NALCOR ENERGY
NEWFOUNDLAND AND LABRADOR HYDRO

2014 Annual Performance Report
Transparency and Accountability

June 2015

newfoundland labrador hydro
a nalcor energy company

nalcor energy

Message from the Board of Directors

Honourable Derrick Dalley
Minister of Natural Resources
Government of Newfoundland and Labrador
P. O. Box 8700
St. John's, NL
A1B 4J6

Dear Minister:

In accordance with the *Transparency and Accountability Act*, I am pleased to submit the 2014 Annual Performance Report on behalf of the Boards of Directors of Nalcor Energy and Newfoundland and Labrador Hydro.

The 2014-2016 Strategic Plan for Nalcor Energy and Newfoundland and Labrador Hydro outlined how each entity would address the applicable strategic directions of the Provincial Government in relation to the energy sector as communicated by the Minister of Natural Resources.

This Performance Report will present results for all of Nalcor Energy and will also highlight the accomplishments of Newfoundland and Labrador Hydro.

As the Boards of Directors of Nalcor Energy and Newfoundland and Labrador Hydro, we are accountable for the preparation of this report and are accountable for the results.

Ken Marshall,
Chair, Board of Directors
Nalcor Energy
Newfoundland and Labrador Hydro

NALCOR ENERGY
NEWFOUNDLAND AND LABRADOR HYDRO

Table of Contents

NALCOR ENERGY
NEWFOUNDLAND AND LABRADOR HYDRO

1 Overview

Nalcor

Nalcor Energy (Nalcor) is Newfoundland and Labrador's energy company. The company's business includes the development, generation, transmission and sale of electricity; the exploration, development, production and sale of oil and gas; industrial fabrication site management; and energy marketing.

Focused on sustainable growth, the company is leading the development of the province's energy resources and has a corporate-wide framework that facilitates the prudent management of its assets while continuing an unwavering focus on the safety of its workers, contractors and the public.

Nalcor is a provincial Crown corporation established in 2007 under a special act of the Legislature of the Province of Newfoundland and Labrador. Nalcor's legal structure at December 31, 2014 included the entities listed below.

Entity Name	Description of Interest
Newfoundland and Labrador Hydro (Hydro)	Wholly owned subsidiary
Nalcor Energy – Oil and Gas Inc. (Oil and Gas)	Wholly owned subsidiary
Nalcor Energy – Bull Arm Fabrication Inc. (Bull Arm Fabrication)	Wholly owned subsidiary
Nalcor Energy Marketing Corporation (Energy Marketing)	Wholly owned subsidiary
Muskrat Falls Corporation (Muskrat Falls)	Wholly owned subsidiary
Labrador Transmission Corporation (Labrador Transco)	Wholly owned subsidiary
Labrador-Island Link Holding Corporation (LIL Holdco)	Wholly owned subsidiary
Labrador-Island Link Limited Partnership (LIL LP)	Limited partnership in which Nalcor, through LIL Holdco, owns 100 per cent of the 75 Class A limited partnership units
Labrador-Island Link General Partner Corporation (LIL GP)	Wholly owned subsidiary
Labrador-Island Link Operating Corporation (LIL OpCo)	Wholly owned subsidiary
Labrador Churchill Management Corporation (LCMC)	Wholly owned subsidiary
Gull Island Power Corporation (GIPCo)	Wholly owned subsidiary (inactive)
Lower Churchill Development Corporation (LCDC)	51 per cent owned subsidiary of Hydro (inactive)
Churchill Falls (Labrador) Corporation Limited (Churchill Falls)	65.8 per cent owned joint venture of Hydro
Twin Falls Power Corporation Limited (Twin Falls)	33.3 per cent owned joint venture of Churchill Falls

Headquartered in St. John's, Nalcor's energy portfolio is located throughout the province (see Appendix 1).

Hydro

As the province's main electricity provider, Hydro is focused on providing a safe, reliable and least-cost electricity supply to meet current energy demand and future growth. Hydro is involved in both regulated and non-regulated activities.

The majority of Hydro's business is regulated by the Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB) and its electricity rates are set through periodic general rate applications. The regulated portion of the company includes the generation, transmission and distribution of electrical power and energy to utility, residential and commercial customers, as well as island industrial customers.

Hydro's generating assets include nine hydroelectric plants, one oil-fired plant, three gas turbines, and 25 diesel plants. These generating assets along with a network of transmission and distribution lines bring electricity to communities throughout Newfoundland and Labrador.

Under the Churchill Falls Power Contract, Churchill Falls (Labrador) Corporation (CF(L)Co) has the right to recall 300 megawatts (MW) of power (recall energy). CF(L)Co sells this power to Hydro under a long-term contract expiring in 2041. Hydro uses a portion of this power to supply residential and commercial customer requirements under regulated service. Hydro's non-regulated activities also include the sale of electricity to mining operations in Labrador West.

Vision

Nalcor

To build a strong economic future for successive generations of Newfoundlanders and Labradorians.

Hydro

To be recognized as an innovative provider of quality energy services.

Mission

Nalcor

Nalcor is focused on sustainable growth and is leading the development of the province's energy resources to provide maximum benefit to Newfoundland and Labrador. Over the coming years, Nalcor will continue to manage its energy holdings including oil and gas interests, Hydro and Upper Churchill assets, and the Bull Arm fabrication site, and will advance plans for the development of the Lower Churchill hydroelectric resource.

By December 31, 2016, Nalcor Energy will have further advanced its energy sector involvement in hydroelectric development, oil and gas, energy marketing and industrial site fabrication management to help build a strong economic future for Newfoundland and Labrador.

Hydro

Hydro is focused on providing a safe, reliable and cost-effective electricity supply to meet current and future energy needs. Hydro's strategy is focused on managing its assets in a manner that optimizes total cost of operation and maintenance. Diligence in the area of safety of employees, contractors and the public and a commitment to environmental sustainability and energy conservation drive the company. Over the coming years, Hydro will continue to enhance safety, asset management and environmental sustainability in order to improve the delivery of electricity to the people of the province.

By December 31, 2016, Hydro will have enhanced its safety, asset management and environmental sustainability processes to continuously improve the delivery of reliable and cost-effective electricity supply to its customers.

Mandate

Nalcor

The mandate of Nalcor, established in legislation under the *Energy Corporation Act*, is to invest in, engage in and carry out activities in all areas of the energy sector in the province and elsewhere, including:

- Developing, generating, producing, transmitting, distributing, delivering, supplying, selling, exporting, purchasing and using power from wind, water, steam, gas, coal, oil, hydrogen or other products used or useful in the production of power.
- Exploring for, developing, producing, refining, marketing and transporting hydrocarbons and products from hydrocarbons.
- Manufacturing, producing, distributing and selling energy related products and services.
- Research and development.

Hydro

The *Hydro Corporation Act* mandates Hydro to be responsible for:

- Developing and purchasing power and energy on an economic and efficient basis.
- Engaging within the province and elsewhere in the development, generation, production, transmission, distribution, delivery, supply, sale, purchase and use of power from water, steam, gas, coal, oil, wind, hydrogen and other products.
- Supplying power, at rates consistent with sound financial administration, for domestic, commercial, industrial or other uses in the province and subject to the prior approval of the Lieutenant-Governor in Council, outside of the province.

Lines of Business

Nalcor has six lines of business: Newfoundland and Labrador Hydro, Churchill Falls, Oil and Gas, Lower Churchill Project, Bull Arm Fabrication and Energy Marketing. The activities of these lines of business support the fulfillment of the strategic directions of the Provincial Government for the energy sector. A description of each of the lines of business is presented below.

Newfoundland and Labrador Hydro

Hydro is the primary generator of electricity in Newfoundland and Labrador. The utility delivers safe, reliable, and least-cost power to utility, industrial, residential and commercial customers in over 200 communities in the province. Hydro activities can be grouped as follows:

- Electricity generation involves the operation of nine hydroelectric generating stations, one oil-fired plant, three gas turbines and 25 diesel plants. This line of business also includes Hydro's involvement in forecasting electricity requirements in the province and advancing options for generation expansion.

- Transmission, distribution and customer service activities include the operation and maintenance of over 3,700 kilometres of transmission lines and more than 3,300 kilometres of distribution lines. Customer service activities address the requirements of over 38,000 residential and commercial customers, Newfoundland Power, as well as our industrial customers.

Churchill Falls

Nalcor's operation in Churchill Falls is one of the largest underground hydroelectric powerhouses in the world with a rated capacity of 5,428 MW. Safely operating and maintaining its electricity assets, as well as municipal and community services, drives the Churchill Falls strategy.

The Churchill Falls generating station provides clean, renewable electricity to millions of consumers throughout North America. A significant portion of that electricity is being sold to Hydro-Québec under a long-term contract. Churchill Falls sells 300 MW to Hydro for use in the province and for export sales (recapture or recall energy). Churchill Falls also provides 225 MW to Twin Falls to service the mining industry in Labrador West.[1]

Nalcor Energy – Oil and Gas

Nalcor Energy – Oil and Gas has ownership interests in three developments in the Newfoundland and Labrador offshore: the Hebron oil field, the White Rose Growth Project, and the Hibernia Southern Extension Project. Through its multi-year exploration strategy, Nalcor Energy – Oil and Gas is accelerating the exploration and delineation of the province's undiscovered oil and gas resources. The company also continues to pursue additional investment opportunities.

Lower Churchill Project

The lower Churchill River is one of the most attractive undeveloped hydroelectric resources in North America and is a key component of the province's energy warehouse. The two hydroelectric sites at Gull Island and Muskrat Falls will have a combined capacity of over 3,000 MW. Phase One of the Lower Churchill Project was sanctioned on December 17, 2012. The

[1] The arrangement under which Churchill Falls supplies the 225 MW Twinco block to Twin Falls expired on December 31, 2014. As a result, a new power purchase agreement (PPA) between Churchill Falls and Hydro for the sale of up to 225 MW of power produced by the Churchill Falls Generating Station was signed by Churchill Falls and Hydro, and is effective January 1, 2015.

project includes the 824 MW hydroelectric facility at Muskrat Falls on the lower Churchill River, over 1,500 km of associated transmission lines in Newfoundland and Labrador linking the island of Newfoundland to Labrador, and the Maritime Link between the island of Newfoundland and Nova Scotia. The clean, stable, renewable electricity from the Muskrat Falls Project will provide an opportunity for the province to meet its own domestic and industrial needs in an environmentally-sustainable way, and also export excess electricity to other jurisdictions where the demand for clean, renewable energy continues to grow.

Bull Arm Fabrication

Bull Arm Fabrication manages Atlantic Canada's largest fabrication site. Close to international shipping lanes, this site has unobstructed, deep water access to the Atlantic Ocean. This facility spans over 6,300 acres with capabilities for steel fabrication and concrete construction, outfitting installation, at-shore hook-up and deep water commissioning. Currently, the Bull Arm site is fully leased by ExxonMobil Canada Properties for the construction and commissioning phases of the Hebron Project.

Energy Marketing

Nalcor is involved in energy marketing and other energy activities including non-regulated electricity generation, wind energy, and research and development. Nalcor's energy marketing portfolio currently includes recall power that is not required by Hydro to meet demand in Labrador. Nalcor's energy marketing portfolio will continue to grow over the coming years with the development of the Lower Churchill Project and increased production from Nalcor's offshore oil and gas interests.

Values

Employees of Nalcor and its subsidiaries, including Hydro, are committed to building a bright future for Newfoundland and Labrador, unified by the following core values:

Open Communication	Fostering an environment where information moves freely in a timely manner.
Accountability	Holding ourselves responsible for our actions and performance.
Safety	Relentless commitment to protecting ourselves, our colleagues, and our community.
Honesty and Trust	Being sincere in everything we say and do.

Teamwork	Sharing our ideas in an open and supportive manner to achieve excellence.
Respect and Dignity	Appreciating the individuality of others by our words and actions.
Leadership	Empowering individuals to help guide and inspire others.

Primary Clients

In addition to the clients of its subsidiary, Hydro, Nalcor's clients include:

- Partners in oil and gas projects
- Emera Energy
- Bull Arm Fabrication site tenants
- Supply and service companies in the energy sector

The primary clients of Hydro, including its subsidiary CF(L)Co, are:

- Industrial electricity consumers
- Newfoundland Power
- Rural retail electricity customers
- Hydro-Québec
- Emera Energy
- Non-utility electricity generators (e.g. Corner Brook Pulp and Paper, wind generators)
- Government of Newfoundland and Labrador departments and agencies.

Number of Employees, Physical Location and Other Key Statistics

Nalcor

Nalcor, the province's energy corporation, is leading the development of the province's energy resources. As of December 31, 2014, Nalcor had 1,500 employees, with 65 per cent of these employees located in rural parts of the island and Labrador. The gender composition of Nalcor's employee group was 77 per cent male and 23 per cent female. Nalcor is currently implementing a multi-year action plan to support diversity and inclusion.

Gender	Rural	Urban	Total	Per cent
Female	152	227	379	23%
Male	820	301	1121	77%
Total	972	528	1500	
Per cent	65%	35%		

Hydro

Headquartered in St. John's with assets and offices throughout Newfoundland and Labrador, Hydro is the province's main electrical energy provider. As of December 31, 2014, Hydro directly employed 955 people. The location of these employees reflects Hydro's service area and the location of the company's electricity assets, with 69 per cent located in rural areas. The gender composition of Hydro's employee group is 81 per cent male and 19 per cent female. As the largest employer within Nalcor, Hydro will play a key role in implementing the multi-year action plan to support diversity and inclusion.

Gender	Rural	Urban	Total	Per cent
Female	59	125	184	19%
Male	602	169	771	81%
Total	661	294	955	
Per cent	69%	31%		

2014 Consolidated Revenues and Expenses

The Nalcor 2014 Business and Financial Report is available at http://www.nalcorenergy.com/pdf/2014AnnualReport.pdf

The following table summarizes the consolidated 2014 revenue and expenses for Nalcor. The 2014 Consolidated Financial Statements for Nalcor are appended to this document (See Appendix 2).

In 2014, Nalcor had revenues of $796.1 million. The majority of Nalcor's revenues are currently generated from energy sales through Hydro to utility, rural and industrial customers. Approximately 49 per cent of Nalcor's 2014 expenditures related to fuels and power purchased by Hydro with operating costs accounting for 36 per cent of expenses, depreciation and depletion totaling 14 per cent and net finance income and expense accounting for 11 per cent.

Table 1: Nalcor Energy Consolidated Revenue and Expenses 2014

For the year ended December 31 (millions of dollars)	$	%
Revenue		
Energy sales	755.6	94.9
Other revenue	40.5	5.1
	796.1	
Expenses		
Fuels	(268.1)	(39.4)
Power purchased	(68.3)	(10.0)
Operating costs	(247.5)	(36.4)
Net finance income and expense	(72.0)	(10.6)
Exploration and evaluation expense	(1.2)	(0.2)
Depreciation and depletion	(92.7)	(13.6)
Other income and expense	2.6	0.4
Regulatory Adjustments	66.3	9.7
Share of profit of joint arrangement	0.4	0.1
	(680.5)	
Profit for the year	115.6	

Hydro

In 2014, Hydro had revenues of $697.1 million. The majority of Hydro's revenues are from energy sales to utility, rural and industrial customers with other revenues including preferred dividends from Hydro's subsidiary Churchill Falls. Consolidated energy sales also include CF(L)Co sales to Hydro Quebec as well as sales of recall power. In 2014, Hydro net income of $73.0 million consisted of $17.6 million from Hydro Regulated, $20.2 million from Churchill Falls and $35.2 million from recall power and other non-regulated activities. The following chart summarizes the consolidated 2014 revenue and expenses for Hydro.

Table 2: Hydro Consolidated Revenue and Expenses 2014

For the year ended December 31 (millions of dollars)	$	%
Revenue		
Energy sales	691.2	99.2
Other revenue	5.9	0.8
	697.1	
Expenses		
Fuels	(268.1)	(43.0)
Power purchased	(68.3)	(10.9)
Operating costs	(210.1)	(33.7)
Net finance income and expense	(74.0)	(11.8)
Depreciation	(69.8)	(11.2)
Other income and expense	(0.5)	(0.1)
Share of profit of joint arrangement	0.4	0.1
Regulatory adjustments	66.3	10.6
	(624.1)	
Profit for the year	73.0	

The 2014 Consolidated Financial Statements for Hydro are appended to this document (see Appendix 3).

2 Shared Commitments

Nalcor works with a variety of agencies, departments and commissions to execute its mandate. During 2014, Nalcor worked closely with each of these organizations to advance the strategic directions of the Provincial Government related to the energy sector.

Department of Natural Resources

The Department of Natural Resources works with Nalcor in policy-related areas for the various energy sector activities in which Nalcor engages and supports the company's efforts to progress all the strategic issues outlined. For example, the acquisition of working interests in offshore oil fields and the company's exploration strategy were coordinated efforts between the department and Nalcor Energy – Oil and Gas. The province through the Department of Natural Resources has invested in Nalcor's exploration strategy through the Offshore Geoscience Data Program to help encourage interest in offshore Newfoundland and Labrador. The ongoing administration of issues related to the electrical system throughout the province and the execution of key policy actions outlined in the province's Energy Plan are also areas of significant collaboration. Also during 2014, Nalcor provided information and data in response to requests from the consultant the Provincial Government engaged to complete an independent review of the electricity system in Newfoundland and Labrador. This review will examine the operation, management and regulation of the current electricity system to ensure reliability and security as well as a smooth transition into an interconnected system.

Department of Finance

The Department of Finance works with Nalcor in relation to addressing requirements related to financial structure, dividend policies as well as providing guarantees for the company's debt financing activities. During 2014, Nalcor's financing plans and equity requirements as well as Hydro's debt and the related Provincial Government guarantee are examples of interactions between the Department and Nalcor.

Newfoundland and Labrador Board of Commissioners of Public Utilities

The Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB) is responsible for regulatory oversight of Hydro's regulated utility activities. This responsibility covers a wide range of activities, including approval of its revenue requirements, rates, rate structure and capital program. The role of the PUB is detailed in the *Public Utilities Act*.

