NEWFOUNDLAND AND LABRADOR HYDRO
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
March 31, 2017
(Unaudited)

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

As at (millions of Canadian dollars)	Notes	**March 31 2017**	December 31 2016
ASSETS			
Current assets			
Cash and cash equivalents		**21.0**	26.5
Short-term investments		**14.5**	-
Trade and other receivables		**120.8**	118.9
Inventories		**93.4**	88.9
Current portion of sinking funds	7	**78.1**	75.2
Current portion of reserve fund	7	**7.5**	4.9
Prepayments		**9.0**	5.5
Deferred asset	3	**38.4**	51.1
Total current assets		**382.7**	371.0
Non-current assets			
Property, plant and equipment	4	**2,325.1**	2,279.3
Intangible assets	5	**7.5**	7.8
Long-term investments		**34.0**	34.0
Investment in joint arrangement		**1.2**	1.2
Other long-term assets	7	**187.9**	202.3
Total assets		**2,938.4**	2,895.6
Regulatory deferrals	6	**163.3**	163.8
Total assets and regulatory deferrals		**3,101.7**	3,059.4
LIABILITIES AND EQUITY			
Current liabilities			
Short-term borrowings	8	**342.0**	435.0
Trade and other payables		**150.9**	174.4
Current portion of long-term debt	8	**143.5**	142.6
Deferred credits		**0.6**	0.4
Current portion of deferred contributions	9	**1.1**	1.1
Derivative liability	17	**40.1**	51.1
Total current liabilities		**678.2**	804.6
Non-current liabilities			
Long-term debt	8	**1,153.7**	871.7
Deferred contributions	9	**12.4**	12.8
Decommissioning liabilities	10	**15.7**	15.8
Employee future benefits		**103.7**	102.7
Total liabilities		**1,963.7**	1,807.6
Shareholder’s equity			
Share capital	13	**22.5**	22.5
Contributed capital	13	**150.1**	148.1
Reserves		**11.3**	26.3
Retained earnings		**731.7**	706.5
Total equity		**915.6**	903.4
Total liabilities and equity		**2,879.3**	2,711.0
Regulatory deferrals	6	**222.4**	348.4
Total liabilities, equity and regulatory deferrals		**3,101.7**	3,059.4

Commitments and contingencies (Note 19)

See accompanying notes

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

For the period ended March 31 (millions of Canadian dollars)	Notes	**Three months ended** **2017**	2016
			(Note 22)
Energy sales		**216.6**	242.8
Other revenue		**6.9**	7.3
Revenue		**223.5**	250.1
Fuels		**83.9**	72.6
Power purchased		**28.1**	27.4
Operating costs	14	**44.6**	43.9
Transmission rental		**5.1**	4.9
Depreciation and amortization	4,5	**23.0**	20.9
Net finance expense	15	**16.8**	18.5
Other expense	16	**1.5**	4.8
Expenses		**203.0**	193.0
Profit before regulatory adjustments		**20.5**	57.1
Regulatory adjustments	6	**(6.7)**	40.3
Profit for the period		**27.2**	16.8
Other comprehensive income			
Total items that may or have been reclassified to profit or loss			
Regulatory adjustment		**-**	0.2
Net fair value (loss) gain on available-for-sale financial instruments		**(12.6)**	2.7
Reclassification adjustments related to:			
Disposals of available-for-sale financial instruments		**(2.4)**	(2.6)
Other comprehensive (loss) income for the period		**(15.0)**	0.3
Total comprehensive income for the period		**12.2**	17.1

See accompanying notes

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

(millions of Canadian dollars)	Notes	Share Capital	Contributed Capital	Fair Value Reserve	Employee Benefit Reserve	Retained Earnings	Total
Balance at January 1, 2017		**22.5**	**148.1**	**44.7**	**(18.4)**	**706.5**	**903.4**
Profit for the period		**-**	**-**	**-**	**-**	**27.2**	**27.2**
Other comprehensive income							
Net change in fair value of available-for-sale financial instruments	**12**	**-**	**-**	**(12.6)**	**-**	**-**	**(12.6)**
Net change in fair value of financial instruments reclassified to profit or loss	**12**	**-**	**-**	**(2.4)**	**-**	**-**	**(2.4)**
Regulatory adjustment	**6,12**	**-**	**-**	**-**	**-**	**-**	**-**
Total comprehensive (loss) income for the period		**-**	**-**	**(15.0)**	**-**	**27.2**	**12.2**
Contributed capital	**13**	**-**	**2.0**	**-**	**-**	**-**	**2.0**
Dividends	**13**	**-**	**-**	**-**	**-**	**(2.0)**	**(2.0)**
Balance at March 31, 2017		**22.5**	**150.1**	**29.7**	**(18.4)**	**731.7**	**915.6**
Balance at January 1, 2016		22.5	132.9	41.4	(21.5)	663.1	838.4
Profit for the period		-	-	-	-	16.8	16.8
Other comprehensive income							
Net change in fair value of available-for-sale financial instruments	12	-	-	2.7	-	-	2.7
Net change in fair value of financial instruments reclassified to profit or loss	12	-	-	(2.6)		-	(2.6)
Regulatory adjustment	6,12				0.2		0.2
Total comprehensive income for the period		-	-	0.1	0.2	16.8	17.1
Contributed capital	13	-	2.5	-	-	-	2.5
Dividends	13	-	-	-	-	(3.8)	(3.8)
Balance at March 31, 2016		22.5	135.4	41.5	(21.3)	676.1	854.2

