6**	**0.7**	**-**	**-**	**2.0**	**4.3**
Revenue	**402.4**	**48.9**	**63.0**	**-**	**(1.0)**	**513.3**
Fuels	**(203.6)**	**-**	**-**	**-**	**-**	**(203.6)**
Power purchased	**(49.3)**	**-**	**(6.1)**	**-**	**3.0**	**(52.4)**
Operating costs	**(102.3)**	**(30.7)**	**(20.8)**	**(1.2)**	**-**	**(155.0)**
Amortization and depreciation	**(41.0)**	**(10.1)**	**-**	**-**	**-**	**(51.1)**
Net finance income and expense	**(58.0)**	**1.0**	**(0.2)**	**-**	**-**	**(57.2)**
Other income and expense	**(0.8)**	**(1.8)**	**(2.7)**	**-**	**-**	**(5.3)**
Share of profit of joint venture	**-**	**0.3**	**-**	**-**	**-**	**0.3**
Preferred dividends	**-**	**2.0**	**-**	**-**	**(2.0)**	**-**
(Loss) profit before regulatory adjustments	**(52.6)**	**9.6**	**33.2**	**(1.2)**	**-**	**(11.0)**
Regulatory adjustments	**25.4**	**-**	**-**	**-**	**-**	**25.4**
(Loss) profit for the period	**(27.2)**	**9.6**	**33.2**	**(1.2)**	**-**	**14.4**
Capital expenditures	**142.9**	**23.9**	**0.7**		**-**	**167.5**
Total assets	**2,011.6**	**488.1**	**7.3**	**-**	**-**	**2,507.0**

Segments	Hydro Regulated	Churchill Falls	Energy Marketing	Other	Inter-segment	Total
(millions of dollars)	For the nine months ended September 30, 2013					
Energy sales	394.7	53.1	51.8	-	(3.0)	496.6
Other revenue	2.3	0.7	-	-	2.5	5.5
Revenue	397.0	53.8	51.8	-	(0.5)	502.1
Fuels	(123.6)	-	-	-	-	(123.6)
Power purchased	(43.9)	-	(5.7)	-	3.0	(46.6)
Operating costs	(85.3)	(31.2)	(20.6)	(0.4)	-	(137.5)
Amortization and depreciation	(38.3)	(9.4)	-	-	-	(47.7)
Net finance income and expense	(55.6)	1.1	-	-	-	(54.5)
Other income and expense	3.7	(0.4)	-	-	-	3.3
Share of profit of joint venture	-	0.3	-	-	-	0.3
Preferred dividends	-	2.5	-	-	(2.5)	-
Profit (loss) before regulatory adjustments	54.0	16.7	25.5	(0.4)	-	95.8
Regulatory adjustments	(43.6)	-	-	-	-	(43.6)
Profit (loss) for the period	10.4	16.7	25.5	(0.4)	-	52.2
Capital expenditures	59.2	20.6	-	-	-	79.8
Total assets	1,921.9	479.6	2.6	-	-	2,404.1

18. SEGMENT INFORMATION (cont'd.)

Segments	**Hydro Regulated**	**Churchill Falls**	**Energy Marketing**	**Other**	**Inter-segment**	**Total**
(millions of dollars)	**For the three months ended September 30, 2014**					
Energy sales	**79.1**	**8.2**	**17.9**	**-**	**(1.0)**	**104.2**
Other revenue	**(0.3)**	**0.2**	**-**	**-**	**0.5**	**0.4**
Revenue	**78.8**	**8.4**	**17.9**	**-**	**(0.5)**	**104.6**
Fuels	**(32.4)**	**-**	**-**	**-**	**-**	**(32.4)**
Power purchased	**(11.7)**	**-**	**(2.6)**	**-**	**1.0**	**(13.3)**
Operating costs	**(36.9)**	**(9.9)**	**(7.8)**	**(0.9)**	**-**	**(55.5)**
Amortization and depreciation	**(12.8)**	**(3.4)**	**-**	**-**	**-**	**(16.2)**
Net finance income and expense	**(17.2)**	**0.3**	**0.3**	**-**	**-**	**(16.6)**
Other income and expense	**(1.4)**	**(1.2)**	**(0.4)**	**-**	**-**	**(3.0)**
Share of profit of joint venture	**-**	**0.1**	**-**	**-**	**-**	**0.1**
Preferred dividends	**-**	**0.5**	**-**	**-**	**(0.5)**	**-**
(Loss) profit before regulatory adjustments	**(33.6)**	**(5.2)**	**7.4**	**(0.9)**	**-**	**(32.3)**
Regulatory adjustments	**23.1**	**-**	**-**	**-**	**-**	**23.1**
(Loss) profit for the period	**(10.5)**	**(5.2)**	**7.4**	**(0.9)**	**-**	**(9.2)**
Capital expenditures	**59.8**	**8.7**	**0.2**	**-**	**-**	**68.7**
Total assets	**2,011.6**	**488.1**	**7.3**	**-**	**-**	**2,507.0**