During 2014, the PUB also initiated a review of supply issues and power outages on the Island Interconnected System. Strategic issues related to electricity supply and safety are impacted by PUB.

Other Departments/Public Bodies

Nalcor also shares commitments with the Department of Environment and Conservation, Service NL, and the federal Department of Fisheries and Oceans and Environment Canada in relation to the environmental aspects of the company's activities. During 2014 for example, Hydro interacted with the Department of Environment and Conservation regarding the environmental assessment process for the combustion turbine generator installation in Holyrood and the upgrading of the diesel plant in L'Anse au Loup.

3 Issues

Nalcor drives performance excellence in its lines of business and functional support areas through its planning and performance monitoring processes. Nalcor focuses on five key areas - safety leadership, environmental leadership, business excellence, people and community. These focus areas drive goals, objectives and operational activities throughout the company.

The strategic issues outlined below will be addressed by Nalcor and/or Hydro in order to realize their mandates and visions. Consistent with the underlying philosophy of the multi-year performance-based planning required under the provisions of *Transparency and Accountability Act*, these issues are at a governance level and reflect the priorities of the Nalcor and Hydro boards and support the Provincial Government's strategic directions for the energy sector. Other issues and focus areas, such as people excellence and corporate citizenship, will continue to drive operational activities of Nalcor and its lines of business and support efforts to address the issues outlined.

Issue 1: Safety leadership
Issue 2: Electricity supply
Issue 3: Upper Churchill asset management and Power Contract legal actions
Issue 4: Oil and gas interests, exploration and development
Issue 5: Lower Churchill development
Issue 6: Bull Arm Fabrication Site long-term strategy and lease management
Issue 7: Energy marketing portfolio management and long-term strategy

4 Summary of 2014 Accomplishments and Highlights

Outlined below is a summary of 2014 accomplishments related to Nalcor's and Hydro's strategic plans and work plans.

Issue 1: Safety leadership

- Achieved best safety performance on record with zero lost-time injuries.
- High potential incidents declined 27 per cent from 2013 and 56 per cent overall decrease since 2011.
- Hydro achieved the Canadian Electricity Association's (CEA) top quartile safety performance level, and received CEA's Vice President's Safety Award.
- Continued to enhance procedures and training for safely completing high-risk work.
- Delivered year two of the public education plan for power line safety.
- Employee Injury Prevention Awareness Campaign focused on driving safety, psychological health, slips, trips and falls and hand safety.
- *BeSafe,* a safety coaching training workshop, delivered to nearly 200 employees.
- Over 8,000 safety related observations reported through the Safe Workplace Observation Program (SWOP).

Issue 2: Electricity supply

- Achieved 98 per cent availability of key electricity generating assets during the winter months.
- Invested $208.5 million to upgrade electricity generation, transmission and distribution assets as well as supporting technology and infrastructure and refreshed Hydro's long-term plan for capital investments.
- Completed internal review of January 2014 electricity supply disruptions and completed priority activities to be winter ready.
- Completed planned 2015 activities to prepare for transition of the Muskrat Falls project to operations.
- Ramea Wind-Hydrogen-Diesel Energy research and development project continued to offset diesel fuel consumption in the isolated community.
- Continued data collection to assess the feasibility of the hydroelectric potential and wind generation in select coastal Labrador communities.
- Completed an evaluation of Hydro's Industrial Energy Efficiency Program and three projects were completed by an industrial customer that will result in 22,200 MWh of annual energy savings.

- Approved 225 rebates to Hydro's residential customers for insulation upgrades, Energy Star windows, thermostats, heat recovery ventilators and appliances, and 2,660 rebates for efficient lighting technologies purchased by commercial customers through the takeCHARGE energy efficiency program.
- Hydro's Isolated Systems Community Energy Efficiency benefitted over 1,000 residential customers in communities served by diesel electricity systems through the direct, free installation of energy efficient technologies. As well, a number of Hydro's business customers availed of energy efficiency facility audits, technical support and financial support for capital upgrades.

Issue 3: Upper Churchill asset management and Power Contract legal actions

- Invested $50 million as part of a long-term plan for renewal of assets and refreshed plan for future investments.
- Completed required preparations for the Upper Churchill Power Contract/Renewal Contract legal actions.

Issue 4: Oil and gas interests, exploration and development

- Worked with partners in three offshore oil developments to support achievement of key project milestones:
    - South White Rose Extension subsea installation completed and gas injection commenced.
    - Hibernia Southern Extension first water injection achieved.
    - Hebron gravity based structure towed to deepwater site at Bull Arm.
- Advanced exploration strategy:
    - Successfully completed the acquisition of 37,500 kilometres of seismic data bringing the total to 84,500 line kilometres – one of the largest regional seismic programs in the world.
    - Achieved engagement with over 30 exploration and production companies regarding Newfoundland and Labrador exploration.

Issue 5: Lower Churchill Development

- Achieved key construction milestones for Muskrat Falls generating station and transmission in Labrador and on the island.
    - Commenced and completed concrete work on spillway base slab, commenced spillway piers and began to install embedded components of gates.

  - All site services and infrastructure were fully operational and the 1,500 person permanent accommodations complex was opened.
  - Manufacturing of turbines and generators progressed.
  - Completed right of way (ROW) clearing for transmission lines between Muskrat Falls and Churchill Falls, tower assembly and installation progressed.
  - Commenced Labrador-Island Transmission Link ROW clearing in Labrador, tower assembly underway and foundation installation ongoing.
  - Completed Strait of Belle Isle Horizontal Drilling Program; progressed manufacturing of submarine cable.
- Total employment peaked in November at 4,015, of which 3,274 (81 per cent) were residents of the province (1,147 Labrador residents).
  - Employment of Labrador Innu workers peaked in August (206); employment of women peaked the same month (547).

Issue 6: Bull Arm Fabrication Site long-term strategy and lease management

- Continued successful leasing arrangement with the Hebron project and achieved strong financial performance.
- Approved $9.75 million in upgrades and site refurbishments to be completed by the site tenant.
- Continued planned stakeholder engagement and research to inform the development of a long-term strategy for the Site.

Issue 7: Energy marketing portfolio management and long-term strategy

- Completed planned activities to establish a full-service energy trading operation including incorporating Nalcor Energy Marketing subsidiary, and structuring front office trading functions including analytics, trading, scheduling, and systems.
- Identified and implemented measures to increase portfolio value and achieved revenue 12 per cent greater than market benchmark.

5 Outcomes of Objectives

The 2014-2016 Strategic Plan for Nalcor and Hydro highlighted seven strategic issues around which goals and objectives were established. These issues encompass the activities of Nalcor and its subsidiaries. In general, the accomplishments outlined are for Nalcor, accomplishments specific to Hydro are noted.

For each strategic issue, the 2014 objectives, measures and indicators are provided along with a summary of related accomplishments.

Issue 1: Safety Leadership

A relentless commitment to safety drives all Nalcor lines of business. Achieving excellence in safety is Nalcor's number one priority and safety is a shared core value. For Nalcor, safety excellence is more than a way of operating; it is an integral part of Nalcor's identity and strategy for the future. By driving the company's strategy and operations in all lines of business, Nalcor's safety focus supports the Provincial Government's strategic direction toward building a culture of worker safety as part of responsible resource development.

Nalcor's pursuit of safety excellence encompasses the safety of employees, contractors and the general public. The company has established a safety framework that is built on seven key elements: leadership; procedures and equipment; competence; supportive culture; union management alignment; personal responsibility; and, reporting and continuous improvement. This framework guides processes such as joint union management safety leadership, safe workplace reporting and the investigation of safety incidents and high-potential near misses. The safety framework is also the basis for developing multi-year safety plans for communications, work procedures and training to ensure employee competence and promote a strong safety culture.

In 2014, Nalcor's safety performance continued to improve and the company experienced the best performance on record. In 2014, for the first time, there were no lost-time incidents – more serious injuries that prevent someone from returning to work for their next scheduled shift. From 2013 to 2014, Nalcor's safety performance trend continued to improve and safety incidents declined to nine medical treatment incidents - a 31 per cent improvement in injury frequency for Nalcor and a 55 per cent improvement for Hydro. Many areas of Nalcor have

sustained excellent safety performance with zero employee injuries for a number of years and the company is seeing its safety culture mature with Nalcor employees identifying and addressing unsafe conditions and behaviours and accepting personal responsibility for their safety and the safety of others. In 2014, Nalcor also experienced a decrease in high-potential incidents – a 27 per cent decrease from 2013 and an overall decrease of 56 per cent since 2011.

Nalcor's safety journey is one of persistence and relentless commitment across the company and at all levels from front lines to the board of directors. In addition to maturing its safety culture, the company has focused on increasing employee competence through safety training and making processes for completing work safer.

Nalcor has strengthened its procedures for working around electrical and other energized equipment. The work protection code[2] (code) creates an isolated and de-energized safe work area. An updated code is fully implemented across all electricity lines and ongoing monitoring is in place for compliance. During 2014, Nalcor continued to complete assessments of work protection code implementation to confirm understanding of, and compliance with, the code. Documenting and verifying work methods for completing work safely, is also a focus in Nalcor's electricity operations. Starting in 2010, the company identified critical tasks, completed risk assessments, and began documenting and verifying work methods. The verification of documented work methods for completing high-risk tasks also continued through 2014. Also during the year, a grounding and bonding[3] training program was developed for electricity employees involved in the operation and maintenance of generating plants and terminal stations. As well, transmission and distribution lines employees participated in grounding and bonding training during the year.

During 2014, Nalcor continued to implement its employee safety communications campaign - *Take a Moment for Safety*. The basis of the campaign is that every day, Nalcor employees encounter hazardous situations and they must be vigilant in reducing exposure to these hazards. The themes for injury prevention and awareness communications in 2014 reflected Nalcor's top-trending injuries slips, trips and falls; sprains and strains; hand-related injuries; and, vehicle safety.

[2] The work protection code (code) establishes conditions that, when combined with appropriate work practices, procedures and work methods will provide workers with a safe work area when working on or around electrical and other energized equipment.
[3] The grounding and bonding program identifies electrical grounding and bonding practices for temporary grounding of equipment to provide maximum protection for workers performing work on de-energized equipment.

Safety programs and communications aimed at enhancing contractor and public safety also progressed with significant emphasis placed on power line safety awareness. The Public Safety Campaign for Power Line Hazards, which promotes power line safety to the general public, heavy equipment operators and contractors, continued to be a focus in 2014. This campaign is delivered in partnership with Newfoundland Power, the Newfoundland and Labrador Construction Safety Association, and the Workplace Health, Safety, and Compensation Commission. Power line contacts remain a concerning trend with more than sixty contacts in Hydro's service areas in the past five years. In 2014, Hydro saw a total of 14 third party power line contacts. In addition to power line safety awareness, additional safety communications addressed public safety around dams, dykes and hydroelectric facilities as well as power outage safety.

Unless otherwise specified, the goal, objectives, measures, indicators and accomplishments outlined below apply to both Nalcor and Hydro. Nalcor's safety programs and initiatives are targeted to all its lines of business as well as support areas of the company. As a large electricity operation and the largest employer within Nalcor, Hydro's accomplishments are a significant component of the safety achievements of Nalcor as a whole.

Issue 1: Safety leadership

Goal

By December 31, 2016, Nalcor and Hydro will have continued progress towards sustained safety excellence.

Measure	Continued progress towards sustained safety excellence.
Indicator	▪ Advanced multi-year safety training plan for employees. ▪ Advanced multi-year plan for safety-related communications for employees, contractors and the general public.

Objective

By December 31, 2014, Nalcor and Hydro will have implemented safety training and communication programs in support of safety excellence.

Measure

Completed safety training and communications.

INDICATORS	2014 ACCOMPLISHMENTS
Delivered employee safety training including: ▪ Completed training in the safe workplace observation program	During 2014, Nalcor and Hydro continued to build on previous efforts to provide safety training to enhance employee competence and the companies' safety culture. As part of this ongoing commitment, the following employee safety training was delivered as planned.

Issue 1: Safety leadership	
(SWOP) and incident investigation. ▪ Completed planned grounding and bonding training for electricity transmission and distribution lines operations staff. ▪ Completed safety training for new employees, employees taking on new roles and refresher training for existing employees including: work protection code, confined space entry, and working at heights. ▪ Continued planned safety coaching training.	*Safe workplace observation program (SWOP) and incident investigation training* In 2014, planned SWOP and incident investigation training was completed with 95 employees participating in SWOP training and 39 completing incident investigation training (Hydro - 70 and 26). *Grounding and bonding training* In 2014, planned training was delivered to 16 Hydro employees in electricity transmission and distribution lines operations. This training was provided for the first time in 2013 when 74 employees (Hydro – 66) completed the training. *Work protection code, confined space entry and working at heights training* During 2014, required safety training for new employees, employees taking on new roles and responsibilities and employees requiring refresher training was completed. In total, 397 employees completed work protection code training (Hydro – 220), 47 employees completed confined space entry training (Hydro – 16), and 153 employees completed working at heights training (Hydro – 106). *Safety coaching training* Safety coaching training helps build the skills required to take action on at-risk behaviours by outlining a consistent approach to safety interactions and providing an opportunity to practice the approach. The majority of Nalcor employees have already completed safety coaching training but the training is offered periodically to new employees and others who have not participated in the training. During 2014, 199 employees completed the training (Hydro – 38).
Advanced safe work procedures including: ▪ Completed an assessment of work protection code program implementation and identified opportunities for improvement. ▪ Developed a grounding and bonding training program for employees	During 2014, Nalcor continued to advance safe work procedures in its electricity operations. *Work protection code* Assessments of the work protection code program implementation were completed as planned in all electricity operations within Nalcor. The assessments demonstrated a high-level of understanding of the requirement for work protection and excellent compliance with the process and associated documentation. There were some instances where minor administrative errors existed in documentation and these were addressed. In addition to assessments in local areas, there

Issue 1: Safety leadership	
involved the operation of generating plants and terminal stations.	were two audits completed that validated local assessments and demonstrated excellent compliance to the work protection code. *Grounding and bonding* A grounding and bonding training program was developed as planned for employees involved in the operation and maintenance of generating plants and terminal stations. The training addresses grounding and bonding practices for temporary protective grounding[4] required to provide maximum protection for workers.
Completed employee communication activities for the 2014 injury prevention campaign.	During 2014, Nalcor continued implementation of its three-year plan for employee safety communications – *Take a Moment for Safety* and completed planned activities. Communication to promote injury prevention and awareness around Nalcor's top-trending injuries slips, trips and falls; sprains and strains; and hand-related injuries was expanded to include vehicle safety. The injury prevention campaign included posters, fact sheets, safety moments, lunch and learns, all user emails as well as articles in Nalcor's weekly internal employee newsletter. In addition, key topics were incorporated in Safety and Health Week activities and into the 2014 Safety Summit – a safety-related event attended by employees representing all lines of business. Nalcor also launched employee communication around mental health awareness.
Completed public safety communication activities.	In 2014, Nalcor completed public safety communication activities related to power line safety and safety around electricity facilities and also promoted power outage safety. *Power line safety* The Public Safety Campaign for Power Line Hazards continued to be a focus in 2014. This campaign, which is delivered in partnership with Newfoundland Power, the Newfoundland and Labrador Construction Safety Association, and the Workplace Health, Safety and Compensation Commission, promotes power line safety to the general public as well as targeted audiences such as heavy equipment operators and contractors. The public campaign including print, radio, digital and social media was

[4] Temporary grounding is implemented to provide a path for ground current in the event of an unwanted energization of a line or piece of equipment. (This can occur as a result of human error, equipment failure, induced voltage or other accidental contacts.)

Issue 1: Safety leadership	
	supplemented with presentations to contractors, apprentice line workers, and students training in the operation of heavy equipment. In 2014, Hydro teamed with Newfoundland Power and the Workplace Health, Safety and Compensation Commission to develop an update to the power line hazards video which will be shown as part of the power line hazards course. There is now representative content from both utilities in the video. In addition, in 2014 Hydro sponsored the Newfoundland and Labrador Construction Safety Association's Annual Conference and had a key note speaking opportunity at the event. Hydro's efforts to prevent power line contacts were also featured in the Newfoundland and Labrador Construction Association Journal. *Public safety around electrical facilities* Work continued in 2014 to promote public safety around dams, dykes and hydroelectric facilities. A stakeholder outreach presentation was developed in consultation with representatives from across Hydro and Nalcor. This past year, presentations were delivered to key stakeholder groups in Bay d'Espoir and Bishop's Falls. Work also began on the development of a safety education video, detailing the various safety hazards associated with dams and hydroelectric facilities. (The video will be finalized and distributed in 2015.) As part of its seasonal safety communications program, Hydro issued advisories regarding winter recreational safety and reservoir water levels. As well, Hydro continued to promote power outage safety and recreational safety through www.hydrosafety.ca as well as through its social media channels, such as Twitter.

The objectives, measures and indicators for 2015 are consistent with the direction outlined in the 2014-2016 Strategic Plan.

Issue 1: Safety leadership
Objective By December 31, 2015, Nalcor and Hydro will have advanced safety training and communication programs to achieve long-term safety excellence.
Measure Advanced employee safety training.

Indicator	▪ Advanced employee safety training. ▪ Completed required technical and safety coaching training for new employees and employees taking on new roles. ▪ Delivered new grounding and bonding training program to employees involved in the operation and maintenance of generating plants and terminal stations.
Measure Advanced employee and public safety communications.	
Indicator	▪ Completed employee communication activities for the 2015 injury prevention and awareness campaign related to top injury trends and greater emphasis will be placed on vehicle safety. ▪ Completed public safety communication activities related to power line safety, public safety around electrical facilities and outage safety.

Issue 2: Electricity Supply

Nalcor's subsidiary, Newfoundland and Labrador Hydro, ensures there is a safe, reliable and cost-effective electricity supply available to meet current demand and future growth. These activities support fulfillment of the strategic directions of the Provincial Government related to a stable and competitive energy supply for domestic use and export to market. The initiatives outlined support focus areas related to alternative energy research and development, and advancement of renewable energy projects and related infrastructure.