See accompanying notes

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

For the period ended March 31 (millions of Canadian dollars)	Notes	**Three months ended** **2017**	2016
			(Note 22)
Operating activities			
Profit for the period		**27.2**	16.8
Adjusted for items not involving a cash flow:			
Depreciation and amortization	4,5	**23.0**	20.9
Amortization of deferred contributions	9	**(0.3)**	(0.3)
Accretion	15	**0.1**	0.3
Employee future benefits		**1.0**	1.5
Regulatory adjustments	6	**(6.7)**	40.1
Loss on disposal of property, plant and equipment	16	**0.1**	0.3
Net change in PPA fair value		**1.7**	4.3
Other		**(3.0)**	(1.6)
		43.1	82.3
Changes in non-cash working capital balances	20	**(33.7)**	(27.0)
Net cash (used in) provided from operating activities		**9.4**	55.3
Investing activities			
Additions to property, plant and equipment	4	**(68.5)**	(24.9)
Additions to intangible assets	5	**(0.1)**	(0.4)
Contributions to sinking funds	7	**(2.4)**	(2.4)
Increase in short-term investment		**(14.5)**	-
Changes in non-cash working capital balances	20	**0.3**	(3.4)
Net cash used in investing activities		**(85.2)**	(31.1)
Financing activities			
Issuance of long-term debt	8	**282.5**	-
Retirement of long-term debt		**-**	(0.1)
Dividends paid to Nalcor Energy	13	**(2.0)**	(3.8)
Decrease in short-term borrowings	8	**(93.0)**	(14.0)
Increase in contributed capital	13	**2.0**	2.5
(Decrease) increase in deferred contributions	9	**(0.1)**	0.5
Increase in deferred credits		**0.2**	0.2
Rate stabilization plan refund		**(119.3)**	-
Net cash provided from (used in) financing activities		**70.3**	(14.7)
Net (decrease) increase in cash and cash equivalents		**(5.5)**	9.5
Cash and cash equivalents, beginning of period		**26.5**	40.1
Cash and cash equivalents, end of period		**21.0**	49.6
Interest received		**0.8**	0.6
Interest paid		**35.1**	34.1

See accompanying notes

1. DESCRIPTION OF BUSINESS

Newfoundland and Labrador Hydro (Hydro or the Company) is incorporated under a special act of the Legislature of the Province of Newfoundland and Labrador (the Province). The principal activity of Hydro is the generation, transmission and sale of electricity. Hydro's operations include both regulated and non-regulated activities. Hydro is a 100% owned subsidiary of Nalcor Energy (Nalcor). Hydro's head office is located at 500 Columbus Drive in St. John's, Newfoundland and Labrador A1B 0C9, Canada.

Hydro holds interests in the following entities:

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of Compliance and Basis of Measurement

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standards 34 - Interim Financial Reporting and have been prepared using accounting policies consistent with those used in the preparation of the annual audited consolidated financial statements for the year ended December 31, 2016.

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

These condensed consolidated interim financial statements have been prepared on a historical cost basis, except for financial instruments at fair value through profit or loss and available-for-sale financial assets which have been measured at fair value. The condensed consolidated interim financial statements are presented in Canadian dollars (CAD) and all values rounded to the nearest million, except when otherwise noted. The condensed consolidated interim financial statements were approved by Hydro's Board of Directors (the Board) on May 9, 2017.

2.2 Basis of Consolidation

The condensed consolidated interim financial statements include the financial statements of Hydro, its subsidiary company, LCDC, and its share of investments in a joint operation and a joint arrangement. Intercompany transactions and balances have been eliminated upon consolidation.

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

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

Churchill Falls holds 33.33% of the equity share capital of Twin Falls Power Corporation Limited (Twin Falls). This investment is accounted for using the equity method.

3. DEFERRED ASSET

The deferred asset represents Hydro's asset related to the power purchase agreement (PPA) with Nalcor Energy Marketing Corporation (Energy Marketing). The PPA, which became effective on October 1, 2015, allows Energy Marketing to purchase available recapture energy from Hydro for resale in export markets or through agreements with counterparties. Additionally, the PPA allows for the use of Hydro's transmission service rights by Energy Marketing to deliver electricity, through rights which are provided to Hydro pursuant to a Transmission Service Agreement with Hydro-Québec dated April 1, 2009.