Segments	Hydro Regulated	Churchill Falls	Energy Marketing	Other	Inter-segment	Total
(millions of dollars)	For the three months ended September 30, 2013					
Energy sales	74.8	11.2	19.1	-	(1.0)	104.1
Other revenue	0.7	0.3	-	-	0.7	1.7
Revenue	75.5	11.5	19.1	-	(0.3)	105.8
Fuels	(4.7)	-	-	-	-	(4.7)
Power purchased	(13.3)	-	(2.4)	-	1.0	(14.7)
Operating costs	(27.9)	(11.3)	(6.2)	-	-	(45.4)
Amortization and depreciation	(12.9)	(3.0)	-	-	-	(15.9)
Net finance income and expense	(18.2)	0.3	(0.2)	-	-	(18.1)
Other income and expense	2.7	(0.4)	0.9	-	-	3.2
Preferred dividends	-	0.7	-	-	(0.7)	-
Profit (loss) before regulatory adjustments	1.2	(2.2)	11.2	-	-	10.2
Regulatory adjustments	3.0	-	-	-	-	3.0
Profit (loss) for the period	4.2	(2.2)	11.2	-	-	13.2
Capital expenditures	24.2	12.4	-	-	-	36.6
Total assets	1,921.9	479.6	2.6	-	-	2,404.1

19. EXPLANATION OF TRANSITION TO IFRS

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

These 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, Hydro 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 Hydro'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 exemptions are applied.

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

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

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

The following optional IFRS exemptions 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, Hydro has elected to use the carrying amount of property, plant and equipment under GAAP 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
Hydro has elected to apply the transitional exemption allowing the borrowing costs to be capitalized prospectively from the date of transition.

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

19.1 Reconciliation of Equity

(millions of Canadian dollars)	Notes	Previous GAAP	Effect of Transition to IFRS	IFRS	Previous GAAP	Effect of Transition to IFRS	IFRS
		January 1, 2013			December 31, 2013		
ASSETS							
Current assets							
Cash and cash equivalents	a	11.8	(0.2)	11.6	18.3	(0.3)	18.0
Short-term investments	a	0.5	(0.5)	-	0.7	(0.7)	-
Trade and other receivables	a	102.3	(0.3)	102.0	104.0	(0.4)	103.6
Current portion of sinking funds		-	-	-	65.4	-	65.4
Current portion of regulatory assets	f	2.2	(2.2)	-	2.2	(2.2)	-
Prepaid expenses		3.9	-	3.9	4.5	-	4.5
Inventory	a,f	62.1	(0.1)	62.0	75.2	-	75.2
Derivative assets		-	-	-	0.2	-	0.2
Total current assets		182.8	(3.3)	179.5	270.5	(3.6)	266.9
Non-current assets							
Property, plant and equipment	a,b,c,d,e,f	1,805.5	14.8	1,820.3	1,845.0	20.5	1,865.5
Regulatory assets	f	62.8	(62.8)	-	62.2	(62.2)	-
Other long-term assets		315.0	-	315.0	254.4	-	254.4
Investments in joint ventures	a	-	0.7	0.7	-	1.1	1.1
Total non-current assets		2,183.3	(47.3)	2,136.0	2,161.6	(40.6)	2,121.0
Total assets		2,366.1	(50.6)	2,315.5	2,432.1	(44.2)	2,387.9
Regulatory deferrals	f	-	65.1	65.1	-	64.4	64.4
Total assets and regulatory deferrals		2,366.1	14.5	2,380.6	2,432.1	20.2	2,452.3