Asset Management/Reliability

A key challenge in the Canadian utility industry is renewal of aging electricity infrastructure. As with other utilities, many of Hydro's assets are over 40 years old and require significant investment to ensure a continued safe and reliable supply of electricity.

Asset management is the cornerstone of Hydro's approach for managing assets over their lifecycle and making the investments required for reliable, cost-effective electricity to meet the needs of customers. Keeping Hydro's electricity systems in reliable operating condition is accomplished through a combination of routine maintenance of existing assets and replacement or rehabilitation of assets that have reached the end of their useful life with new or renewed assets that result in lower life cycle costs or improved operational characteristics.

Hydro has developed long-term asset management plans for key generation, transmission, distribution assets and supporting technology and infrastructure. These plans reflect the service required of the asset combined with information about asset condition and operating and maintenance experience. Long-term asset management plans are the basis for developing a five-year capital plan that outlines more detailed scopes of work required and the estimated cost. The five year capital plan is a rolling plan that is refreshed annually as planned investments are completed and new information becomes available about the condition of Hydro's assets, the operating demands to be placed on them, and future load growth needs.

During 2014, Hydro invested $208.5 million to provide safe, reliable and least-cost electricity to the people of the province. This investment included sustaining capital required to upgrade or replace existing electricity assets as well as several projects that will expand the electricity system generation and transmission. Hydro determined the need for additional generation on

the Island power system several years ago. In 2014, the company identified an opportunity to obtain generation capacity earlier to provide additional security of supply to the system for the winter 2014/15. Hydro was able to purchase a 123.5 MW combustion turbine generator and during the year significantly advanced the installation of the generator and the construction of supporting infrastructure such as fuel storage.

Also in 2014, Hydro started a project to expand the island transmission system. The Bay d'Espoir –Western Avalon transmission line has an estimated cost of $291.7 million and is proposed to be in service in 2018. The primary reason for the new line is to maintain system stability following disruptions or faults on the interconnected power system. It will also improve the transport of energy to major growth areas on the Avalon and provide capacity to enable the import of electricity over the Maritime Link to Newfoundland and Labrador if needed.

In early January 2014, the Island interconnected electricity system experienced service disruptions including rotating outages and several system events including an equipment fire at a Hydro terminal station. During 2014, Hydro completed a thorough review of these disruptions and provided input to an external review by the PUB.

To address recommendations arising from the review of supply disruptions and ensure it was ready for the 2014/15 winter season, the company completed critical maintenance, shutdowns, upgrades and testing on generation equipment. Hydro also completed extensive preventative and corrective work on its complex network of transmission infrastructure across Newfoundland and Labrador. Major capital work was completed on the Hardwoods and Stephenville gas turbines, the Holyrood generating plant, and hydroelectric plants in locations such as Bay d'Espoir, Cat Arm and Hinds Lake. Hydro also secured capacity assistance agreements with industrial customers to make additional power available for other customers when required.

Long-term Least-cost Supply

Hydro has a responsibility to assess electricity requirements in the province and recommend supply options to meet growing energy needs. The examination of available alternatives determined that an interconnection to Labrador via a High-Voltage direct current (HVdc)[5] link

[5] High Voltage Direct Current (HVdc) – direct current boosted up to higher voltages for long-distance transmission. This form is normally used to carry large amounts of power over long distances and for transmission under water.

bringing power from the Muskrat Falls hydroelectric generating station was the long-term least-cost alternative.

During 2014, Nalcor developed a process and supporting organization structure to prepare for the transition of the Muskrat Falls Project to operations. The technical integration of new generating and transmission assets from the project to Hydro's longer-term electricity structure and readiness to operate and maintain these assets are key components of this process.

In November 2014, Hydro filed an amended Generation Rate Application (GRA) with the PUB to set electricity rates effective February 1, 2015[6]. The focus continues to be on managing costs, while making the right capital investments in aging infrastructure to ensure we deliver safe, least-cost and reliable electricity service for our customers. Outside of the annual fuel cost adjustments, Hydro has worked to manage rates for customers despite rising costs since the last GRA in 2006. There have been a number of factors affecting costs including fuel prices, capital expenditures and new energy sources. Hydro's application was required to ensure electricity rates reflect the current cost of providing service.

Environmental Sustainability

In addition to being the long-term least-cost alternative, with Muskrat Falls the Newfoundland and Labrador electricity system will be run on 98 per cent renewable, emission-free energy.

During 2014, Hydro also pursued a number of initiatives aimed at environmental sustainability. The investigation of alternative energy sources in communities that rely on diesel generation of electricity continued to advance during 2014. In 2009, the Government of Newfoundland and Labrador and Hydro completed the Coastal Labrador Alternative Energy study to investigate the potential for the integration of alternative energy sources, including solar, wind and mini-hydroelectric facilities into isolated Labrador communities that rely on diesel as a primary means of electricity generation. It was recommended in the study that further measurement and analysis be carried out for high potential locations. This work began in 2013 and continued throughout 2014. Monitoring to assess hydroelectric potential is ongoing on the Gilbert River and the St. Lewis River near the communities of Charlottetown, Port Hope Simpson and Mary's Harbour in Labrador. Wind monitoring is also ongoing at sites in Nain, Makkovik, Hopedale, Cartwright and L'Anse au Loup. Data collection will continue in 2015.

[6] A schedule and hearing for Hydro's GRA has been set by the PUB and the hearing is scheduled to commence September 2015.

The Ramea Wind-Hydrogen-Diesel (WHD) research and development project was also advanced during 2014. The objective of this project is to integrate diesel generators with renewable generation technology and energy storage equipment. Integration is accomplished by the Energy Management System (EMS). The EMS was designed by Nalcor and provides complete automation and control of project equipment. Energy storage is provided by a hydrogen electrolyzer and a hydrogen fueled generator set (genset). Renewable generation is used to offset diesel fuel requirements and also reduce Hydro's carbon footprint as well as other emissions. The first phase of this project, which began in 2009, focused on integrating the community's existing diesel generators with wind turbines and the hydrogen technology.

During 2014, preliminary engineering was completed for Phase II of the project. Phase II will see the addition of a hydrogen fuel cell to the system. The hydrogen fuel cell will be used to increase the reliability of the hydrogen system and improve the overall system efficiency as fuel cell efficiency is double that of a hydrogen genset. In addition to the integration of the fuel cell, Phase II will also have an optimization component and a commercialization component. After the completion of the site optimization stage, the commercialization stage of the project will be used to explore potential markets for the EMS. In Canada alone there are over 290 remote diesel powered communities that could potentially benefit from the use of a system like the EMS.

Phase II will take place over 5 years with the fuel cell being installed in 2015. In 2014, a contribution agreement was signed with the Atlantic Canada Opportunities Agency (ACOA) that will provide up to $2.3 million in funding over the life of the project.

Hydro's commitment to environmental sustainability also includes promoting energy conservation. During 2014, Hydro created energy savings in its own facilities and pursued initiatives to help Hydro's rural electricity residential and commercial customers, as well as provincial industrial consumers, conserve energy.

Hydro also continued to partner with Newfoundland Power to deliver the takeCHARGE program which offers rebate programs to encourage residential and commercial customers to reduce their electricity usage. Residential programs included rebates for insulation upgrades, Energy Star® windows, thermostats and heat recovery ventilators. Commercial programs included discounted lighting and product rebates for thermostats and occupancy lighting sensors. As well, free technical support was offered to help commercial customers identify electricity savings projects. Hydro's Isolated System Community Energy Efficiency Program, which helps residential and commercial customers in isolated communities save energy also continued in

2014.

Since 2010, Hydro has also delivered the Industrial Energy Efficiency Program (IEEP) which provides industrial electricity customers with financial assistance and technical support to complete feasibility studies and capital upgrades to achieve energy savings. An evaluation of the IEEP was completed in 2014 to assess its effectiveness and determine the appropriate approach to promote energy conservation by industrial customers moving forward.

Issue 2: Electricity supply	
Goal By December 31, 2016, Hydro will have advanced plans to ensure a reliable and cost-effective electricity supply for the province.	
Measure	Advanced plans to ensure reliable, cost-effective electricity supply.
Indicators	▪ Advanced multi-year plans for asset investments. ▪ Advanced commercial arrangements and infrastructure planning related to Muskrat Falls. ▪ Progressed environmental sustainability programs.
Objective By December 31, 2014, Hydro will have advanced electricity system investments and planning for integration of Muskrat Falls and progressed environmental sustainability initiatives.	
Measure 1 Advanced electricity system investments.	
INDICATORS	**2014 ACCOMPLISHMENTS**
Completed any required updates to Hydro five-year capital plan.	In 2014, Hydro completed updates to the five-year capital plan for 2015-2019. The updated plan outlines the timing, scope and cost for investments in the company's electricity generation, transmission and distribution assets as well as supporting infrastructure and technology. The 2015 capital budget for Hydro is based on the 2015-2019 capital plan. Updates to the five-year capital plan can result when new information regarding asset condition or performance becomes available. For example, condition inspections for several projects in Hydro's five-year capital plan supported the decision to defer the projects to future years. During 2014, a condition inspection

Issue 2: Electricity supply	
	at the Hinds Lake hydroelectric facility highlighted that the replacement of a slip ring assembly[7] could be deferred from 2015 to 2017.
Completed planned investments in Hydro assets.	In 2014, Hydro invested $208.5 million to upgrade or replace electricity generation, transmission and distribution equipment and supporting infrastructure. This expenditure was below the $280 million planned for 2014. The most significant element of this variance resulted from the lower than planned 2014 expenditures related to several large, multi-year projects. The construction of a transmission line to serve the mining industry in Labrador West was temporarily suspended in September with a corresponding deferral of $26 million in planned 2014 expenditures. As well, planned expenditures of $14 million for the combustion turbine in Holyrood were carried forward to 2015 as a result of delays in the project schedule. Other planned expenditures for 2014 were also deferred reflecting the carry forward of work to 2015 related to several transformer projects and the new transmission line from Bay d'Espoir to Western Avalon. Hydro also realized lower than budgeted costs for projects that were completed as planned in 2014. Lower than estimated costs for equipment, labour and contingency created this positive variance.
Completed Hydro review of January 2014 supply disruptions and began implementation of priority recommendations.	Hydro completed an extensive internal review of the January 2014 supply disruptions and implemented priority recommendations to improve electricity generation and transmission reliability. Hydro's review confirmed that the company's planning, operation and maintenance of the island interconnected electricity system is consistent with industry standards. The review also highlighted a series of generation and transmission events which led to supply disruptions for its customers. In addition to the Hydro review, the PUB commissioned a consultant to conduct an assessment of the January events. The consultant's final report was released in December and a public hearing is planned for March 2015. Hydro developed an action plan to address the findings of its

[7] A slip ring is a device that allows the transmission of power and electrical signals from a stationary to a rotating structure.

Issue 2: Electricity supply	
	review and the PUB consultant. Priority actions identified and implemented included: ▪ Completed critical maintenance, capital upgrades and testing on generation equipment to ensure improved winter availability. ▪ Continued with planned overhaul and upgrade activities on the gas turbines in Hardwoods and Stephenville, with a new senior position accountable to the Vice-President, Hydro for overseeing this work. ▪ Accelerated the addition of new generation capacity on the Avalon Peninsula through the acquisition and installation of a new 123.5 MW combustion generating turbine at Holyrood. ▪ Negotiated capacity assistance arrangements with Corner Brook Pulp and Paper and Vale which provide access to customer generation supply if required to supplement Hydro's generating reserves. ▪ Completed a detailed review of Hydro's critical spares in all areas of generation operations and initiated the procurement of critical spares not currently in inventory. ▪ Inspected and tested all 230 kilovolt (kV) circuit breakers to confirm proper operation, and started a multi-year program of accelerated replacement of 230 kV air blast breakers. ▪ Completed inspections and an extensive program of preventative maintenance and gas testing on all critical power transformers. ▪ Completed numerous protection and control changes and upgrades to improve transmission system protection and reliability. During 2014, Hydro increased its communication to customers and the public regarding its winter readiness plans and the status of the island electricity system. Hydro and Newfoundland Power also developed a joint protocol for providing advance notifications to customers in the event there are any electricity system concerns.
Completed reviews of load forecasting and generation planning methodologies and if required advanced investigation of options to obtain additional	*Load forecasting and generation planning methodologies* A review of Hydro's load forecasting and generation planning methodologies was completed as planned in 2014 as part of the company's review of January 2014 supply disruptions. An independent review conducted by Ventyx Inc. determined that

Issue 2: Electricity supply	
generation.	Hydro's short and medium term load forecasting processes were consistent with industry standards and practices, and that they were not contributing factors in the January 2014 events. However, both Ventyx and Hydro identified opportunities to improve the predictive accuracy of these operations forecasts to account for the impact of sustained extreme cold weather conditions. In 2014, Hydro worked closely with Ventyx to improve its operations load forecasting processes through a number of changes to the assumptions and historical data sets used by Hydro's load forecasting models, and by incorporating an increased sensitivity to extreme weather conditions in general. In 2014 Hydro also made changes to its long term generation planning model to address the recommendation made by Ventyx to incorporate a wider sensitivity analysis of the impact of extreme cold weather and other key variables on long term load forecasts. *Additional generation options* In 2012, Hydro identified that there would be a generation capacity deficit on the island power system leading to the requirement for additional generation in 2015. During 2014 in preparing to meet this requirement, Hydro identified an opportunity to obtain more capacity earlier which would provide additional security of supply to the electricity system for the 2014/15 winter season. Hydro purchased a combustion turbine generator and significantly advanced the installation of this equipment and supporting infrastructure during 2014. (The generator was available for emergency use on January 21, 2015 and at full rated capacity as of March 2, 2015.)

Measure 2

Advanced planning for integration of Muskrat Falls Project.

INDICATORS	2014 ACCOMPLISHMENTS
Developed strategy to drive ready for operations and completed priority initiatives related to integrating new assets and future operations and maintenance structure and	Completed as planned. In 2014, Nalcor developed an electricity ready for operations multi-year strategy to guide the transition of the Muskrat Falls Project to operations. The scope of the multi-year strategy includes project completion and final commissioning of the Muskrat Falls Project; organizational, commercial and legislative integration; technical system integration; and operations readiness. A transition planning

Issue 2: Electricity supply	
staffing.	process with supporting organization structure was also established to execute the strategy. Within Hydro, the technical integration of new generating and transmission assets from the project to Hydro's longer-term electricity structure and readiness to operate and maintain these assets are key focus areas. During 2014, Hydro assigned senior, experienced managers to lead the transition process and progressed priority initiatives as planned. These priority initiatives included improving the technical query process to efficiently manage the process of exchanging technical information and input between Muskrat Falls Project and Hydro staff. As well, a number of studies were advanced to support technical planning for integration of Muskrat Falls Project transmission. Also on April 30, 2014, a project proposal for the Bay d'Espoir-Western Avalon 250 kV transmission line was completed and submitted to PUB. The application was approved by the PUB on December 12, 2014. As noted, in addition to maintaining electricity system stability and improving the transport of energy to major growth areas on the Avalon, this project provides capacity to enable the import of electricity over the Maritime Link to Newfoundland and Labrador if needed.

Measure 3
Progressed planned environmental sustainability initiatives.

INDICATORS	2014 ACCOMPLISHMENTS
Progressed alternative energy studies in isolated communities.	During 2014, studies of alternative energy in isolated communities progressed as planned. *Study of potential hydroelectric projects in Labrador coastal communities* In 2013, Hydro completed a feasibility study of potential hydroelectric projects for southern and Northern Labrador coastal communities. In that study, a requirement for additional data was identified. This data collection began in 2013 and continued throughout 2014. Stream gauges were installed on the St. Lewis River and Gilbert River where hydroelectric potential was deemed most economic, near the communities of Charlottetown, Port Hope Simpson and Mary's Harbour. These

Issue 2: Electricity supply	
	gauges are collecting data regarding water levels and stream flows and will be used to validate the assumptions in the feasibility study. Data collection will continue until the end of 2015 and Hydro will review if the resulting data has any impact on the feasibility study results. *Coastal Labrador Wind Monitoring Program* The investigation of wind as an alternative energy source in communities that rely on diesel generation of electricity was also advanced as planned in 2014. In 2013, wind assessment towers were installed in Nain, Makkovik, Hopedale, Cartwright and L'Anse au Loup to collect the data regarding local wind conditions. Data collection continued throughout 2014. This information is required to assess the feasibility of integrating wind energy into these isolated diesel communities. Data collection will continue until end of the second quarter of 2015. *Ramea Wind-Hydrogen Diesel* The Ramea Wind-Hydrogen-Diesel (WHD) research and development project was also advanced during 2014. Peliminary engineering was completed for Phase II of the project which will see the addition of a hydrogen fuel cell to the system to increase the reliability of the hydrogen system and improve overall system efficiency. Phase II will take place over 5 years.
Pursued initiatives to help residential and commercial electricity consumers conserve energy.	In 2014, Hydro continued to implement the activities outlined in the Five Year Conservation and Demand Management Plan filed with the PUB in 2012. These activities included the joint utility program offerings for residential and commercial customers through the takeCHARGE program delivered in partnership with Newfoundland Power as well as Hydro's own energy efficiency programs. *TakeCHARGE program* In 2014, the takeCHARGE energy efficiency program continued to see success with 225 rebates to Hydro's residential customers for insulation upgrades, Energy Star® windows, thermostats, heat recovery ventilators, and appliances, and 2,600 rebates for efficient lighting technologies purchased by Hydro's commercial customers. Participation in these programs in 2014 will achieve savings of 498 MWh annually.

Issue 2: Electricity supply	
	Isolated Systems Community Energy Efficiency Program In 2014, Hydro continued delivery of the Isolated Systems Community Energy Efficiency Program. This program promotes energy efficiency to residential and commercial customers in communities served by diesel electricity systems in Labrador and on the island. During 2014, 1,081 residential and business customers benefited from the direct, free installation of energy efficient technologies with a total annual energy savings of 1,322 MWh. Hydro's Business Efficiency Programs were also delivered to business customers in the company's interconnected and isolated areas in 2014. These programs provide facility audits and technical support to identify economical energy efficiency opportunities, and provide financial support for capital upgrades. In 2014, eight commercial facility audits were completed to inform customers of opportunities for incentives and seven projects were completed resulting in annual savings of 213 MWh.
Completed evaluation of Industrial Energy Efficiency Program and identified required next steps.	During 2014, Hydro completed an evaluation of the Industrial Energy Efficiency Program (IEEP) to assess its effectiveness and determine the appropriate approach to promote energy conservation to industrial customers moving forward. Required next steps include: developing a marketing and communications strategy; developing a customer project tracking, analysis and reporting process; and, preparing a program evaluation plan and schedule.