The PPA can be terminated by either party with notice provided 60 days prior to the intended termination date. At March 31, 2017, Management assessed the anticipated term of the contract and determined no change in accounting treatment was required.

The deferred asset is amortized into income on a straight-line basis over the assumed 12 month term of the contract, which commenced on January 1, 2017. The components of change are as follows:

As at (millions of Canadian dollars)	**March 31 2017**	December 31 2016
Deferred asset, beginning of period	**51.1**	61.2
Additions	**-**	51.1
Amortization	**(12.7)**	(61.2)
Deferred asset, end of period	**38.4**	51.1

4. PROPERTY, PLANT AND EQUIPMENT

(millions of Canadian dollars)	Generation Plant	Transmission and Distribution	Other	Construction in Progress	Total
Cost					
Balance at January 1, 2016	1,701.3	765.0	222.2	58.4	2,746.9
Additions	-	0.1	0.1	260.5	260.7
Disposals	(6.1)	(3.2)	(3.4)	-	(12.7)
Transfers	93.8	97.4	24.8	(216.0)	-
Other adjustments	(0.4)	(0.1)	(0.1)	-	(0.6)
Decommissioning liabilities and revisions	(13.9)	1.0	-	-	(12.9)
Balance at December 31, 2016	1,774.7	860.2	243.6	102.9	2,981.4
Additions	**-**	**-**	**(0.1)**	**68.6**	**68.5**
Disposals	**-**	**-**	**(0.2)**	**-**	**(0.2)**
Transfers	**0.6**	**1.4**	**-**	**(2.0)**	**-**
Balance at March 31, 2017	**1,775.3**	**861.6**	**243.3**	**169.5**	**3,049.7**
Depreciation					
Balance at January 1, 2016	412.4	138.4	73.3	-	624.1
Depreciation	46.7	23.0	13.5	-	83.2
Disposals	(1.8)	(1.0)	(2.4)	-	(5.2)
Balance at December 31, 2016	457.3	160.4	84.4	-	702.1
Depreciation	**12.8**	**6.5**	**3.3**	**-**	**22.6**
Disposals	**-**	**-**	**(0.1)**	**-**	**(0.1)**
Balance at March 31, 2017	**470.1**	**166.9**	**87.6**	**-**	**724.6**
Carrying value					
Balance at January 1, 2016	1,288.9	626.6	148.9	58.4	2,122.8
Balance at December 31, 2016	1,317.4	699.8	159.2	102.9	2,279.3
Balance at March 31, 2017	**1,305.2**	**694.7**	**155.7**	**169.5**	**2,325.1**

5. INTANGIBLE ASSETS

(millions of Canadian dollars)	Computer Software	Feasibility Studies	Assets Under Development	Total
Cost				
Balance at January 1, 2016	9.5	1.8	-	11.3
Additions	-	-	2.2	2.2
Transfers	0.1	-	(0.1)	-
Balance at December 31, 2016	9.6	1.8	2.1	13.5
Additions	**-**	**-**	**0.1**	**0.1**
Balance at March 31, 2017	**9.6**	**1.8**	**2.2**	**13.6**
Amortization				
Balance at January 1, 2016	3.0	1.2	-	4.2
Amortization	1.3	0.2	-	1.5
Balance at December 31, 2016	4.3	1.4	-	5.7
Amortization	**0.4**	**-**	**-**	**0.4**
Balance at March 31, 2017	**4.7**	**1.4**	**-**	**6.1**
Carrying value				
Balance at January 1, 2016	6.5	0.6	-	7.1
Balance at December 31, 2016	5.3	0.4	2.1	7.8
Balance at March 31, 2017	**4.9**	**0.4**	**2.2**	**7.5**

6. REGULATORY DEFERRALS

(millions of Canadian dollars)	January 1 2017	RSP Payout	Regulatory Activity	**March 31 2017**	Remaining Recovery Settlement Period (years)
Regulatory asset deferrals					
2014 cost deferral	38.7	-	-	**38.7**	n/a
2015 cost deferral	24.5	-	-	**24.5**	n/a
2016 cost deferral	32.4	-	-	**32.4**	n/a
Asset disposal	0.4	-	-	**0.4**	20.15
Deferred energy conservation costs	8.3	-	0.1	**8.4**	n/a
Deferred foreign exchange on fuel	(0.2)	-	0.2	**-**	n/a
Deferred lease costs	4.5	-	(0.3)	**4.2**	4.15
Foreign exchange losses	54.0	-	(0.6)	**53.4**	24.75
Hearing costs	0.3	-	(0.1)	**0.2**	0.75
Phase Two hearing costs	0.9	-	0.2	**1.1**	n/a
	163.8	-	(0.5)	**163.3**	
Regulatory liability deferrals					
Deferred power purchase savings	(0.4)	-	-	**(0.4)**	10.25
Insurance amortization and proceeds	(4.4)	-	0.1	**(4.3)**	n/a
Rate stabilization plan (RSP)	(343.6)	119.3	6.6	**(217.7)**	n/a
	(348.4)	119.3	6.7	**(222.4)**	