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

19.1 Reconciliation of Equity (cont'd.)

(millions of Canadian dollars)	Notes	Previous GAAP	Effect of Transition to IFRS	IFRS	Previous GAAP	Effect of Transition to IFRS	IFRS
		January 1, 2013			December 31, 2013		
LIABILITIES AND EQUITY							
Current liabilities							
Short-term borrowings		52.0	-	52.0	41.0	-	41.0
Trade and other payables	a	92.3	(0.1)	92.2	118.4	-	118.4
Current portion of long-term debt		8.2	-	8.2	82.2	-	82.2
Current portion of regulatory liabilities	f	169.0	(169.0)	-	214.0	(214.0)	-
Current portion of other liabilities	a	2.2	(0.1)	2.1	1.1	1.4	2.5
Derivative liabilities		-	-	-	0.4	-	0.4
Total current liabilities		323.7	(169.2)	154.5	457.1	(212.6)	244.5
Non-current liabilities							
Long-term debt		1,125.9	-	1,125.9	1,046.6	-	1,046.6
Regulatory liabilities	f	33.2	(33.2)	-	40.3	(40.3)	-
Deferred contributions	b	-	9.9	9.9	-	9.5	9.5
Decommissioning liabilities	a,d	24.6	2.1	26.7	24.7	0.1	24.8
Employee future benefits	a,e	69.3	39.7	109.0	75.3	30.1	105.4
Long-term payable		2.6	-	2.6	1.6	-	1.6
Total non-current liabilities		1,255.6	18.5	1,274.1	1,188.5	(0.6)	1,187.9
Total liabilities		1,579.3	(150.7)	1,428.6	1,645.6	(213.2)	1,432.4
Equity							
Issued capital		22.5	-	22.5	22.5	-	22.5
Shareholder contributions		116.7	-	116.7	118.4	-	118.4
Reserves	a	42.8	(39.7)	3.1	25.5	(31.3)	(5.8)
Retained earnings	b,d	604.8	2.7	607.5	620.1	6.1	626.2
Total equity		786.8	(37.0)	749.8	786.5	(25.2)	761.3
Total liabilities and equity		2,366.1	(187.7)	2,178.4	2,432.1	(238.4)	2,193.7
Regulatory deferrals	f	-	202.2	202.2	-	258.6	258.6
Total liabilities, equity, and regulatory deferrals		2,366.1	14.5	2,380.6	2,432.1	20.2	2,452.3

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

19.2 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	497.4	(0.8)	496.6
Other revenue	a,b	4.6	0.9	5.5
Revenue		**502.0**	**0.1**	**502.1**
Fuels		(123.6)	-	(123.6)
Power purchased	a	(46.8)	0.2	(46.6)
Operating costs	a,e	(139.2)	1.7	(137.5)
Depreciation and amortization	a,b,d,e,f	(48.5)	0.8	(47.7)
Net finance income and expense	a,b,d	(54.0)	(0.5)	(54.5)
Other income and expense	a	2.7	0.6	3.3
Share of profit of joint venture	a	-	0.3	0.3
Profit for the period, before regulatory adjustments		**92.6**	**3.2**	**95.8**
Regulatory adjustments	f	(42.4)	(1.2)	(43.6)
Profit for the period		**50.2**	**2.0**	**52.2**
Other comprehensive income:				
Net change in fair value of available for sale financial instruments		(5.1)	-	(5.1)
Net change in fair value of financial instruments reclassified to profit or loss		(10.2)	-	(10.2)
Total comprehensive income for the period		**34.9**	**2.0**	**36.9**

19.3 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	143.2	7.9	151.1
Investing activities	(106.7)	(8.9)	(115.6)
Financing activities	(39.0)	1.1	(37.9)
Net increase in cash	**(2.5)**	**0.1**	**(2.4)**

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

19.4 Notes to the Reconciliation

(a) Accounting for Joint Arrangements
Under GAAP, Hydro 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. Hydro 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.

Churchill Falls
Under GAAP, Churchill Falls 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. Churchill Falls 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 GAAP	1,845.0	1,805.5
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 liability	4.3	-
Revision of Hydro decommissioning liabilities	0.1	2.1
Other property, plant and equipment adjustments	4.9	2.7
Property, plant and equipment as reported under IFRS	1,865.5	1,820.3

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

19.4 Notes to the Reconciliation (cont'd.)

(c) Contributions in Aid of Construction
Under GAAP, Hydro 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.

(d) 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 $2.1 million on transition to IFRS at January 1, 2013. As at December 31, 2013, this resulted in an increase of $0.1 in decommissioning liabilities and a corresponding increase in property, plant and equipment.

Under GAAP, $0.5 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.

(e) 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 $39.7 million and a corresponding decrease in reserves of $39.7 million. As at December 31, 2013, the conversion resulted in an increase of $30.1 million to the employee benefit liability, a decrease in reserves of $31.3 million and an increase in retained earnings of $1.2 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 $1.4 million.

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

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.

20. SUBSEQUENT EVENTS

The construction of a third transmission line between Churchill Falls and Labrador West has been temporarily suspended until Alderon secures additional financing for its 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.

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 also is seeking interim earnings relief for 2014.