The objectives, measures and indicators for 2015 are consistent with the direction outlined in the 2014-2016 Strategic Plan.

Issue 2: Electricity supply
Objective By December 31, 2015, Hydro will have progressed electricity system investments, planning for integration of Muskrat Falls, and environmental sustainability initiatives.
Measure Progressed electricity system investments.

Indicators	▪ Completed any required updates to Hydro five-year capital plan. ▪ Completed planned investments in Hydro assets. ▪ Implemented 2015 actions resulting from review of the January 2014 supply disruptions.
Measure Progressed planning for integration of Muskrat Falls Project.	
Indicators	▪ Advanced implementation of priority initiatives for transition of Muskrat Falls Project to operations.
Measure Advanced planned environmental sustainability initiatives.	
Indicators	▪ Completed planned data collection regarding feasibility study of potential hydroelectric projects in Labrador coastal communities and identify next steps. ▪ Completed data collection for Coastal Labrador Wind Monitoring Program and analyzed data to determine future plans. ▪ Re-launched Industrial Energy Efficiency Program. ▪ Continued to deliver initiatives to help residential and commercial electricity consumers conserve energy. ▪ Progressed development of study to assess the potential for conservation and management of electricity demand in the province.

Issue 3: Upper Churchill asset management and Power Contract legal actions

The Churchill Falls generating station is one of the largest underground hydroelectric powerhouses in the world with 5,428 MW of capacity used by millions of consumers in North America. Nalcor, through its subsidiary, Hydro, holds a 65.8 per cent interest in Churchill Falls (Labrador) Corporation Limited (CF(L)Co), with Hydro-Québec holding the remainder. In 2014, Churchill Falls net income was $20.2 million, representing 17 per cent of Nalcor net income.

Stewardship of the Upper Churchill asset supports the fulfillment of the strategic direction of the Provincial Government related to the export of surplus energy.

Asset Management

In 2011, Churchill Falls celebrated 40 years since first power. With the plant and related infrastructure aging, asset management is critical to keeping assets in reliable operating condition to provide reliable service to customers for the long-term and to ensure assets are fully functional well beyond the expiry of current commitments in 2041. From 2005-2014, $243.7 million was invested to upgrade or replace Churchill Falls assets with annual capital expenditures increasing during the period from $9.1 million in 2005 to $50.3 million in 2014.

Taking steps to ensure the continued performance of the Churchill Falls facilities through planning and strategic investment is a key element of its strategy. A long-term asset management plan has been developed that reflects the level of service required of the plant combined with key asset information including condition assessments and operating and maintenance experience. This long-term plan is the basis for developing five-year capital plans that outline more detailed scope of the work required and the estimated cost. The Churchill Falls five-year capital plan informed the increased investment noted above and the plan is reviewed annually and updated to reflect new information that could impact the timing or scope of future asset investments.

Upper Churchill Power Contract/Renewal Contract – Legal Actions

A power contract with Hydro-Québec dated May 12, 1969, provides for the sale of the majority of the energy from the Churchill Falls facility to Hydro-Québec. When the Power Contract (Contract) was signed, the price to be paid by Hydro-Québec represented approximately one-third of the average price Hydro-Québec charged its customers. Presently the purchase price under the Contract is one-quarter of one cent per kilowatt hour. Upon the commencement of the Renewal Contract between CF(L)Co and Hydro-Quebec on September 1, 2016, the purchase

price is fixed at one-fifth of one cent for the 25 year period of that contract. This will mean for the remainder of the contract, power will be sold to Hydro-Québec significantly below its present commercial value.

On November 30, 2009, CF(L)Co called on Hydro-Québec to renegotiate a fair and equitable purchase price for the remaining term of the 1969 Power Contract and the term of the Renewal Contract. Hydro-Québec did not respond. As a result, CF(L)Co commenced proceedings against Hydro-Québec to address disparities in the pricing under those contracts.

CF(L)Co filed a motion with Quebec Superior Court on February 23, 2010, requesting the court to amend the pricing terms, effective November 2009, of the Contract and the Renewal Contract between CF(L)Co and Hydro-Québec, to permit a more equitable sharing of the value of the power from Churchill Falls.

Since the Contract was initiated, circumstances have changed in a way that could not have been reasonably foreseen at the time it was executed.

- The commercial value of energy has increased greatly. At the time the Contract was negotiated it was generally expected, with the advent of nuclear energy, the value would decline over time.
- At the time the Contract was negotiated, CF(L)Co had no access to export markets because the government of Quebec had refused permission to transmit energy across Quebec territory. The result was that Hydro-Québec was the only possible purchaser.
- Since 1996, the United States transmission open access rules require that companies such as Hydro-Québec, and their affiliates, who sell energy in the U.S. competitive wholesale electricity markets must give open, non-discriminatory access to their own transmission networks.

The unforeseen change in circumstances since the original contract was signed and the extraordinary length of the Contract and the Renewal Contract combined has resulted in a gross inequity in the distribution of contractual benefits. This unique situation, combined with the obligation under the Quebec Civil Code to act in good faith throughout the term of a contract, CF(L)Co believes obliges Hydro-Québec, upon request, to reopen the Contract. The tailored nature of the remedy sought seeks to allow CF(L)Co to share in the benefits resulting from the unforeseen circumstances.

On July 24, 2014, CF(L)Co received judgment from the Quebec Superior Court on the motion it filed in February 2010 regarding the disparities of the 1969 Power Contract and Renewal

Contract between CF(L)Co and Hydro-Québec. The trial judge dismissed the claim of CF(L)Co. In August 2014, following a comprehensive review of the judgment and a thorough consultation with its external legal advisors, CF(L)Co filed an Inscription in Appeal with the Quebec Court of Appeal regarding the decision received on July 24, 2014 from the Quebec Superior Court.

In July of 2013 Hydro-Québec filed a Motion in Quebec Superior Court seeking a Declaratory Judgement with respect to the Power Contract. Hydro-Québec is seeking declarations with respect to i) "Continuous Energy" under the Renewal Contract (commencing September 1, 2016 and expiring August 31, 2041) and whether, as CF(L)Co contends, it limits Hydro-Québec's energy entitlement to a specific (and equal) amount during each month of the term of the Renewal Contract and ii) whether CF(L)Co can sell to a third party amounts of power beyond the 300 MW recall block provided for in the Contract and Renewal Contract. CF(L)Co is undertaking activities with respect to defending its positions in response to this Motion. The trial is scheduled for the fall of 2015.

Issue 3: Upper Churchill asset management and Power Contract legal actions	
Goal By December 31, 2016, CF(L)Co will have advanced opportunities for the Upper Churchill to make a greater economic contribution to the province.	
Measure Pursued opportunities for the Upper Churchill to make a greater economic contribution to the province.	
Indicator	▪ Advanced multi-year plan for renewal of assets. ▪ Advanced preparations for the Upper Churchill Power Contract legal actions.
Objective By December 31, 2014, CF(L)Co will have advanced the renewal of Churchill Falls assets and completed required preparations for Upper Churchill Power Contract legal actions.	
Measure Advanced multi-year plan for asset renewal.	
INDICATORS	**2014 ACCOMPLISHMENTS**
Reviewed and updated five-year capital plan.	During 2014, CF(L)Co refreshed the 2014-2018 capital plan to create a plan for 2015-2019. This process involved reviewing the scope and timing of planned projects based on condition monitoring and risk assessments. An example of an update to the five-year plan involved the timing for the procurement of a new spare autotransformer. Originally planned for

Issue 3: Upper Churchill asset management and Power Contract legal actions	
	purchase in 2018 with installation in 2019, the new spare purchase was advanced to 2015 to supplement the two existing spares and provide the capability to replace the full bank of three transformers.
Completed planned 2014 asset investments.	During 2014, CF(L)Co completed capital investments of $ 50.3 million. This compares to $50.6 million budgeted for the year. This variance resulted from improved pricing from CF(L)Co's multi-year contracting strategy and as well as value added scope changes realized as project engineering progressed. Key capital projects including transformer replacement, switchyard rehabilitation and 245 kV power cables and other priority investments were successfully completed while staying within the approved budget.

Measure
Prepared for Upper Churchill Power Contract legal actions.

INDICATORS	2014 ACCOMPLISHMENTS
Completed required preparations for the Upper Churchill Power Contract legal actions.	During 2014, required preparations of the Upper Churchill Power Contract legal actions were completed as planned. On July 24, 2014, CF(L)Co received judgment from the Quebec Superior Court on the motion it filed in February 2010 regarding the disparities of the 1969 Power Contract between CF(L)Co and Hydro-Québec. The trial judge dismissed the claim of CF(L)Co. In August 2014, following a comprehensive review of the judgment and thorough consultation with its external legal advisors, CF(L)Co filed an Inscription in Appeal with the Quebec Court of appeal regarding the decision received on July 24, 2014. Also during 2014, CF(L)Co completed activities to defend the July 2013 Motion filed by Hydro-Québec seeking Declaratory Judgement with respect to the Power Contract. Specifically the examination on discovery of a representative of Hydro-Québec, filing of a Defence Hydro-Québec's Motion, engaging expert witnesses, and responding to Hydro-Québec's request for particulars with respect to the Defence and its request for documents.

The objectives, measures and indicators for 2015 are consistent with the direction outlined in the 2014-2016 Strategic Plan.

Issue 3: Upper Churchill asset management and Power Contract legal actions

Objective

By December 31, 2015, CF(L)Co will have completed planned 2015 capital investments to support long-term asset reliability and continued to advance required preparations for Upper Churchill Power Contract legal actions.

Measure

Continued to advance multi-year plan for asset renewal.

Indicator	▪ Reviewed and updated five-year capital plan. ▪ Completed planned 2015 asset investments of $55 million.

Measure

Advanced preparations for Upper Churchill Power Contract/Renewal Contract legal actions.

Indicators	▪ Completed required preparations for Upper Churchill Power Contract/Renewal Contract legal actions.

Issue 4: Oil and gas interests, exploration and development

The mandate of Nalcor, established under the *Energy Corporation Act (2008)* includes exploring for, developing, producing, refining, marketing and transporting hydrocarbons and products from hydrocarbons. These activities support fulfillment of the strategic direction of the Provincial Government related to the increased exploration and development of energy resources and realizing maximum benefits to the province through the strategic development of our resources.

Nalcor's subsidiary, Nalcor Energy – Oil and Gas, currently manages oil and gas interests in three developments offshore Newfoundland and Labrador. Nalcor holds a five per cent working interest in the White Rose Growth Project which includes the North Amethyst field, West White Rose Extension and South White Rose Extension. The company also has a 10 per cent working interest in the Hibernia Southern Extension (HSE), a subsea development with tiebacks to the Hibernia platform. Nalcor is also a co-venturer in the Hebron oil field holding a 4.9 per cent working interest in the province's fourth offshore oil project. Total 2014 production was 660,715 barrels and net income was $37.1 million, 32 per cent of Nalcor net income.

Nalcor has developed and is now executing an exploration strategy to find and deliver new oil and gas resources for the benefit of the people of Newfoundland and Labrador.

As the provincial energy company, Nalcor undertakes strategic investments in new data acquisition and analysis at the front end of the exploration cycle to enhance prospectivity knowledge of offshore Newfoundland and Labrador's frontier basins, open new areas to industry exploration and increase the province's global competitiveness to attract exploration investment. The company takes a systematic and scientific approach to evaluating Newfoundland and Labrador's frontier basins. Through its proprietary Nalcor Exploration Strategy System (NESS), Nalcor consistently evaluates all of the province's over 20 basins on the key elements that make up a commercial grade petroleum deposit. This process identifies critical knowledge gaps that may exist, while highlighting key risks holding back industry investment.

Nalcor will continue to make investments and design geoscience in a basin-by-basin approach. By strategically guiding investments and activity, Nalcor is positioned to make the right investments at the right time to unlock the next areas of offshore Newfoundland and Labrador

that may contain material prospectivity, ultimately delivering new resources for the benefit of the people of Newfoundland and Labrador.

Offshore Developments

The three offshore developments in which Nalcor is a partner reached significant milestones in 2014.

White Rose Growth Project

- South White Rose Extension:
  - Subsea installation safely and successfully completed in third quarter.
  - Drilling commenced in fourth quarter on first oil producer.
- West White Rose Extension:
  - Argentia graving dock, detailed engineering and procurement activities progressed on Wellhead Platform Project.
  - Internal technical review process completed by all partners however, in December 2014, Husky Energy decided to defer the final investment decision on the West White Rose oilfield extension project for one year.

Hibernia Southern Extension (HSE)

- Third oil producing well in the HSE unit drilled and completed from the Hibernia gravity-based structure (GBS).
- First water injection well was initiated in November 2014; analysis ongoing with respect to performance and production impacts.

Hebron Project

- Existing construction work scopes progressed.
- Gravity-based structure towed from the dry dock to the deepwater construction site at Bull Arm in July 2014.

In addition to the economic value provided through equity, the ownership position provides Nalcor with a seat at the decision-making table and direct involvement in the management of the development of the provinces resources. The knowledge, information and understanding that this participation brings enables Nalcor to foster relationships helping ensure better alignment between the provincial interest and the project partners.

Exploration Strategy

Nalcor's exploration strategy is driven by a plan to replace reserves that have been produced, add sufficient reserves allowing for production growth and discover new resources that will provide the basis for a long-term industry yielding significant economic benefits for the people of the province.

The availability of quality well and seismic data is a critical first step to exploration. To date, the amount of geoscientific data collected and the number of exploratory wells drilled in offshore Newfoundland and Labrador are significantly lower than in areas such as offshore United Kingdom or Norway. Despite similar discovery rates and larger sedimentary basin areas in offshore Newfoundland and Labrador, historic exploration activity in our offshore has only been about five to ten per cent of the exploration activity that has taken place in the North Sea.

To evaluate our resource potential and help attract interest to offshore Newfoundland and Labrador, Nalcor with seed funding from the province's Offshore Geoscience Data Program, is strategically investing in new seismic data as well as providing additional analysis and study work to data license holders. These investments have seen the basin area in offshore Labrador more than double in size. Three new deep water basins (Chidley, Holton and Henley) have been identified and the previously established Hawke Basin has substantially increased in size. Many play types (rock formations that may hold oil) have been identified that are similar to those that have yielded some of the leading discoveries in other regions of the world.

During 2014, Nalcor made significant progress in executing its exploration strategy. The company continued its partnership with global seismic companies TGS-NOPEC Geophysical Company (TGS) and Petroleum Geo-Services (PGS) and acquired an additional 37,500 kilometres of 2D seismic data. To date, a total of 84,500 kilometres has been acquired, one of the largest regional seismic programs in the world.

In 2014, Nalcor also signed a multi-client license agreement with Electromagnetic Geoservices ASA (EMGS) to complete the regions first multi-client 3D electromagnetic survey data over frontier areas of the province's offshore. Investing in electromagnetic data is complimentary to Nalcor's seismic investments and provides the global industry with new data to identify and de-risk new leads, as well as high-grade existing prospects in Newfoundland and Labrador's emerging frontier areas.

As well, Nalcor and Ikon Science Canada released a comprehensive regional pore pressure study for offshore Newfoundland and Labrador to the global oil and gas industry. The study is a

comprehensive evaluation of the subsurface pressure systems in Newfoundland and Labrador's eastern frontier slope and deepwater basins.

These new data programs investments are already beginning to pay a return, as Nalcor shares in the revenue as the new data is licensed by the global exploration and production industry. In 2014, the rate of data licensing accelerated as new prospectivity being seen in the datasets were communicated by Nalcor and the Department of Natural Resources to the global oil and gas industry.

Nalcor, with the Department of Natural Resources, is communicating the insights from its exploration strategy with a focused marketing and engagement plan to bring this new information on Newfoundland and Labrador's prospectivity to global exploration and production companies. Highlights for 2014 include:

- Continued presentations to leading international exploration conferences;
- Engaged global exploration and production companies regarding exploration in Newfoundland and Labrador; and,
- Hosted 2014 Atlantic Conjugate Margins conference with 380 delegates, including renowned industry experts and attendees from more than 30 exploration and production companies.