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

	Three months ended	
For the period ended March 31 (millions of Canadian dollars)	**2017**	2016
RSP amortization	**(26.2)**	(4.4)
RSP fuel deferral	**17.2**	32.0
RSP interest	**5.5**	6.1
Rural rate adjustment	**(3.1)**	(2.0)
Total RSP activity	**(6.6)**	31.7
2014 cost deferral	**-**	4.6
2015 cost deferral	**-**	0.7
Amortization of deferred foreign exchange losses	**0.6**	0.5
Deferred energy conservation	**(0.1)**	(0.1)
Deferred foreign exchange on fuel	**(0.2)**	1.2
Deferred lease costs	**0.3**	-
Employee future benefits actuarial loss	**-**	0.2
Fuel supply deferral	**-**	1.7
Hearing costs	**0.1**	-
Insurance amortization and proceeds	**(0.1)**	(0.2)
Non-Customer contributions in aid of construction	**(0.5)**	-
Phase Two hearing costs	**(0.2)**	-
	(6.7)	40.3

Hydro's regulatory deferrals which will be, or are expected to be, reflected in customer rates in future periods and have been established through the rate setting process. In the absence of rate regulation, these amounts would be reflected in operating results in the year and profit for the period ended March 31, 2017 would have decreased by $6.7 million (2016 – an increase of $40.3 million).

6.2 RSP Refund

As per Board Order P.U. 36 (2016), the RSP was reduced by $119.3 million relating to the refund of the utility surplus balance. The reduction was comprised of $118.9 million refund to customers and $0.4 million in administrative costs.

7. OTHER LONG-TERM ASSETS

	March 31	December 31
(millions of Canadian dollars)	**2017**	2016
Long-term receivables	**0.5**	0.5
Reserve fund	**14.9**	14.9
Sinking funds	**258.1**	267.0
	273.5	282.4
Less: current portion of reserve fund	**(7.5)**	(4.9)
Less: current portion of sinking funds	**(78.1)**	(75.2)
Other long-term assets, end of period	**187.9**	202.3

As at March 31 (millions of Canadian dollars)	**March 31 2017**	December 31 2016
Sinking funds, beginning of period	**267.0**	242.6
Contributions	**2.4**	8.1
Earnings	**3.6**	12.5
Mark-to-market adjustment	**(14.9)**	3.8
Sinking funds, end of period	**258.1**	267.0
Less: current portion	**(78.1)**	(75.2)
	180.0	191.8

Sinking fund installments due over the next five years are as follows:

(millions of Canadian dollars)	2018	2019	2020	2021	2022
Sinking fund installments	6.7	6.7	6.7	6.7	6.7

8. DEBT

8.1 Short-term Borrowings

Hydro maintains a $50.0 million CAD or USD equivalent unsecured demand operating credit facility with its banker and as at March 31, 2017, there were no amounts drawn on this facility (2016 - $nil), and none of the borrowing limit has been used to issue irrevocable letters of credit (2016 - $0.3 million). Borrowings in CAD may take the form of Prime Rate Advances, Bankers' Acceptances (BAs), and letters of credit, with interest calculated at the Prime Rate or prevailing Government BA fee. Borrowings in USD may take the form of Base Rate Advances, London Interbank Offer Rate (LIBOR) Advances and letters of credit. The facility also provides coverage for overdrafts on Hydro's bank accounts, with interest calculated at the Prime Rate. On January 24, 2017 Hydro cancelled the irrevocable letter of credit for $0.3 million (2016 - $0.3 million) as it was no longer required.

On March 31, 2017 Nalcor replaced an intercompany loan in the amount of $225.0 million to Hydro. This loan will mature on September 30, 2017 and has an interest rate of 1.112%.

In addition, Hydro utilized its government guaranteed promissory note program to fulfil its short-term funding requirements. As at March 31, 2017, there were $117.0 million in promissory notes outstanding with a maturity date of April 3, 2017 bearing an interest rate of 0.57% (2016 - $210.0 million bearing an interest rate of 0.63%). Upon maturity, the promissory note was reissued.

As at (millions of Canadian dollars)	**March 31 2017**	December 31 2016
Promissory notes - borrowed from Nalcor	**225.0**	225.0
Promissory notes - borrowed from external markets	**117.0**	210.0
	342.0	435.0

Churchill Falls maintains a $10.0 million CAD or USD equivalent unsecured demand operating credit facility with its primary banker. There were no amounts drawn on this facility as at March 31, 2017 (2016 - $nil), however $1.0 million of the borrowing limit has been used to issue irrevocable letters of credit (2016 - $1.0 million). Churchill Falls has issued an additional irrevocable letter of credit in the amount of $1.0 million (2016 - $1.0 million), which does not impact the borrowing limit of the operating credit facility. Borrowings in CAD may take the form of Prime Rate Advances, BAs, or letters of credit, with interest calculated at the Prime Rate or prevailing Government BA fee. Borrowings in USD may take the form of Base Rate Advances. The facility also provides coverage for overdrafts on Churchill Falls bank accounts, with interest calculated at the Prime Rate. Churchill Falls has issued three irrevocable letters of credit, totalling $2.0 million (2016 - $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.