Issue 4: Oil and gas interests, exploration and development	
Goal 1 By December 31, 2016, Nalcor Energy-Oil and Gas will have advanced opportunities to increase the exploration and development of the province's oil and gas resources.	
Measure	Advanced oil and gas development and exploration opportunities.
Indicators	▪ Managed offshore interests. ▪ Advanced knowledge of resource potential through execution of multi-year exploration strategy.
Objective 1 By December 31, 2014, Nalcor Energy-Oil and Gas will have worked with partners to advance offshore project milestones and advanced acquisition and communication of geoscience data.	
Measure Worked with partners to advance milestones for offshore developments.	
INDICATORS	**2014 ACCOMPLISHMENTS**
Worked with partners in the three offshore developments toward planned project	During 2014, Nalcor worked with its partners to progress planned project milestones. ▪ White Rose Extension: The Argentia graving dock construction,

milestones: ▪ White Rose Extension – Project sanction of White Rose Extension Project - Wellhead Platform. ▪ Hibernia Southern Extension – First water injection to enhance existing well production and planned drilling of new producing and water injection wells. ▪ Hebron – ongoing construction of gravity based structure and topsides as per target schedule.	detailed engineering and procurement activities proceeded on the Wellhead Platform project throughout 2014. Internal technical review processes were completed by all partners, however, on December 17, 2014, the Operator opted to defer the final investment decision on the West White Rose oilfield extension project for one year in light of lower than expected oil prices. ▪ Hibernia Southern Extension (HSE): Planned work completed. The third oil producing well in the HSE unit was drilled and completed from the Hibernia GBS in 2014. The West Aquarius drilling rig drilled the planned subsea water injection scope and initiated the first water injection well on November 26, 2014; analysis of the water injection well continues. ▪ Hebron: Activities throughout 2014 largely entailed the progression of existing work scopes to achieve 2017 first oil. Topsides construction in Korea continued, with enhanced focus on productivity and efficiency to meet the first oil target. The GBS achieved all scheduled milestones, including the successful and safe tow-out to the deep water site at the Bull Arm Fabrication Site.
Measure Enhanced knowledge of oil and gas resource potential.	
Acquired geoscience data: ▪ Completed regional seismic surveying infill. ▪ Initiated South Coast seismic program. ▪ Advanced field slick sampling program[8].	During 2014, acquisition of geoscience data was completed as planned with 37,500 kilometres of seismic data acquired. The 2014 program included planned regional seismic survey infill to cover areas in offshore Newfoundland and Labrador showing prospectivity based on the previous year's survey, as well as data acquisition along the island's south coast in the slope and deepwater areas where little data had been previously gathered. In addition, data was collected for areas included in the new scheduled land tenure system announced by the Canada-Newfoundland Labrador Offshore Petroleum Board (CNLOPB) in late 2013 focusing on the areas of interest for the 2015 land sale. In 2014, Nalcor also invested with EMGS in the acquisition of the first multi-client electromagnetic survey offshore Newfoundland and Labrador. Early results show positive indications for use in determining hydrocarbon prone prospects. Nalcor also advanced the field slick sampling program as planned. An offshore field slick and seabed coring program was undertaken

[8] This program will target areas identified by the satellite oil seeps survey with a goal to sample oil on the sea surface to gain new insights on potential oil sources in frontier areas of our offshore.

	to evaluate the petroleum systems in some frontier basins to determine oil and gas potential.
Communicated Nalcor geoscience results to the global oil and gas industry.	During 2014, Nalcor's geoscience results were communicated as planned to the global oil and gas industry. The new Nalcor exploration website was launched and presentations and papers were delivered at global exploration conferences. As well, engagements with global exploration companies to discuss Newfoundland and Labrador prospectivity continued throughout the year.

The objectives, measures and indicators for 2015 are consistent with the direction outlined in the 2014-2016 Strategic Plan.

Issue 4: Oil and gas interests, exploration and development

Objective

By December 31, 2015, Nalcor Energy-Oil and Gas will have supported partners' efforts to further advance offshore project milestones and enhanced knowledge of the province's oil and gas resource potential.

Measure

Worked with partners to further advance offshore project milestones.

Indicators	Worked with partners in the three offshore developments toward planned project milestones:
	▪ White Rose Extension
	  ▪ Evaluation of development options for West White Rose.
	  ▪ Achieved first oil for South White Rose Extension.
	▪ Hibernia Southern Extension
	  ▪ Installed subsea infrastructure for Ben Nevis-Avalon Project at Hibernia Unit.
	  ▪ Completed second water injection well.

Indicators	▪ Hebron ▪ Progressed all critical path scopes in order to achieve 2016 module integration for Hebron.

Measure

Further enhanced knowledge of oil and gas resource potential.

Indicators	▪ Acquired and analyzed geoscience data
	  ▪ Completed detailed resource assessment (oil, gas volumes) for offshore area in advance of license round close (Flemish Pass area quarter four 2015) with leading, global independent resource evaluation firm.
	  ▪ Invested with global partners in acquisition of planned 2D and 3D seismic to target areas for upcoming license rounds.
	  ▪ Invested in next phase of 3D electromagnetic survey to target areas for upcoming license rounds.
	  ▪ Continued evaluation of satellite slick data.
	  ▪ Issued reports on Rock Physics and Met Ocean conditions to reduce uncertainty for offshore exploration companies[9].
	▪ Communicated Nalcor's geoscience results to the global oil and gas industry
	  ▪ Continued presentations to global exploration conferences.
	  ▪ Progressed engagement and continued meetings with global exploration and production companies.
	▪ Integrated data and analysis from Nalcor's regional exploration programs to submit nominations to the CNLOPB for where future license rounds (scheduled for 2019) should occur and nominations for the definition of parcels for the 2016 license round. (Nalcor reviews these nominations with the Department of Natural Resources prior to formal submission to the CNLOPB.)

[9] Rock Physics: Nalcor's Rock Physics project is a partnership with Ikon Science (UK) to study and quantify the rock physics relationships offshore Newfoundland and Labrador in a global context. The rock physics data will be used to interpret the new regional 2D and 3D seismic data offshore Newfoundland and Labrador. It will provide insight into the pre-drill estimation from seismic of predicting properties such as sand versus shale, and potential reservoir fluid content (water, oil, gas) thereby reducing both uncertainty and risk prior to drilling.

Met Ocean: Nalcor has partnered with C-Core in a comprehensive project to study met ocean conditions from the Labrador Sea to the Flemish Pass. This project will quantify regional met ocean conditions on exploration and production criteria such as wind, waves, currents, sea ice, icebergs, etc. The study will illustrate what is known about the existing met ocean conditions and how the region ranks compared to both itself (Area X vs. Hibernia, Flemish Pass, etc.) and to other globally comparable regions (Area X vs. Barents Sea, Northern North Sea, West Greenland, Sakalin Island, etc.).

Issue 5: Lower Churchill development

The lower Churchill River is one of the most attractive undeveloped hydroelectric resources in North America and is a key component of the province's energy warehouse. The lower Churchill development's two sites at Muskrat Falls and Gull Island will have a combined capacity of over 3,000 MW. Phase I of the lower Churchill development, currently under construction includes an 824 MW hydroelectric generating facility at Muskrat Falls, over 1,500 kilometres of associated transmission lines in Newfoundland and Labrador and the Maritime Link between the island of Newfoundland and Cape Breton, Nova Scotia. Phase II of the lower Churchill development includes the proposed 2,250 MW Gull Island generating facility and associated transmission.

The lower Churchill development plays a key role in supporting the fulfillment of several strategic directions of the Provincial Government. The development of clean, renewable energy through the Lower Churchill Project supports the strategic direction related to responsible resource development. The project will also continue to support social license through adequate stakeholder consultation and engagement. Increased participation in energy developments supports the outcome of ensuring maximum benefits to the province through the strategic development of the province's resources, while providing a stable and competitive energy supply for domestic use and export to markets.

Muskrat Falls Project

The Muskrat Falls Project will provide a clean, renewable source of electricity to meet the province's growing energy demands and will displace thermal generation from the oil-fired generation facility at Holyrood. It will provide Newfoundland and Labrador homes and businesses with stable electricity rates well into the future and will be a valuable power-producing asset for the province for many decades.

The Muskrat Falls Project was sanctioned by the Government of Newfoundland and Labrador in 2012. Construction commenced in late 2012 and first power from the Muskrat Falls hydroelectric generating facility is expected in late 2017.

A number of significant milestones for the Muskrat Falls Project were achieved in 2014.

- All site services and infrastructure were fully operational, and the permanent 1,500-person accommodations complex was opened.

- Commenced and completed concrete work on spillway base slab, commenced spillway piers and began to install embedded components of the gates.
- Continued manufacturing of turbines and generators and started shipping materials to Labrador.
- Completed ROW clearing for transmission lines between Muskrat Falls and Churchill Falls and tower construction, assembly and installation progressed well.
- Commenced Labrador-Island Transmission Link ROW clearing in Labrador, tower assembly and foundation installation ongoing in 2014.
- Completed Strait of Belle Isle horizontal drilling program; progressed manufacturing of the submarine cable.
- Completed excavation work at Churchill Falls and Soldiers Pond.

When the project was sanctioned in December 2012, direct facilities capital cost were $6.20 billion plus financing costs to be capitalized during the period up to in-service. In June 2014, the direct facilities capital cost for the project was updated to $6.99 billion.

Since construction of the hydroelectric development at Muskrat Falls began in late 2012, changing market conditions in an extremely competitive construction industry locally, nationally and globally, have increased the facilities capital costs on the project by approximately four per cent. In addition, several design enhancements have been made to improve system quality and reliability, construction productivity and operational efficiencies, which increased the facilities capital costs on the project by an additional nine per cent since sanction.

Impact and Benefits

The Muskrat Falls Project will meet Newfoundland and Labrador's long-term energy needs and deliver significant long-term value to the people of the province. Over the life of the project, significant value and cash flows will be generated by the project.

The construction of the Muskrat Falls Project will generate economic benefits in every corner of the province, including $1.9 billion in income to labour and business, with approximately $500 million of this to be earned by Labrador residents and Labrador-based businesses. The provincial economy will also benefit from employment associated with building the Muskrat Falls hydroelectric generating facility and the transmission links, with 9,100 person-years of direct employment, including 5,800 person-years in Labrador.

In 2014, employment on the Muskrat Falls Project peaked in November with 4,015 people working on all components of the project. During that month, 3,274 of the total project workforce were Newfoundland and Labrador residents accounting for 81 per cent of the total peak workforce in that month. There were more than 1,100 Labrador residents working on the project at that time.

During the past year, employment of women peaked in August at 547 accounting for 16 per cent of the workforce in that month. In that same month, employment of Newfoundland and Labrador people who self-identified as a member of an Aboriginal group reached a peak of 507 workers and 450 of these workers were members of one of the three Labrador Aboriginal groups.

Aboriginal Affairs

Following execution and ratification of the Tshash Petapen (New Dawn) Agreements, Nalcor commenced implementation of the Impact and Benefits Agreement (IBA) with the Innu Nation.

All joint Nalcor-Innu Nation committees required under the IBA have been established. By the end of December 2014, the $140 million procurement commitment outlined in the IBA with the Labrador Innu Nation was exceeded with more than $450 million in contracts awarded to Innu-owned businesses or joint ventures.

Processes and personnel have been put in place to support Innu employment. In 2014, employment of Labrador Innu workers peaked in August with 206 Labrador Innu working on all components of the Muskrat Falls Project.

Throughout 2014, Nalcor continued to work with the Labrador Aboriginal Training Partnership (LATP) and contractors to build local capacity through education and training to help enable Labrador Aboriginal people to be qualified for employment opportunities with the Muskrat Falls Project.

Environment

Nalcor is committed to maintaining a high standard of environmental responsibility that will help to sustain a diverse and healthy environment for generations of Newfoundlanders and Labradorians. The company has implemented an Environmental Management System (EMS) for the Muskrat Falls Project to ensure regulatory compliance and to ensure commitments and conditions of environmental assessment are met.

Environmental protection plans have been developed for the generation and transmission projects and have been submitted to, and approved by, the provincial government.

Environmental effects monitoring programs were initiated for many environmental components in 2013 and continued throughout 2014.

In January 2014, the project's environmental team conducted an annual audit of the EMS and held annual review meetings with all regulators associated with the project in preparation for the 2014 field program.

Joint Nalcor-Innu Nation environmental management initiatives are also ongoing, including Innu environmental monitors working on site.

Engineering, Procurement and Construction

Detailed engineering work for the Muskrat Falls Project was 98 per cent completed at the end of 2014 with carry-on engineering work that will support the construction effort continuing through to project completion. Also in 2014, significant procurement activities continued with many large contracts awarded. At the end of the year over 90 per cent of total contract value had been committed. All awarded contracts and procurement information is reported in the Muskrat Falls Project's Monthly Reports and available at www.muskratfallsproject.nalcorenergy.com.

Activity ramped up in all areas of the project across the province throughout the year. At the Muskrat Falls hydroelectric generation site in Labrador, mobilization of Astaldi Canada, the main contractor responsible for constructing the intake, powerhouse, spillway, and transition dams continued. Progress was made in the areas of concrete placement, foundation preparation, installation, formwork and rebar placement. Included in these activities was the first pouring of concrete in the spillway structure. Mobilization of the contractor for the Labrador Transmission line and the Labrador-Island Transmission Link commenced in 2014 and progress was made on the assembly and installation of transmission towers. Civil works was completed in Muskrat Falls, Churchill Falls, the Strait of Belle Isle and Soldiers Pond in preparation for the installation of electrical infrastructure. The Strait of Belle Isle marine cable crossing program continued and by the end of the year the sixth and final bore hole required for the crossing of the submarine cable from Forteau Point, Labrador to Shoal Cove, Newfoundland was completed.

Lower Churchill Phase 2 – Gull Island

The lower Churchill development's second hydroelectric installation is proposed at Gull Island with a capacity of 2250 MW and average annual energy 11.9 terawatt hours. During 2014,

Nalcor monitored and assessed external market opportunities for Gull Island and monitored potential new large-scale industrial requirements in the province. Also during 2014, Hydro, in its capacity as a current transmission customer of Hydro-Québec, continued its engagement in transmission open access regulatory activities in Quebec through its participation in Open Access Transmission Tariff (OATT) hearings before the Régie de l'énergie.

Issue 5: Lower Churchill development

Goal

By December 31, 2016, Nalcor will have advanced development of clean, renewable energy from the lower Churchill River hydroelectric resource.

Measure

Advanced development of lower Churchill River hydroelectric resource.

Indicators	▪ Advanced construction of the Muskrat Falls Project. ▪ Progressed Gull Island consistent with market opportunities.

Objective

By December 31, 2014, Nalcor will have advanced Muskrat Falls construction and progressed Gull Island consistent with market opportunities.

Measure

Advanced Muskrat Falls Project construction.

INDICATORS	2014 ACCOMPLISHMENTS
Established a joint Nalcor-Innu Nation Impact and Benefits Agreement (IBA) monitoring and reporting system.	During 2014, a joint Nalcor-Innu Nation Impact and Benefits Agreement (IBA) monitoring and reporting system was established to provide timely reporting on progress towards IBA commitments. Nalcor and the Innu Nation participated in IBA mandated committees and a software system is utilized to document environmental protection commitments. Nalcor regularly conferred with the Innu Nation regarding Innu hiring and training and provided associated reporting. Significant achievements were made with respect to Innu employment on the project and contracts awarded to Innu businesses. Innu employment grew steadily in 2014 reaching a peak of 206 in August. By the end of December 2014, the $140 million procurement commitments outlined in the IBA with the Labrador Innu Nation was exceeded with more than $450 million in contracts being awarded to Innu-owned businesses or joint ventures. Other key 2014 milestones related to the IBA included:

Issue 5: Lower Churchill development	
	▪ Participated in the following joint Nalcor-Innu Nation IBA Committees: Tshiashkueish (IBA Implementation) Committee, Environmental Management Committee, Innu Business Development Advisory Committee, Innu Employee Advisory Committee and Leadership Committee; ▪ Hired an additional Innu Employment and Training Coordinator to support the IBA commitment of employment preference for qualified Labrador Innu as well as related services; ▪ Hired a Senior Innu Liaison Coordinator and an additional Innu Liaison Coordinator to work at the Muskrat Falls site to support Labrador Innu workers who have questions or are encountering problems in the workplace; ▪ Delivered Innu cultural awareness training to approximately 5,000 personnel, including LCP management, contractors and site workers; ▪ Supported the LATP in the delivery of targeted training programs to assist Labrador Innu to qualify for Muskrat Falls Project positions including: rebar worker, tower steel assembly, concrete form worker, commercial truck driver and safety certification courses; ▪ Dedicated the services of a Nalcor training coordinator to deliver a suite of construction safety training courses in Natuashish; and, ▪ Awarded four Lower Churchill Project IBA scholarships to Labrador Innu post-secondary students.
Continued implementation of Environmental Effects Monitoring program.	The implementation of the Environmental Effects Monitoring program continued as planned in 2014. More than 15 environmental effects monitoring plans were being implemented during the year. Some of the initiatives undertaken as part of the Environmental Effects Monitoring program included: ▪ Aquatic sampling program for Goose Bay and Lake Melville (fish, water, and sediment). ▪ Moose baseline surveys in the hydroelectric generation project area. ▪ Aerial surveys of threatened Red Wine Mountains caribou herd and deployment of telemetry collars. ▪ Pine marten surveys in island habitat areas.

Issue 5: Lower Churchill development	
	▪ Herptile surveys in hydroelectric generation project area. ▪ Baseline dietary survey and human hair sampling program. ▪ Otter hair snag surveys (methyl mercury) in generation project area.
Achieved key project milestones: ▪ Muskrat Falls Hydroelectric Facility: Commenced construction of powerhouse, spillway and dams, and opened permanent camp. ▪ Labrador Transmission Assets: Continued right of way clearing and commenced construction of transmission line between Muskrat Falls and Churchill Falls. ▪ Strait of Belle Isle Crossing: Completed horizontal directional drilling. ▪ Labrador-Island Transmission Link: Commenced construction of transmission.	During 2014, the Muskrat Falls Project achieved planned key project milestones. *Muskrat Falls Hydroelectric Facility* In 2014, construction of powerhouse, spillway and dams commenced and the 1,500 person permanent accommodations facility opened. In August, first concrete was placed in the spillway structure for the Muskrat Falls hydroelectric generating facility. The spillway base slab was completed in October. Progress was also made on the manufacturing of the gates, turbines and generators, with the first delivery of turbine components to the Muskrat Falls site taking place by the end of the year. Reservoir clearing was advanced on the north and south river banks. *Labrador Transmission Assets* In 2014, ROW clearing for the transmission line between Muskrat and Churchill Falls was completed as planned. In October 2014, the first transmission tower on the transmission line was erected. At the end of the year, there were 398 towers assembled, 117 erected, 234 guy anchors installed and tested, and 414 foundations installed. *Strait of Belle Isle Crossing* To connect the 1,100 kilometre transmission line from Labrador to Newfoundland, a 35 kilometre marine cable crossing is required across the Straits, from Forteau Point, Labrador to Shoal Cove, Newfoundland. The marine cable crossing includes the installation and operation of three marine power cables along the seabed across the Straits. During 2014, planned work was completed and a specially designed horizontal directional drilling rig drilled six holes from the shoreline and out under the seabed on both sides of the Straits. As well, sea floor conduits to transition the cables from shore to deep water were installed and inspected as planned. *Labrador-Island Transmission Link (LIL)* During the year, major contracts were awarded for LIL

Issue 5: Lower Churchill development	
	construction, converter stations, switchyards and synchronous condensers.The right-of-way clearing and construction of LIL in Labrador commenced as planned in 2014 and progressed well. Tower assembly activities commenced with nine towers being assembled at the end of the year. Other planned work was completed including site work at Churchill Falls and Soldiers Pond, and civil works for the transition compounds in Forteau and Shoal Cove.

Measure
Progressed Gull Island consistent with market opportunities.

INDICATORS	2014 ACCOMPLISHMENTS
Assessed and engaged potential customers on identified export and industrial market opportunities.	During 2014, Nalcor completed planned market assessment and engagement activities related to Gull Island. These activities included: ▪ Monitoring market developments in northeast North America related to electricity demand, plant retirements and clean energy policy and legislation; ▪ Engaging with governments, market participants, transmission providers; and, ▪ Identifying market opportunities and promoting Gull Island as a clean energy supply option in the northeast region. For example, in April 2014, Nalcor participated in a public review of Bill H-3968 – *An Act Relative to Clean Energy Resources* which requires Massachusetts State utilities to acquire additional clean energy and also authorizes utilities to sign long-term contracts to purchase the power. Nalcor expressed support for the bill as the development of the province's hydro potential, including the Gull Island project, could contribute to meeting Massachusetts requirements for clean energy while providing long-term economic benefits to Newfoundland and Labrador.
Identified and completed required market access and project readiness activities consistent with progress of market opportunities.	During 2014, several activities related to market access were identified and completed: Hydro participated in Hydro-Québec TransÉnergie 's (HQT) open access transmission tariff hearing before the Régie de l'énergie as a current customer of the HQT system; and Nalcor also explored transmission access options with potential developers into the United States Northeast region. From a project readiness perspective, Nalcor continued baseline

Issue 5: Lower Churchill development	
	data collection for future environmental effects monitoring in accordance with *Lower Churchill Hydroelectric Generation Project Undertaking Order* under the *Environmental Protection Act*.

The objectives, measures and indicators for 2015 are consistent with the direction outlined in the 2014-2016 Strategic Plan.

Issue 5: Lower Churchill development	
Objective By December 31, 2015, Nalcor will have progressed construction of Muskrat Falls hydroelectric facility and transmission infrastructure and continue to progress Gull Island consistent with market opportunities.	
Measure Progressed construction of Muskrat Falls hydroelectric facility and transmission infrastructure.	
Indicators	▪ Continued joint Nalcor-Innu Nation Impact and Benefits Agreement (IBA) monitoring and reporting. ▪ Continued implementation of Environmental Management and Environmental Effects Monitoring programs. ▪ Achieved key project milestones for the Muskrat Falls Hydroelectric Facility, Labrador Transmission Assets, Strait of Bell Isle Crossing, and Labrador-Island Transmission Link.
Measure Further advanced Gull Island consistent with market opportunities.	
Indicators	▪ Assessed and engaged potential customers on identified export and industrial market opportunities. ▪ Continued efforts to advocate for policy initiatives that support procurement of new hydro development as a clean energy supply in the northeast region. ▪ Identified and completed required market access and project readiness activities consistent with progress of market opportunities.

Issue 6: Bull Arm Fabrication Site long term strategy and lease management

The Bull Arm Fabrication site is an important asset for industrial development in Newfoundland and Labrador and the advancement of the province's fabrication capability. Bull Arm has capabilities for steel fabrication and concrete construction, outfitting installation, at-shore hook-up and deep water commissioning. The site has facilitated growth of the province's fabrication capability through participation in the Hibernia, Terra Nova and White Rose oil projects and the Voisey's Bay project.

The Bull Arm site is leased to ExxonMobil Canada Properties for the duration of the Hebron Project which is expected to produce first oil in 2017. Nalcor is focused on utilization of the Bull Arm Site during the short to medium term for the Hebron project, while planning for a competitive operation with a sustained workforce in the long-term.

Under the current operating model, Nalcor owns the Bull Arm site infrastructure and leases same to a tenant with the roles and responsibilities of Nalcor and the site tenant specified in a lease agreement. Nalcor is evaluating this and other operating models to identify a preferred model for operating the site in the long-term to implement at the conclusion of the current lease.

In 2011, Nalcor executed a site lease with ExxonMobil Canada Properties and in the fall of that year, work began to prepare the site for construction related to the Hebron project. During 2012, the early works phase of the project began in preparation for the construction of the gravity-based structure (GBS) and fabrication of the living quarters module. During 2014, employment at the site peaked at over 5000 people and significant progress was made on construction and fabrication work.

A key provision of the current lease is the management of change process. This process allows Nalcor to assess, approve and monitor all site infrastructure modifications. The intent is to meet tenant requirements to customize the site while ensuring that at the end of lease, the modifications completed by the tenant provide ongoing value or are removed. As well, the process provides Nalcor with information about the site infrastructure modifications required to manage site assets in the future. During 2014, $9.75 million in site upgrades and modifications were approved through the change management process including drydock and topsides pier and quay upgrades.

Issue 6: Bull Arm Fabrication site long-term strategy and lease management

Goal

By December 31, 2016, Nalcor will have enhanced Bull Arm Fabrication site's position as a competitive, successful fabrication site for the long-term.

Measure	▪ Advanced Bull Arm Fabrication site's long-term competitiveness.
Indicators	▪ Completed the analysis of alternate site operating models to inform the Bull Arm long-term strategy and initiated development of an implementation plan. ▪ Continued successful management of current lease.

Objective

By December 31, 2014, Nalcor will have advanced development of the Bull Arm long-term strategy and continued successful management of current lease.

Measure

Advanced engagement and evaluation activities to inform long-term strategy for Bull Arm Fabrication site.

INDICATORS	2014 ACCOMPLISHMENTS
Completed planned 2014 engagement activities outlined in the multi-year engagement strategy, including site visits with potential customers, discussions with external stakeholders and benchmarking visits to other fabrication facilities.	Planned 2014 engagement activities outlined in the multi-year engagement strategy were completed including site visits with potential customers and meetings with external stakeholders and regional community representatives. Planned benchmarking visits to other fabrication facilities were cancelled and a more cost effective option of collecting the required information through a study completed by an external consultant was chosen. The focus of the 2014 study was the marketing practices of similar sized fabrication yards in other parts of the world.
Completed detailed evaluation (including market analysis, asset maintenance and capital investment requirements and financial analysis) of long-term site operating models.	During 2014, Nalcor completed a detailed evaluation of long-term site operating models. The financial analysis completed as part of the evaluation included a market assessment of future projects in Canada and the North Sea that could be suited for construction and fabrication at the Bull Arm site as well as maintenance and capital investment requirements for various operating models.

Measure

Continued lease monitoring activities and acted on issues and opportunities.

INDICATORS	2014 ACCOMPLISHMENTS
Continued management of change process for approval	During 2014, the management of change process continued enabling Nalcor to assess, approve and monitor all site

Issue 6: Bull Arm Fabrication site long-term strategy and lease management	
and monitoring of all site infrastructure modifications.	infrastructure modifications made by the tenant. Approximately $9.75 million in site upgrades/refurbishments were approved for the year. The majority of these expenditures related to preparing the topsides area for the delivery, integration and commissioning of the Hebron modules. All change requests from the tenant were reviewed and addressed by Nalcor within the targeted timeline.
Continued participation in tenant safety and environment meetings to share Nalcor and tenant lessons learned and best practices.	During 2014, Nalcor continued to participate in regular safety and environment meetings with the site tenant. These meetings focused on site safety and environmental performance and provided an opportunity for both Nalcor and the tenant to discuss incident investigations, high-potential near misses, as well as safety and environmental programs and activities.
Completed annual planned review and update of Nalcor's emergency response plan and environmental management framework.	During 2014, Nalcor completed an annual review if its emergency response plan including execution of a tabletop exercise and incident interaction with the site tenant. The environment management framework which provides operational direction regarding oversight of the environmental terms of the lease is reviewed annually. The 2014 review updated the environmental management framework to reflect how the closeout of change requests has environmental impacts and to include a new checklist procedure to guide site personnel in identifying environmental concerns/best practices.

The objectives, measures and indicators for 2015 are consistent with the direction outlined in the 2014-2016 Strategic Plan.

Issue 6: Bull Arm Fabrication site long-term strategy and lease management	
Objective By December 31, 2015, Nalcor will have progressed development of the Bull Arm long-term strategy and successfully managed the current lease.	
Measure Further advanced engagement and evaluation activities to inform long-term strategy for Bull Arm Fabrication site and progressed implementation plan.	
Indicators	▪ Completed planned 2015 engagement activities outlined in the multi-year engagement strategy, including site visits with potential customers, and discussions with external stakeholders. ▪ Progressed development of a comprehensive implementation plan for potential long-term operating models.

Measure Successful management of lease through lease monitoring activities.	
Indicators	▪ Continued management of change process for approval and monitoring of all site infrastructure modifications. ▪ Continued participation in tenant safety and environment meetings to share Nalcor and tenant lessons learned and best practices. ▪ Completed annual planned review and update of Nalcor's emergency response plan and environmental management framework.

Issue 7: Energy marketing portfolio management and long term strategy

In 2009, Nalcor established an energy marketing team to sell energy from existing and future developments and build expertise as a participant in competitive energy markets in Canada and the United States. Nalcor's energy marketing activities support fulfillment of the strategic direction of the Provincial Government related to a stable and competitive energy supply for domestic use and exports to market and, more specifically, the focus area related to the export of surplus energy.

To access export markets, Nalcor, through its subsidiary, Hydro, signed a Transmission Service Agreement with Hydro-Québec TransÉnergie (HQT) under HQT's Open Access Transmission Tariff in 2009 and in 2013, Nalcor renewed that agreement for another 10 years. The agreements provide for long-term power transmission capacity from Labrador through Quebec to the New York border with the ability to transmit electricity to other markets. At the same time Nalcor, through Hydro, also entered into a contract with a third-party energy marketer to bring its surplus energy from Churchill Falls to markets outside the province. Under this arrangement power is currently sold on the Canadian side of the US border to the third-party energy marketer.

To date, Nalcor's energy marketing operations have focused on exporting surplus recapture electricity from Churchill Falls and in 2014, some 1.5 terawatt hours[10] of hydroelectricity was delivered to markets in eastern Canada and the northeast United States.

During 2014, Nalcor continued to pursue opportunities to maximize the overall value of sales creating net income of over $38 million, representing 33 per cent of total Nalcor net income for the period. Energy marketing continually monitors all markets and the ability to transmit electricity to those markets in order to identify opportunities to achieve premium prices. Nalcor balances its participation in the day-ahead and real time spot markets and regularly assesses opportunities to increase value through term contracts.

Since 2011, Nalcor has developed the necessary procedures, systems and expertise to establish an energy marketing line of business that will participate directly in energy markets in northeast North America. In early 2014, Nalcor formed a wholly-owned subsidiary, Nalcor Energy Marketing, to manage the company's participation in energy markets outside the province. Nalcor will conclude the contract with the third-party energy marketer by April 1, 2015 and transition export activities to Nalcor Energy Marketing.

[10] Terawatt hour (TWh) is a unit of bulk energy; 1,000,000,000 kilowatt hours.

Nalcor's energy portfolio will continue to grow over the coming years with the development of the lower Churchill River hydroelectric resource. In the long-term, it is also planned that Energy Marketing will market the production from Nalcor Energy-Oil and Gas' interests to global markets. Moving forward, Nalcor Energy Marketing will continue to execute a strategy aimed at maximizing the value of Nalcor's existing and future assets.

Issue 7: Energy marketing portfolio management and long-term strategy

Goal

By December 31, 2016, Nalcor will have enhanced its energy marketing capability to extract maximum value from the energy marketing portfolio.

Measure	Enhanced energy marketing capability.
Indicators	▪ Completed planned implementation activities for long-term energy marketing operations. ▪ Increased value from the energy marketing portfolio.

Objective

By December 31, 2014, Nalcor will have advanced its long-term implementation plan for energy marketing operations and optimized value from the current portfolio.

Measure

Completed planned implementation activities for long-term energy marketing operations.

INDICATORS	2014 ACCOMPLISHMENTS
Completed 2014 planned activities outlined in the long-term implementation plan for energy marketing operations including: ▪ Creation of an energy marketing subsidiary; and, ▪ Recruitment of key personnel.	Completed planned 2014 activities outlined in the long-term implementation plan for energy marketing operations. Nalcor Energy Marketing, a wholly owned subsidiary was incorporated in 2014 and Nalcor commenced the process of transitioning electricity export activities to Energy Marketing. (Nalcor will conclude the contract with the third-party energy marketer by April 1, 2015.) As well, planned recruitment was successful and a 24-hour scheduling desk was established to execute and monitor electricity trading activities in all markets. Specialized software to support energy trading activities was implemented and permits and business licenses were secured for operations in key markets in eastern Canada and the northeast United States.

Measure

Pursued opportunities to increase portfolio value.

INDICATORS	2014 ACCOMPLISHMENTS
Continued to implement measures to maximize portfolio value such as	During 2014, Nalcor successfully identified and implemented measures to maximize portfolio value. Efforts to increase portfolio value in 2014 focused on supplying energy to premium

targeting higher priced markets and times to exceed the energy price benchmark.	markets to capture higher prices resulting in revenues more than 12 percent, or $4.2 million, above the New York market benchmark.[11]

The objectives, measures and indicators for 2015 are consistent with the direction outlined in the 2014-2016 Strategic Plan.

Issue 7: Energy marketing portfolio management and long-term strategy

Objective

By December 31, 2015, Nalcor will have continued to advance its long-term implementation plan for energy marketing operations and pursued opportunities to maximize the value of the current portfolio.

Measure

Advanced long-term implementation plan for energy marketing operations.

Indicator	Completed 2015 planned activities outlined in the long-term implementation plan for energy marketing operations: ▪ Concluded third-party energy marketing contract; and, ▪ Recruited required additional personnel.
Indicator	▪ Continued management of contracts related to Muskrat Falls, Nalcor-Emera formal agreements.

Measure

Advanced opportunities to increase portfolio value.

Indicator	▪ Identified opportunities to maximize portfolio value such as targeting higher priced markets and times to exceed the energy price benchmark.

[11] Nalcor compares its export sales performance to benchmark pricing at an interface in the New York Independent System Operator (NYISO) which corresponds to the delivery point of Nalcor's firm annual transmission booking.

6 Opportunities and Challenges

Implementing the remaining priorities in the 2014-2016 strategic plan will require that Nalcor and Hydro build on accomplishments of the past and address future challenges and opportunities. The key challenges and opportunities outlined below reflect the next phase of Nalcor's strategy execution in support of the Provincial Government's energy sector strategic directions.

Safety leadership

Nalcor's relentless commitment to safety drives all its lines of business. Achieving excellence in safety is Nalcor's number one priority and safety is also a shared core value. For Nalcor and Hydro, safety excellence is more than a way of operating; it is an integral part of the companies' strategy for the future. Achieving and maintaining excellent safety performance in all areas of the company is an ongoing challenge. During the balance of the planning period, Nalcor and Hydro will continue to implement initiatives to move forward on the journey to sustained safety excellence.

Electricity supply

Nalcor's subsidiary, Hydro, ensures there is a safe, reliable and cost-effective electricity supply available to meet current demand and future growth. During 2015 and beyond, Hydro will continue to increase investment to renew aging assets and will implement programs to support safety and environmental sustainability. Hydro will also prepare for the timely and effective integration of the Muskrat Falls Project into the provincial electricity system.

Upper Churchill asset management and Power Contract/Renewal Contract legal actions

The Churchill Falls generating station is one of the largest underground hydroelectric powerhouses in the world. The generating plant and related infrastructure have been in service for over 40 years and taking steps to ensure the continued performance of the Churchill Falls facilities through planning and strategic investment will drive the company's strategy for 2015 and beyond. Churchill Falls will also continue to advance preparations for Upper Churchill Power Contract/Renewal Contract legal actions.

Oil and gas interests, exploration and development

Nalcor's subsidiary, Nalcor Energy – Oil and Gas, currently manages oil and gas interests in three developments offshore Newfoundland and Labrador. Nalcor is also executing an exploration strategy based on global best practices to find and deliver new oil and gas resources

for the benefit of people of the province. In 2015 and beyond, Nalcor will continue to support partners' efforts to advance offshore project milestones and further enhance knowledge of the province's oil and gas resource potential.

Lower Churchill development

The lower Churchill River is one of the most attractive undeveloped hydroelectric resources in North America. The two sites at Muskrat Falls and Gull Island have a combined capacity of over 3,000 MW. The Muskrat Falls Project includes construction of an 824 MW hydroelectric dam and more than 1,500 kilometres of transmission lines. During the balance of the planning period, Nalcor will continue to advance the construction of Muskrat Falls generation and transmission and progress Gull Island consistent with progress on market opportunities.

Bull Arm Fabrication site long-term strategy and lease management

The Bull Arm Fabrication site has facilities for steel fabrication and concrete construction, outfitting installation, at-shore hookup and deepwater commissioning. The site is leased by ExxonMobil Canada Properties for the duration of the Hebron project which is expected to produce first oil in 2017. Over the balance of the 2014-2016 planning period, Nalcor will complete the analysis of site operating models to inform the Bull Arm long-term strategy and continue the successful management of the current lease.

Energy marketing portfolio management and long-term strategy

Nalcor's energy marketing portfolio currently includes Churchill Falls recapture power that is surplus to Newfoundland and Labrador's needs. This portfolio will continue to grow with the development of the lower Churchill River hydroelectric resource and production from Nalcor's oil and gas interests. In 2015, Nalcor's wholly owned subsidiary, Nalcor Energy Marketing will participate directly in energy markets in northeast North America. Over the planning period and beyond Nalcor Energy Marketing will continue to pursue opportunities to increase the value of the energy portfolio.