8.2 Long-term Debt

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

As at March 31 (millions of Canadian dollars)	Face Value	Coupon Rate %	Year of Issue	Year of Maturity	**2017**	2016
Hydro						
V	0.2	10.50	1989	2014	**0.2**	0.2
X*	150.0	10.25	1992	2017	**150.0**	149.9
Y*	300.0	8.40	1996	2026	**295.1**	295.0
AB*	300.0	6.65	2001	2031	**305.5**	305.5
AD*	125.0	5.70	2003	2033	**123.8**	123.8
AF	500.0	3.60	2014/2017	2045	**479.7**	197.2
Total debentures	1,375.2				**1,354.3**	1,071.6
Less: Sinking fund investments in own debentures					**57.1**	57.3
					1,297.2	1,014.3
Less: payments due within one year					**143.5**	142.6
Total debentures					**1,153.7**	871.7

*Sinking funds have been established for these issues.

Hydro's promissory notes and debentures are unsecured and unconditionally guaranteed as to principal and interest and, where applicable, sinking fund payments, by the Province. The Province charges Hydro a guarantee fee of 25 basis points annually on the total debt (net of sinking funds) with a remaining term to maturity of less than 10 years and 50 basis points annually on total debt (net of sinking funds) with a remaining term to maturity greater than 10 years for debt outstanding as of December 31, 2010. For debt issued subsequent to December 31, 2010, the guarantee rate is 25 basis points annually on the total debt (net of sinking funds) with an original term to maturity of less than 10 years and 50 basis points annually on total debt (net of sinking funds) with an original term to maturity greater than 10 years. The fee for the period ended March 31, 2017 was $1.0 million (2016 - $1.1 million).

On January 20, 2017 Hydro issued new long-term debt through the reopening and sale of $300.0 million of Series AF debentures to its underwriting syndicate. The debentures mature on December 1, 2045 with a coupon rate of 3.60% paid semi-annually.

9. 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 property, plant and equipment asset.

As at (millions of Canadian dollars)	**March 31 2017**	December 31 2016
Deferred contributions, beginning of period	**13.9**	12.7
Additions	**(0.1)**	2.4
Disposals	**-**	(0.1)
Amortization	**(0.3)**	(1.1)
Deferred contributions, end of period	**13.5**	13.9
Less: current portion	**(1.1)**	(1.1)
	12.4	12.8

10. DECOMMISSIONING LIABILITIES

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

The reconciliation of the beginning and ending carrying amounts of decommissioning liabilities for March 31, 2017 and December 31, 2016 are as follows:

As at (millions of Canadian dollars)	**March 31 2017**	December 31 2016
Decommissioning liabilities, beginning of period	**15.8**	28.8
Liabilities settled	**-**	(0.8)
Accretion	**(0.1)**	0.7
Revisions	**-**	(12.9)
Decommissioning liabilities, end of period	**15.7**	15.8

11. EMPLOYEE FUTURE BENEFITS

11.1 Pension Plan

Employees participate in the Province's Public Service Pension Plan, a multi-employer defined benefit plan. The employer's contributions for the period ended March 31, 2017 of $2.2 million (2016 - $2.2 million) are expensed as incurred.

11.2 Other Benefits

Hydro provides group life insurance and health care benefits on a cost shared basis to retired employees, and in certain cases, their surviving spouses, in addition to a severance payment upon retirement. In 2017, cash payments to beneficiaries for its unfunded other employee future benefits were $1.1 million (2016 - $1.0 million). An actuarial valuation was performed as at December 31, 2016.

	Three months ended	
For the period ended March 31 (millions of Canadian dollars)	**2017**	2016
Component of benefit cost		
Current service cost	**1.0**	1.0
Interest cost	**1.0**	1.1
Total benefit expense for the period	**2.0**	2.1

12. ACCUMULATED OTHER COMPREHENSIVE INCOME

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

Items that may or have been reclassified to profit or loss:

	Three months ended	
(millions of Canadian dollars)	**2017**	2016
Available-for-sale financial instruments		
Balance at January 1	**44.7**	41.4
Net fair value (gain) loss during the period	**(12.6)**	2.7
Amounts reclassified to profit or loss	**(2.4)**	(2.6)
Balance at March 31	**29.7**	41.5

(millions of Canadian dollars)	**2017**	2016
Employee future benefits		
Balance at January 1	**(18.4)**	(21.5)
Regulatory adjustment	**-**	0.2
Balance at March 31	**(18.4)**	(21.3)

13. SHAREHOLDER'S EQUITY

13.1 Share Capital

	March 31	December 31
As at (millions of Canadian dollars)	**2017**	2016
Common shares of par value of $1 each		
Authorized - 25,000,000		
Issued, paid and outstanding - 22,503,942	**22.5**	22.5

13.2 Contributed Capital

	March 31	December 31
As at (millions of Canadian dollars)	**2017**	2016
Contributed capital, beginning of period	**148.1**	132.9
Additions	**2.0**	15.2
Contributed capital, end of period	**150.1**	148.1

During 2017, the Churchill Falls (Labrador) Corporation Trust (the Trust) contributed capital in the amount of $nil (2016 - $0.3 million). In addition, LCMC contributed $2.0 million (2016 - $14.9 million) in additions to property, plant and equipment.

13.3 Dividends

	Three months ended	
For the period ended March 31 (millions of Canadian dollars)	**2017**	2016
Declared during the period		
Final dividend for prior period: $0.02 per share (2016 - $0.05)	**0.5**	1.1
Interim dividend for current period: $0.07 per share (2016 - $0.12)	**1.5**	2.7
	2.0	3.8

14. OPERATING COSTS

	Three months ended	
For the period ended March 31 (millions of Canadian dollars)	**2017**	2016
Salaries and benefits	**29.9**	29.5
Maintenance and materials	**6.3**	5.3
Professional services	**1.5**	1.5
Rental and royalty	**2.0**	2.5
Travel and transportation	**1.8**	1.3
Equipment rental	**0.5**	1.3
Other operating costs	**2.6**	2.5
	44.6	43.9

15. NET FINANCE EXPENSE

	Three months ended	
For the period ended March 31 (millions of Canadian dollars)	**2017**	2016
Finance income		
Interest on sinking fund	**3.4**	3.4
Interest on reserve fund	**0.1**	0.2
Other interest income	**0.3**	0.2
	3.8	3.8
Finance expense		
Long-term debt	**20.2**	21.1
Debt guarantee fee	**1.0**	1.1
Accretion	**0.1**	0.3
Other	**0.8**	0.3
	22.1	22.8
Interest capitalized during construction	**(1.5)**	(0.5)
	20.6	22.3
Net finance expense	**16.8**	18.5

16. OTHER EXPENSE

For the period ended March 31 (millions of Canadian dollars)		**Three months ended 2017**	2016
Mark-to-market of commodity swaps		**-**	1.9
Settlement of commodity swaps		**-**	(1.9)
Loss on disposal of property, plant and equipment		**0.1**	0.3
Asset disposal costs		**(0.2)**	0.2
Net PPA loss	(a)	**1.7**	4.3
Foreign exchange gain		**(0.1)**	-
Other expense		**1.5**	4.8

(a) Net change in PPA fair value

For the period ended March 31 (millions of Canadian dollars)	**Three months ended 2017**	2016
PPA gains		
Settlement of realized profit	**(9.5)**	(5.8)
Mark-to-market of derivative	**(1.5)**	(5.2)
	(11.0)	(11.0)
PPA losses		
Amortization of deferral	**12.7**	15.3
	12.7	15.3
Net PPA loss	**1.7**	4.3

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

17.1 Fair Value

The estimated fair values of financial instruments as at March 31, 2017 and December 31, 2016 are based on relevant market prices and information available at the time. Fair value estimates are based on valuation techniques which are significantly affected by the assumptions used including the amount and timing of future cash flows and discount rates reflecting various degrees of risk. As such, the fair value estimates below are not necessarily indicative of the amounts that Hydro might receive or incur in actual market transactions.

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

Establishing Fair Value

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

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

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

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

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value. For assets and liabilities that are recognized at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. There were no transfers between Level 1, 2 and 3 fair value measurement for the period ended March 31, 2017 and the year ended December 31, 2016.

	Level	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
(millions of Canadian dollars)			**March 31, 2017**		December 31, 2016
Financial assets					
Sinking funds - investments in Hydro debt issue	**2**	**57.1**	**67.1**	57.3	71.3
Sinking funds - other investments	**2**	**258.1**	**258.1**	267.0	267.0
Reserve fund	**2**	**14.9**	**14.9**	14.9	14.9
Long-term receivables	**2**	**0.5**	**0.5**	0.5	0.5
Financial liabilities					
Derivative liabilities	**3**	**40.1**	**40.1**	51.1	51.1
Long-term debt (including amount due within one year before sinking funds)	**2**	**1,354.3**	**1,638.4**	1,071.6	1,333.7

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

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

Level 3 financial instruments include the derivative liability relating to the PPA with Energy Marketing and represents the future value provided to Energy Marketing through the contract.