Appendix 1

Energy Portfolio

ENERGY PORTFOLIO

Appendix 2

Nalcor Energy Consolidated Financial Statements

NALCOR ENERGY
CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014

DIRECTORS

KEN MARSHALL
Chairperson
President – Atlantic Region
Rogers Communications

LEO ABBASS
Corporate Director

ERIN BREEN
Partner, Simmons+ Partners Defence

ED MARTIN
President and Chief Executive Officer

TOM CLIFT
Professor, Faculty of Business Adminstration
Memorial University of Newfoundland and Labrador

GERALD SHORTALL
Chartered Accountant
Corporate Director

OFFICERS

KEN MARSHALL
Chairperson

ED MARTIN
President and Chief Executive Officer

DERRICK STURGE
Vice President, Finance and Chief Financial Officer

CHRIS KIELEY
Vice President, Strategic Planning
and Business Development

JIM KEATING
Vice President, Nalcor Energy Oil and Gas

GERARD McDONALD
Vice President, Human Resources
and Organizational Effectiveness

JOHN MacISAAC
Vice President, Project Execution and Technical Services

GILBERT BENNETT
Vice President, Lower Churchill Project

DAWN DALLEY
Vice President, Corporate Relations

ROB HENDERSON
Vice President, Newfoundland and Labrador Hydro

PAUL HUMPHRIES
Vice President, System Operations and Planning

WAYNE CHAMBERLAIN
General Counsel and Corporate Secretary

PETER HICKMAN
Assistant Corporate Secretary

ROBERT HULL
General Manager, Finance

AUBURN WARREN
General Manager, Commercial, Treasury and Risk

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

Deloitte LLP
5 Springdale Street
Suite 1000
St. John's, NL A1E 0E4 Canada

Tel: (709) 576-8480
Fax: (709) 576-8460
www.deloitte.ca

Independent Auditor's Report

To the Lieutenant-Governor in Council, Province of Newfoundland and Labrador

We have audited the accompanying consolidated financial statements of Nalcor Energy, which comprise the consolidated statements of financial position as at December 31, 2014, December 31, 2013 and January 1, 2013, and the consolidated statements of profit and comprehensive income, changes in equity and cash flows for the years ended December 31, 2014 and December 31, 2013, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Nalcor Energy as at December 31, 2014, December 31, 2013 and January 1, 2013**,** and its financial performance and its cash flows for the years ended December 31, 2014 and December 31, 2013, in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Professional Accountants
March 18, 2015

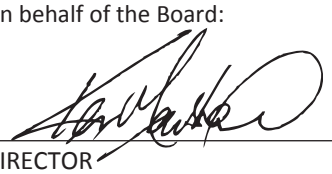
NALCOR ENERGY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at (millions of Canadian dollars)	Notes	**December 31 2014**	December 31 2013	January 1 2013
ASSETS				(Note 31)
Current assets				(Note 33)
Cash and cash equivalents	5	**60.8**	93.7	11.9
Restricted cash	5	**1,130.6**	525.5	-
Short-term investments		**34.4**	1.0	11.0
Trade and other receivables	6	**249.2**	149.8	124.7
Inventories	7	**97.1**	75.2	62.0
Current portion of sinking funds	11	**1.5**	65.4	-
Prepayments		**16.4**	11.6	5.6
Derivative assets	25	**11.8**	0.2	0.1
Total current assets		**1,601.8**	922.4	215.3
Non-current assets				
Property, plant and equipment	8	**5,676.8**	3,742.6	2,802.4
Intangible assets	9	**12.9**	-	-
Investment property		**1.0**	1.1	1.1
Other long-term assets	11	**353.5**	314.7	354.5
Investment in joint arrangement		**1.5**	1.1	0.7
Long-term investments	12	**2,871.4**	4,477.4	-
Total assets		**10,518.9**	9,459.3	3,374.0
Regulatory deferrals	10	**124.2**	64.4	65.1
Total assets and regulatory deferrals		**10,643.1**	9,523.7	3,439.1
LIABILITIES AND EQUITY				
Current liabilities				
Short-term borrowings	14	**53.0**	41.0	125.0
Trade and other payables	13	**672.1**	411.7	181.0
Current portion of long-term debt	14	**8.4**	82.2	8.2
Derivative liabilities	25	**1.6**	1.5	-
Current portion of other liabilities	16,17,18	**5.3**	6.0	8.5
Total current liabilities		**740.4**	542.4	322.7
Non-current liabilities				
Long-term debt	14	**6,240.5**	6,047.9	1,125.9
Class B limited partnership units	15	**79.4**	73.0	-
Deferred credits	16	**333.1**	93.5	45.0
Deferred contributions	17	**15.0**	10.7	9.9
Decommissioning liabilities	18	**42.1**	33.0	31.9
Long-term payables	19	**74.0**	78.3	82.4
Employee benefits liability	20	**144.5**	118.5	119.9
Total liabilities		**7,669.0**	6,997.3	1,737.7
Shareholder's equity				
Share capital	21	**122.5**	122.5	122.5
Shareholder contributions	21	**1,469.1**	1,141.8	435.8
Reserves		**(15.8)**	(27.1)	(2.0)
Retained earnings		**1,146.2**	1,030.6	942.9
Total equity		**2,722.0**	2,267.8	1,499.2
Total liabilities and equity		**10,391.0**	9,265.1	3,236.9
Regulatory deferrals	10	**252.1**	258.6	202.2
Total liabilities, equity and regulatory deferrals		**10,643.1**	9,523.7	3,439.1

See accompanying notes

Commitments and Contingencies (Note 27)
Subsequent events (Note 32)

On behalf of the Board:



DIRECTOR

DIRECTOR

NALCOR ENERGY

CONSOLIDATED STATEMENTS OF PROFIT AND COMPREHENSIVE INCOME

For the year ended December 31 (millions of Canadian dollars)	Notes	**2014**	2013
Energy sales	22	**755.6**	755.3
Other revenue	22	**40.5**	29.6
Revenue		**796.1**	784.9
Fuels		**(268.1)**	(190.9)
Power purchased		**(68.3)**	(63.0)
Operating costs	23	**(247.5)**	(212.0)
Depreciation and depletion	8	**(92.7)**	(89.9)
Exploration and evaluation expense		**(1.2)**	(7.4)
Net finance income and expense	24	**(72.0)**	(73.8)
Other income and expense		**2.6**	(3.5)
Share of profit of joint arrangement		**0.4**	0.4
Profit, before regulatory adjustments		**49.3**	144.8
Regulatory adjustments	10	**66.3**	(57.1)
Profit for the year		**115.6**	87.7
Other comprehensive income (loss) for the year		**11.3**	(25.1)
Total comprehensive income for the year		**126.9**	62.6

See accompanying notes

NALCOR ENERGY
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(millions of Canadian dollars)	Notes	Share Capital	Shareholder Contributions	Fair Value Reserve	Employee Benefit Reserve	Retained Earnings	Total
Balance at January 1, 2014		**122.5**	**1,141.8**	**11.3**	**(38.4)**	**1,030.6**	**2,267.8**
Profit for the year		**-**	**-**	**-**	**-**	**115.6**	**115.6**
Other comprehensive income							
Net change in fair value of available-for-sale financial instruments		**-**	**-**	**32.1**	**-**	**-**	**32.1**
Actuarial loss on employee benefit liability	**20**	**-**	**-**	**-**	**(17.9)**	**-**	**(17.9)**
Net change in fair value of cash flow hedge		**-**	**-**	**8.2**	**-**	**-**	**8.2**
Net change in fair value of financial instruments reclassified to profit or loss		**-**	**-**	**(11.1)**	**-**	**-**	**(11.1)**
Total comprehensive income (loss) for the year		**-**	**-**	**29.2**	**(17.9)**	**115.6**	**126.9**
Capital contributions	**21**	**-**	**327.3**	**-**	**-**	**-**	**327.3**
Balance at December 31, 2014		**122.5**	**1,469.1**	**40.5**	**(56.3)**	**1,146.2**	**2,722.0**
Balance at January 1, 2013		122.5	435.8	44.3	(46.3)	942.9	1,499.2
Profit for the year		-	-	-	-	87.7	87.7
Other comprehensive income							
Net change in fair value of available-for-sale financial instruments		-	-	(5.0)	-	-	(5.0)
Actuarial gain on employee benefit liability	20	-	-	-	7.9	-	7.9
Net change in fair value of cash flow hedge		-	-	(12.3)	-	-	(12.3)
Net change in fair value of financial instruments reclassified to profit or loss		-	-	(15.7)	-	-	(15.7)
Total comprehensive (loss) income for the year		-	-	(33.0)	7.9	87.7	62.6
Capital contributions	21	-	706.0	-	-	-	706.0
Balance at December 31, 2013		122.5	1,141.8	11.3	(38.4)	1,030.6	2,267.8

See accompanying notes

NALCOR ENERGY
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the year ended December 31 (millions of Canadian dollars)	Notes	**2014**	2013
Cash provided from (used in)			
Operating activities			
Profit for the year		**115.6**	87.7
Adjusted for items not involving a cash flow:			
Depreciation and depletion	8	**92.7**	89.9
Accretion	24	**5.4**	5.6
Amortization of deferred contributions	17	**(0.7)**	(0.7)
Employee benefits	20	**8.1**	6.5
Regulatory adjustments	10	**(66.3)**	57.1
Change in fair value of cash flow hedges		**-**	(12.3)
Gain on disposal of property, plant and equipment		**(0.6)**	(1.4)
Share of profit of joint arrangement		**(0.4)**	(0.4)
Other		**(2.9)**	1.6
		150.9	233.6
Changes in non-cash working capital balances	29	**128.9**	176.8
Net cash provided from operating activities		**279.8**	410.4
Investing activities			
Additions to property, plant and equipment		**(1,777.2)**	(985.4)
Additions to intangible assets	9	**(12.9)**	-
Increase in other long-term assets		**(20.8)**	(15.9)
(Increase) decrease in short-term investments		**(33.4)**	10.0
Decrease (increase) in sinking funds		**102.0**	(27.0)
Withdrawal of reserve fund	11	**16.4**	-
Decrease (increase) in long-term investments	12	**1,606.0**	(4,477.4)
Proceeds on disposal of property, plant and equipment		**3.3**	8.6
Net cash used in investing activities		**(116.6)**	(5,487.1)
Financing activities			
Issuance of long-term debt	14	**197.1**	5,001.3
Retirement of long-term debt	14	**(124.7)**	-
Increase in restricted cash		**(605.1)**	(525.5)
Issuance of Class B limited partnership units	15	**-**	67.7
Increase (decrease) in short-term borrowings		**12.0**	(84.0)
Decrease in long-term payable		**(8.1)**	(8.0)
Increase in contributed capital	21	**327.3**	706.0
Increase in deferred contributions	17	**5.2**	1.9
Increase (decrease) in deferred credits		**0.2**	(0.9)
Net cash (used in) provided from financing activities		**(196.1)**	5,158.5
Net (decrease) increase in cash and cash equivalents		**(32.9)**	81.8
Cash and cash equivalents, beginning of year		**93.7**	11.9
Cash and cash equivalents, end of year		**60.8**	93.7

Supplementary cash flow information (Note 29)

See accompanying notes

1. DESCRIPTION OF BUSINESS

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

1.1 Subsidiaries

Nalcor holds interests in the following subsidiaries:

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

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

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

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

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

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

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

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

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

A 100.0% interest in Nalcor Energy Marketing Corporation (Energy Marketing), a subsidiary established to market Nalcor's energy throughout North America. Energy Marketing was incorporated on March 24, 2014 and is expected to become fully operational on April 1, 2015.

Nalcor also holds a 100.0% interest in Gull Island Power Corporation (GIPCo) and a 51.0% interest in Lower Churchill Development Corporation (LCDC), both inactive.

1.2 Investment in Joint Arrangements

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

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

1.3 Variable Interest Entities

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

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of Compliance and Basis of Measurement

These annual audited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). Nalcor adopted International Financial Reporting Standards as of January 1, 2014, with the date of transition effective January 1, 2013. Nalcor has adopted accounting policies which are based on the IFRS applicable as at December 31, 2014, and includes individual IFRS, IAS, and interpretations made by the IFRS Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC). Upon adoption, Nalcor followed the requirements of IFRS 1 - First time adoption of IFRS (IFRS 1) in its application of IFRS as disclosed in Note 31.

Previously, the annual audited consolidated financial statements of Nalcor were prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP). An explanation of how the transition to IFRS has affected the Company's financial position, financial performance and cash flows is provided in Note 31.

These annual audited consolidated financial statements have been prepared on a historical cost basis, except for financial assets 'at fair value through profit or loss' (at FVTPL), financial instruments used for hedging and 'available-for-sale' (AFS) financial assets which have been measured at fair value. The annual audited consolidated financial statements are presented in Canadian Dollars and all values rounded to the nearest million, except when otherwise noted. The annual audited consolidated financial statements were approved by the Board of Directors of Nalcor (the Board) on March 13, 2015.

2.2 Basis of Consolidation

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

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

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

Churchill Falls holds 33.3% of the equity share capital of Twin Falls. This investment is accounted for using the equity method.

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

2.3 Cash and Cash Equivalents and Short-term Investments

Cash and cash equivalents consist of amounts on deposit with a Canadian Schedule 1 Chartered bank, as well as highly liquid short-term investments with original maturities of three months or less at acquisition. Short-term investments with original maturities greater than three months and less than twelve months at acquisition are classified as short-term investments. The effective interest rate on these investments at December 31, 2014 ranged from 1.20% to 1.28% (2013 – 1.12% to 1.33%) per annum. Cash and cash equivalents are measured at cost which approximates fair value while short-term investments are measured at fair value.

2.4 Trade and Other Receivables

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

2.5 Inventories

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

2.6 Property, Plant and Equipment

Items of property, plant and equipment are recognized using the cost model and thus are recorded at cost less accumulated depreciation and accumulated impairment losses. Cost includes materials, labour, contracted services, professional fees and, for qualifying assets, borrowing costs capitalized in accordance with Nalcor's accounting policy as per Note 2.10. Costs capitalized with the related asset include all those costs directly attributable to bringing the asset into operation. When significant parts of property, plant and equipment are required to be replaced at intervals, Nalcor recognizes such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred. Property, plant and equipment are not revalued for financial reporting purposes. Depreciation of these assets commences when the assets are ready for their intended use.

Hydro

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

Generation plant	
Hydroelectric	45 to 100 years
Thermal	35 to 65 years
Diesel	25 to 55 years
Transmission	
Lines	30 to 60 years
Terminal stations	40 to 55 years
Distribution system	30 to 65 years
Other assets	5 to 55 years

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

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

Other assets include telecontrol, computer software, buildings, vehicles, furniture, tools and equipment which are carried at cost less accumulated amortization.

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	5 to 45 years

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

Oil and Gas

(i) Development and Production Costs

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

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

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

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

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

(ii) Subsequent Costs

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

(iii) Depletion

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

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

Such reserves may be considered commercially producible if management has the intention of developing and producing them and such intention is based upon:

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

Lower Churchill Project

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

2.7 Intangible Assets

Intangible assets that are expected to generate future economic benefit and are measurable, including costs of technical services, studies and seismic acquisition are capitalized as intangible assets in accordance with IAS 38.

Intangible assets with finite useful lives are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives are carried at cost less accumulated impairment losses.

2.8 Exploration and Evaluation Assets

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

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

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

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

2.9 Investment Property

Investment property is property held for the purpose of generating rental income or capital appreciation, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. As at December 31, 2014, investment property included the Bull Arm Fabrication site and facilities.

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

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

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

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

2.10 Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that 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.

2.11 Impairment of Non-Financial Assets

At the end of each reporting period, Nalcor reviews the carrying amounts of its non-financial assets, except for exploration and evaluation 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. Exploration and evaluation assets are assessed for impairment when they are reclassified to property, plant and equipment and also if there are indicators that suggest that the carrying amount exceeds the recoverable amount.

Where it is not possible to estimate the recoverable amount of an individual asset, Nalcor estimates the recoverable amount of the CGU to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs 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. Value in use is generally computed by reference to the present value of future cash flows expected to be derived from non-financial assets.

Exploration and evaluation assets are allocated to the CGUs on a project basis when they are assessed for impairment, both at the time of any triggering facts and circumstances as well as upon their reclassification to property, plant and equipment.

If the recoverable amount of an asset or CGU 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.

2.12 Investments in Joint Arrangements

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

Effective June 18, 1999, Hydro, Churchill Falls and Hydro-Québec entered into a shareholders' agreement which provided, among other matters, that certain of the strategic operating, financing and investing policies of Churchill Falls be subject to approval jointly by Hydro and Hydro-Québec representatives on the Board of Directors of Churchill Falls. Although Hydro 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 joint operators. Hydro accounts for this investment by recognizing its share of assets, liabilities and profit or loss in relation to its interest in the joint operation.

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 Statements 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.

2.13 Employee Benefits Liability

(i) Pension Plan

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

(ii) Other Benefits

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

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

Actuarial gains and losses on Nalcor's defined benefit obligation are recognized in reserves in the period in which they occur. Past service costs are recognized in operating costs as incurred.

The retirement benefit obligation recognized in the Statements of Financial Position represents the present value of the defined benefit obligation.

2.14 Provisions

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

2.15 Decommissioning, Restoration and Environmental Liabilities

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

2.16 Revenue Recognition

Electricity Sales

Revenue from the sale of energy is recognized when Nalcor has transferred the significant risks and rewards of ownership to the buyer; recovery of the consideration is probable; and the amount of revenue can be reliably measured. 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.

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. The Power Contract has a 40-year term ending in 2016, which is followed by a Renewed Power Contract with Hydro-Québec for an additional 25 years. The rate is predetermined in the Power Contract and is presently 2.5426 mills per kWh. The rate during the term of the Renewed Power Contract is 2.0 mills per kWh.

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 2041.

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 and Renewed 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. Churchill Falls also provides 225 MW to Twin Falls.

Oil Sales

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

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

Lease Revenue

Lease revenue is recognized when services have been rendered, recovery of the consideration is probable, and the amount of revenue can be reliably measured.

Other Revenue

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

2.17 Net Finance Income and Expense

For all financial instruments measured at amortized cost and interest bearing financial assets classified as AFS, 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.

2.18 Foreign Currencies

Transactions in currencies other than Nalcor's functional currency (foreign currencies) are recognized using the prior month end close rate. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates of exchange in effect at the period end date. Those foreign exchange gains and losses not included in regulatory deferrals are recorded in income as net finance income and expense.