The following table summarizes quantitative information about the valuation techniques and unobservable inputs used in the fair value measurement of Level 3 financial instruments as at March 31, 2017:

(millions of Canadian dollars)	Carrying Value	Valuation Techniques	Significant Unobservable Input(s)	Range
Derivative liability (PPA)	40.1	Modelled pricing	Volumes (MWh)	38.0-49.0% of available generation

The derivative liability arising under the PPA is designated as a Level 3 instrument as related volumes are not readily determinable to estimate a portion of the fair value of the derivative liability. Hence, fair value measurement of this instrument is based upon a combination of internal and external pricing and volume estimates. As at March 31, 2017, the effect of using reasonably possible alternative assumptions for volume inputs to valuation techniques may have resulted in a +$0.1 million to a +$4.7 million change in the carrying value of the power purchase derivative liability.

17.2 Risk Management

Market Risk

In the course of carrying out its operating, financing and investing activities, Hydro is exposed to possible market price movements that could impact expected future cash flow and the carrying value of certain financial assets and liabilities. Market price movements to which Hydro has significant exposure include those relating to prevailing interest rates, foreign exchange rates, most notably the USD/CAD, and current commodity prices, most notably the spot prices for diesel fuel, electricity, and No. 6 fuel. These exposures are addressed as part of Nalcor's Financial Risk Management Policy.

The components of the change impacting the carrying value of the derivative liability for the period ended March 31, 2017 are as follows:

(millions of Canadian dollars)	**Level II**	**Level III**	**Total**
Balance at January 1, 2017	**-**	**(51.1)**	**(51.1)**
Changes in profit or loss			
Mark-to-market	**-**	**1.5**	**1.5**
Settlements	**-**	**9.5**	**9.5**
Total	**-**	**11.0**	**11.0**
Balance at March 31, 2017	**-**	**(40.1)**	**(40.1)**
Balance, January 1, 2016	1.9	(61.2)	(59.3)
Changes in profit or loss			
Mark-to-market	(1.9)	5.2	3.3
Settlements	-	5.8	5.8
Total	(1.9)	11.0	9.1
Balance at March 31, 2016	-	(50.2)	(50.2)

18. RELATED PARTY TRANSACTIONS

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

Related Party	Relationship
Nalcor	100% shareholder of Hydro
Churchill Falls	Joint arrangement of Hydro
The Province	100% shareholder of Nalcor
Twin Falls	Joint venture of Churchill Falls
Labrador-Island Link Limited Partnership	Partnership in which Nalcor owns 75 Class A Units
Energy Marketing	Wholly owned subsidiary of Nalcor
Labrador-Island Link Operating Corporation (LIL Opco)	Wholly owned subsidiary of Nalcor
LCMC	Wholly owned subsidiary of Nalcor
Muskrat Falls Corporation (Muskrat Falls)	Wholly owned subsidiary of Nalcor
Nalcor Energy – Bull Arm Fabrication Inc.	Wholly owned subsidiary of Nalcor
Nalcor Energy – Oil and Gas Inc.	Wholly owned subsidiary of Nalcor
PUB	Agency of the Province
The Trust	Created by the Province with Churchill Falls as the beneficiary

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. Outstanding balances due to or from related parties are non-interest bearing with no set terms of repayment, unless otherwise stated.

(a) On March 31, 2017 Nalcor replaced an intercompany loan in the amount of $225.0 million to Hydro. This loan will mature on September 30, 2017 and has an interest rate of 1.112%.

(b) For the period ended March 31, 2017, Lower Churchill Management Corporation contributed $2.0 million (2016 - $2.5 million) in additions to property, plant and equipment.

19. COMMITMENTS AND CONTINGENCIES

(a) Hydro has received claims instituted by various companies and individuals with respect to power delivery claims and other miscellaneous matters. Although the outcome of such matters cannot be predicted with certainty, Management believes that Hydro's exposure to such claims and litigation, to the extent not covered by insurance policies or otherwise provided for, is not expected to materially affect its financial position.

(b) Outstanding commitments for capital projects total approximately $141.5 million as at March 31, 2017 (December 31, 2016 - $153.1 million).

20. SUPPLEMENTARY CASH FLOW INFORMATION

	Three months ended	
For the period ended March 31 (millions of Canadian dollars)	**2017**	2016
Trade and other receivables	**(1.9)**	(5.3)
Inventories	**(4.5)**	0.6
Prepayments	**(3.5)**	(3.4)
Trade and other payables	**(23.5)**	(22.3)
Changes in non-cash working capital balances	**(33.4)**	(30.4)
Related to:		
Operating activities	**(33.7)**	(27.0)
Investing activities	**0.3**	(3.4)
	(33.4)	(30.4)

21. SEGMENT INFORMATION

Hydro operates in four business segments. The operating structure as at March 31, 2017 reflects organizational changes that resulted in revised operating segments effective January 1, 2017. The designation of segments is based on a combination of regulatory status and management accountability. Previously reported segmented information has been presented to conform with the current operating structure.

Hydro Regulated activities encompass sales of electricity to customers within the Province that are regulated by the PUB. Hydro Non-Regulated activities include the sale of recall power, purchased from Churchill Falls, to mining operations in Labrador West as well as costs of Hydro that are excluded from the determination of customer rates. Churchill Falls operates a hydroelectric generating facility which sells electricity to Hydro-Québec and Hydro. Energy Marketing includes the sale of electricity to markets outside the Province and other non-regulated electricity sales.

(millions of Canadian dollars)	Hydro Regulated	Churchill Falls	Energy Marketing	Non- Activities	Inter-Segment	Total
	For the three months ended March 31, 2017					
Energy sales	174.4	31.4	0.5	11.1	(0.8)	216.6
Other revenue	1.0	0.1	5.1	-	0.7	6.9
Revenue	175.4	31.5	5.6	11.1	(0.1)	223.5
Fuels	83.9	-	-	-	-	83.9
Power purchased	18.0	-	0.5	10.3	(0.7)	28.1
Operating costs	33.8	11.1	-	(0.3)	-	44.6
Transmission rental	-	-	5.1	-	-	5.1
Depreciation and amortization	18.7	4.4	-	-	(0.1)	23.0
Net finance expense (income)	17.0	(0.2)	-	-	-	16.8
Other (income) expense	(0.2)	-	1.7	-	-	1.5
Expenses	171.2	15.3	7.3	10.0	(0.8)	203.0
Preferred dividends	-	(0.7)	-	-	0.7	-
Profit (loss) before regulatory	4.2	16.9	(1.7)	1.1	-	20.5
Regulatory adjustments	(6.7)	-	-	-	-	(6.7)
Profit (loss) for the period	10.9	16.9	(1.7)	1.1	-	27.2
Capital expenditures	63.6	5.0	-	-	-	68.6
Total assets	2,483.7	569.0	40.2	8.8	-	3,101.7

(millions of Canadian dollars)	Hydro Regulated	Churchill Falls	Energy Marketing	Non-Regulated Activities	Inter-Segment	Total
	For the three months ended March 31, 2016					
Energy sales	194.3	38.0	0.8	10.6	(0.9)	242.8
Other revenue	1.0	0.1	4.9	-	1.3	7.3
Revenue	195.3	38.1	5.7	10.6	0.4	250.1
Fuels	72.6	-	-	-	-	72.6
Power purchased	17.5	-	0.8	10.1	(1.0)	27.4
Operating costs	31.5	12.1	-	0.2	0.1	43.9
Transmission rental	-	-	4.9	-	-	4.9
Depreciation and amortization	16.9	4.0	-	-	-	20.9
Net finance expense (income)	18.8	(0.3)	-	-	-	18.5
Other expense	0.5	-	4.3	-	-	4.8
Expenses	157.8	15.8	10.0	10.3	(0.9)	193.0
Preferred dividends	-	(1.3)	-	-	1.3	-
Profit (loss) before regulatory adjustments	37.5	23.6	(4.3)	0.3	-	57.1
Regulatory adjustments	40.3	-	-	-	-	40.3
(Loss) profit for the period	(2.8)	23.6	(4.3)	0.3	-	16.8
Capital expenditures	20.5	4.8	-	-	-	25.3
Total assets	2,245.3	544.9	47.9	8.3	-	2,846.4

22. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform to the basis of presentation adopted during the current reporting period. The changes have been summarized as follows:

(millions of Canadian dollars)	Previously reported	Transmission rental reclassification	Contributed capital	**Reclassified balance**
Operating costs	48.8	(4.9)		**43.9**
Transmission rental	-	4.9		**4.9**
Additions to property, plant and equipment	22.4		2.5	**24.9**
Increase in contributed capital	-		2.5	**2.5**

23. SUBSEQUENT EVENTS

In August 2016, Churchill Falls received judgment from the Québec Court of Appeal upholding the 2014 Québec Superior Court ruling on the motion filed by Churchill Falls to address the inequities of the pricing terms of the 1969 Power Contract between Churchill Falls and Hydro-Québec. The Court ruled against Churchill Falls and the ruling requires Churchill Falls to pay court costs of $1.4 million to Hydro- Québec. On April 20, 2017 Churchill Falls was granted leave to appeal the case to the Supreme Court of Canada. A hearing date is anticipated to be scheduled within 12 months.

In December 2016, Hydro received Board Order No. P.U. 49 (2016) (the GRA Order) in relation to its General Rate Application. In January 2017, Hydro filed an application with the PUB seeking approval of final customer rates in compliance with the GRA Order. On May 1, 2017 Hydro received Board Order No. P.U. 14 (2017). While this Order provided additional clarity surrounding certain components of the Order requested by Hydro, additional regulatory process is required prior to the determination of final customer rates and any financial statement impact.