2.19 Income Taxes

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

2.20 Financial Instruments

Financial assets and financial liabilities are recognized in the Consolidated Statements of Financial Position when Nalcor becomes a party to the contractual provisions of the instrument and are initially measured at fair value. Subsequent measurement is based on classification. Financial instruments are classified into the following specified categories: financial assets at FVTPL, AFS financial assets, 'loans and receivables', held-to-maturity investments, financial liabilities at FVTPL, financial instruments used for hedging and other financial liabilities. The classification depends on the nature and purpose of the financial instruments and is determined at the time of initial recognition.

Classification of Financial Instruments

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

Cash and cash equivalents	Loans and receivables
Short-term investments	AFS financial assets
Trade and other receivables	Loans and receivables
Derivative instruments	At FVTPL and financial instruments used for hedging
Sinking funds – investments in same Hydro issue	Held-to-maturity investments
Sinking funds – other investments	AFS financial assets
Long-term receivables	Loans and receivables
Trade and other payables	Other financial liabilities
Short-term borrowings	Other financial liabilities
Long-term debt	Other financial liabilities
Long-term payables	Other financial liabilities

(i) Effective Interest Method

The effective interest method is a method of calculating the amortized cost of a financial instrument and allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments (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 financial instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

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

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 Nalcor manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

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

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

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

(iii) Loans and receivables

Trade receivables, loans and other receivables with 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.

(iv) Held-to-Maturity Investments

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

(v) 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.

Financial Liabilities and Equity Instruments

(vi) Classification as Debt or Equity

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

(vii) Financial Liabilities at FVTPL

A financial liability may be classified as at FVTPL if the contracted liability contains one or more embedded derivatives, and if the embedded derivative significantly modified the cash flows or if the embedded derivative is not closely related to the host liability. Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising from re-measurement recognized in profit or loss.

(viii) 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.

(ix) Derivative Instruments and Financial Instruments Used for Hedging

Derivative instruments are utilized by Nalcor to manage risk. Nalcor's policy is not to utilize derivative instruments for speculative purposes. Derivatives are initially measured at fair value at the date the derivative contracts are entered into and are subsequently measured at their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging relationship.

Nalcor may choose to designate derivative instruments as hedges and apply hedge accounting if there is a high degree of correlation between the price movements in the derivative instruments and the hedged items. Nalcor formally documents all hedges and the related risk management objectives at the inception of the hedge. Derivative instruments that have been designated and qualify for hedge accounting are classified as either cash flow or fair value hedges.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Fair Value Hedges
The change in the fair value of an interest rate hedging derivative is recognized in the Statements of Profit and Comprehensive Income in net finance income and expense. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognized in the Statements of Profit and Comprehensive Income in net finance income and expense.

For fair value hedges relating to items carried at amortized cost, the adjustment to carrying value is amortized through the Statements of Profit and Comprehensive Income over the remaining term to maturity. Effective interest rate amortization may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

Cash Flow Hedges
The effective portion of the gain or loss on the hedging instrument is recognized directly in Other Comprehensive Income, while any ineffective portion is recognized immediately in profit or loss for the period.

Amounts recognized as Other Comprehensive Income are transferred to profit or loss for the period when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognized or when a forecast sale occurs.

2.21 Derecognition of Financial Instruments

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

2.22 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
- the borrower, more probable than not, entering into bankruptcy or financial re-organization.

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

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

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

2.23 Government Grants

Government grants are recognized when there is reasonable assurance that Nalcor will comply with the associated conditions and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which Nalcor recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that Nalcor should purchase, construct or otherwise acquire non-current assets are recognized as deferred revenue in the Statements of Financial Position and transferred to the Statements of Profit and Comprehensive Income on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to Nalcor with no future related costs are recognized in the Statements of Profit and Comprehensive Income in the period in which they become receivable.

2.24 Regulatory Deferrals

Hydro's revenues from its electrical sales to most customers within the Province are subject to rate regulation by the PUB. Hydro's borrowing and capital expenditure programs are also subject to review and approval by the PUB. Rates are set through periodic general rate applications utilizing a cost of service (COS) methodology. The allowed rate of return on rate base is 7.4% (2013 - 7.4%) +/- 15 basis points. Hydro applies various accounting policies that differ from enterprises that do not operate in a rate regulated environment. Generally, these policies result in the deferral and amortization of costs or credits which are expected to be recovered or refunded in future rates. In the absence of rate regulation, these amounts would be included in the determination of profit or loss in the year the amounts are incurred. The effects of rate regulation on the annual audited consolidated financial statements are disclosed in Note 10.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the annual audited consolidated 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 reviewed if the revision affects only that period or future periods.

3.1 Use of Estimates

(i) Property, Plant and Equipment

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

(ii) Oil and Natural Gas Reserves

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

(iii) Decommissioning Liabilities

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

(iv) Employee Benefits

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

(v) Revenue

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

Falls continues to apply the terms of the previous agreement which expired August 31, 2012. Management continues to work to negotiate terms of a new agreement.

3.2 Use of Judgment

(i) Property, Plant and Equipment

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

(ii) Revenue

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

When recognizing deferrals and related amortization of costs or credits in Hydro Regulated, Management assumes that such costs or credits will be recovered or refunded through customer rates in future years. Recovery of some of these deferrals are subject to a future PUB order. As such, there is a risk that some or all of the regulatory deferrals will not be approved by the PUB which could have a material impact on Hydro Regulated's net income in the year the order is received.

(iii) Functional currency

Functional currency was determined by evaluating the primary economic environment in which Nalcor operates. As Nalcor enters into transactions in multiple currencies, judgment is used in determining the functional currency. Management considered factors regarding currency of sales, costs incurred, and operating and financing activities and determined the functional currency to be Canadian Dollars.

(iv) Consolidation

Management applies its judgment when determining whether to consolidate structured entities in accordance with the criteria outlined in IFRS 10. Management has determined that the Company should not consolidate the Funding Trust.

4. FUTURE CHANGES IN ACCOUNTING POLICIES

Nalcor has not applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 9	Financial Instruments[1]
IFRS 15	Revenue from Contracts with Customers[2]
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations[3]
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation andAmortization[3]
Amendments to IAS 19	Defined Benefit Plans: Employee Contributions[4]

[1]Effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.
[2]Effective for annual periods beginning on or after January 1, 2017, with earlier application permitted.
[3]Effective for annual periods beginning on or after January 1, 2016, with earlier application permitted.
[4]Effective for annual periods beginning on or after July 1, 2014, with earlier application permitted.

4.1 IFRS 9 – Financial Instruments

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include:

a) impairment requirements for financial assets; and
b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key Requirements of IFRS 9:

- All recognized financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortized cost or fair value. Specifically, debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt instruments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributed to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Management anticipates that the application of IFRS 9 in the future may have a material impact on the amounts reported and disclosures made in the Company's annual audited consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until Management performs a detailed review.

4.2 IFRS 15 Revenue from Contracts with Customers

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a five-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer.
Step 2: Identify the performance obligations in the contract.
Step 3: Determine the transaction price.
Step 4: Allocate the transaction price to the performance obligations in the contract.
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

Management anticipates that the application of IFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Company's annual audited consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until Management performs a detailed review.

4.3 Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations

The amendments to IFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in IFRS 3 Business Combinations. Specifically, the amendments state that the relevant principles on accounting for business combinations IFRS 3 and other standards (i.e. IAS 36 Impairment of Assets regarding impairment testing of a cash-generating unit to which goodwill on acquisition of a joint operation has been allocated) should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation.

A joint operation is also required to disclose the relevant information required by IFRS 3 and other standards for business combinations.

Management does not anticipate that the application of these amendments to IFRS 11 will have a material impact on the Company's annual audited consolidated financial statements.

4.4 Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortization

The amendments to IAS 16 prohibit entities from using revenue-based depreciation methods for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortization of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

a) When the intangible asset is expressed as a measure of revenue, or
b) When it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after January 1, 2016. Currently, the Company uses the straight-line methods for depreciation and amortization of its property, plant and equipment, and intangible assets respectively.

Management believes that the straight-line method is the most appropriate method to reflect the consumption of economic benefit inherent in the respective assets and accordingly does not anticipate that the application of these amendments to IAS 16 and IAS 38 will have a material impact on the Company's annual audited consolidated financial statements.

4.5 Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

The amendments to IAS 19 clarify how an entity should account for contributions made by employees or third parties to defined benefit plans, based on whether those contributions are dependent on the number of years of service provided by the employee.

For contributions that are independent of the number of years of service, the entity may either recognize the contributions as a reduction in the service cost in the period in which the related service is rendered, or attribute them to the employees' periods of service using the projected unit credit method, whereas for contributions that are dependent on the number of years of service, the entity is required to attribute them to the employees' periods of service.

Management does not anticipate that the application of these amendments to IAS 19 will have a material impact on the Company's annual audited consolidated financial statements.

5. CASH, CASH EQUIVALENTS AND RESTRICTED CASH

(millions of Canadian dollars)	**December 31 2014**	December 31 2013	January 1 2013
Cash	**55.9**	87.1	11.9
Cash equivalents	**4.9**	6.6	-
	60.8	93.7	11.9

Restricted cash is held in accounts administered by a Collateral Agent for the sole purpose of funding construction costs related to Phase 1 of the Lower Churchill Project. The Company draws funds from this account on a monthly basis in accordance with procedures set out in the LIL Project Finance Agreement and the MF/LTA Project Finance Agreement.

6. TRADE AND OTHER RECEIVABLES

The composition of trade and other receivables is as follows:

(millions of Canadian dollars)	**December 31 2014**	December 31 2013	January 1 2013
Trade receivables	**123.5**	129.3	125.5
Allowance for doubtful accounts	**(11.4)**	(9.6)	(9.3)
Due from related parties	**2.9**	2.5	1.6
Advances	**74.5**	-	-
Other receivables	**59.7**	27.6	6.9
	249.2	149.8	124.7

The following is an aged analysis of receivables, net of allowance for doubtful accounts:

(millions of Canadian dollars)	**December 31 2014**	December 31 2013	January 1 2013
0-60 days	**173.3**	146.5	122.7
60+ days	**75.9**	3.3	2.0
	249.2	149.8	124.7

A reconciliation of the beginning and ending amount of allowance for doubtful accounts is as follows:

(millions of Canadian dollars)	**December 31 2014**	December 31 2013
Allowance for doubtful accounts at beginning of year	**(9.6)**	(9.3)
Amounts provided for during the year	**(1.9)**	(0.4)
Amounts written off as uncollectable	**0.1**	0.1
Allowance for doubtful accounts at end of year	**(11.4)**	(9.6)

7. INVENTORIES

(millions of Canadian dollars)	**December 31 2014**	December 31 2013	January 1 2013
Number 6 fuel	**49.4**	30.8	20.6
Material and other	**36.9**	35.0	32.4
Diesel fuel	**4.4**	4.2	4.0
Other fuel	**4.1**	2.7	2.4
Construction aggregates	**2.3**	2.5	2.6
	97.1	75.2	62.0

The cost of inventories recognized as an expense during the year is $275.3 million (2013 - $196.3 million).

8. PROPERTY, PLANT AND EQUIPMENT

(millions of Canadian dollars)	Generation Plant	Transmission and Distribution	Petroleum and Natural Gas Properties	Other	Construction in Progress	Total
Cost						
Balance at January 1, 2013	1,425.5	610.2	405.6	175.9	659.6	3,276.8
Additions	-	-	188.0	0.1	849.3	1,037.4
Disposals	(7.0)	(1.6)	-	(1.5)	-	(10.1)
Transfers	60.5	54.2	-	25.4	(140.1)	-
Decommissioning liabilities and revisions	(2.0)	(0.6)	2.6	-	-	-
Other adjustments	0.2	0.1	-	-	-	0.3
Balance at December 31, 2013	**1,477.2**	**662.3**	**596.2**	**199.9**	**1,368.8**	**4,304.4**
Additions	**0.4**	**-**	**237.5**	**-**	**1,784.0**	**2,021.9**
Disposals	**(2.1)**	**(1.8)**	**-**	**(1.3)**	**-**	**(5.2)**
Transfers	**49.7**	**57.6**	**-**	**18.8**	**(126.0)**	**0.1**
Decommissioning liabilities and revisions	**2.2**	**(0.1)**	**5.5**	**-**	**-**	**7.6**
Balance at December 31, 2014	**1,527.4**	**718.0**	**839.2**	**217.4**	**3,026.8**	**6,328.8**
Depreciation and depletion						
Balance at January 1, 2013	301.1	81.0	49.5	42.8	-	474.4
Depreciation and depletion	33.8	18.3	25.1	12.7	-	89.9
Disposals	(1.9)	(0.4)	-	(0.6)	-	(2.9)
Other adjustments	0.2	0.1	-	0.1	-	0.4
Balance at December 31, 2013	**333.2**	**99.0**	**74.6**	**55.0**	**-**	**561.8**
Depreciation and depletion	**38.0**	**19.3**	**22.5**	**12.9**	**-**	**92.7**
Disposals	**(1.2)**	**(0.4)**	**-**	**(0.9)**	**-**	**(2.5)**
Other adjustments	**(0.5)**	**0.5**	**-**	**-**	**-**	**-**
Balance at December 31, 2014	**369.5**	**118.4**	**97.1**	**67.0**	**-**	**652.0**
Carrying value						
Balance at January 1, 2013	1,124.4	529.2	356.1	133.1	659.6	2,802.4
Balance at December 31, 2013	1,144.0	563.3	521.6	144.9	1,368.8	3,742.6
Balance at December 31, 2014	**1,157.9**	**599.6**	**742.1**	**150.4**	**3,026.8**	**5,676.8**

9. INTANGIBLE ASSETS

(millions of Canadian dollars)	**December 31 2014**	December 31 2013
Balance, beginning of year	**-**	-
Additions	**12.9**	-
Balance, end of year	**12.9**	-

Intangible assets consist of exploration investments in acquired seismic data and technical studies, used to identify and encourage the development of areas with potential oil reserves off the coast of Newfoundland and Labrador. Intangible assets are amortized on a straight-line basis over a six-year period. At December 31, 2014, there was no amortization or impairment recognized on intangible assets.

10. REGULATORY DEFERRALS

	January 1 2013	Regulatory activity	December 31 2013	Regulatory activity	**December 31 2014**	**Remaining Recovery Settlement Period (years)**
Regulatory asset deferrals						
Foreign exchange losses	62.6	(2.1)	60.5	(2.1)	**58.4**	27.0
Foreign exchange on fuel	0.1	(0.1)	-	0.3	**0.3**	n/a
Deferred lease costs	-	-	-	3.7	**3.7**	n/a
2014 cost deferral	-	-	-	45.9	**45.9**	n/a
Fuel supply deferral	-	-	-	9.6	**9.6**	n/a
Deferred energy conservation costs	2.4	1.5	3.9	2.4	**6.3**	n/a
	65.1	(0.7)	64.4	59.8	**124.2**	
Regulatory liability deferrals						
Rate stabilization plan (RSP)	(201.7)	(52.1)	(253.8)	7.8	**(246.0)**	n/a
Insurance proceeds (net)	-	(4.3)	(4.3)	(1.3)	**(5.6)**	n/a
Deferred power purchase savings	(0.5)	-	(0.5)	-	**(0.5)**	12.5
	(202.2)	(56.4)	(258.6)	6.5	**(252.1)**	

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

(millions of Canadian dollars)	**2014**	2013
RSP amortization	**41.2**	58.9
Rural rate adjustment	**9.1**	11.4
RSP fuel deferral	**(76.1)**	(35.3)
RSP interest	**18.0**	17.1
Total RSP activity	**(7.8)**	52.1
2014 cost deferral	**(45.9)**	-
Fuel supply deferral	**(9.6)**	-
Amortization of deferred foreign exchange losses	**2.1**	2.1
Deferred foreign exchange on fuel	**(0.3)**	0.1
Deferred energy conservation costs	**(2.4)**	(1.5)
Insurance proceeds (net)	**1.3**	4.3
Deferred lease costs	**(3.7)**	-
	(66.3)	57.1

The following section describes Hydro's regulatory deferrals which will be, or are expected to be, reflected in customer rates in future periods and have been established through the rate setting process. In the absence of rate regulation, these amounts would be reflected in operating results in the year and profit or loss for 2014 would have decreased by $66.3 million (2013 - $57.1 million increase).

10.2 Rate Stabilization Plan (RSP)

The PUB ordered Hydro to implement a rate stabilization plan (RSP) which primarily provides for the deferral of fuel expense variances resulting from changes in fuel prices, hydrology and load and associated interest. Additionally, the RSP also includes costs associated with the island interconnected and isolated systems. Adjustments required in utility rates to cover the amortization of the balance are implemented on July 1 of each year. Similar adjustments required in industrial rates are implemented on January 1 of each year.

During 2014, Hydro recorded a net decrease in regulatory liabilities of $7.8 million (2013 - $52.1 million increase) resulting in an RSP ending balance for 2014 of $246.0 million (2013 - $253.8 million). Included in the balance is $75.6 million (2013 - $119.4 million) which is to be refunded in the following year, with the exception of hydraulic variations, which will be refunded at a rate of 25% of the outstanding balance at year end. The remaining portion of the RSP balance totaling $170.4 million (2013 - $134.4 million) has been set aside with $124.0 million (2013 - $115.3 million) to be refunded to Newfoundland Power's retail customers, $10.9 million (2013 - $10.9 million) to be used to phase in Island Industrial rate increases and $35.5 million (2013 - $8.2 million) subject to a future regulatory ruling.

10.3 Deferred Foreign Exchange Losses

In 2002, the PUB ordered Hydro to defer realized foreign exchange losses related to the issuance of Swiss Franc and Japanese Yen denominated debt and amortize the balance over a 40-year period. Accordingly, these costs were recognized as a regulatory asset. During 2014, the amortization of $2.1 million (2013 - $2.1 million) reduced regulatory assets.

10.4 Deferred Energy Conservation Costs

The PUB ordered the deferral of costs associated with an electrical conservation program for residential, industrial, and commercial sectors. In 2014, Hydro recognized $2.4 million (2013 - $1.5 million) as a regulatory asset. Recovery of this balance will be addressed as part of Hydro's General Rate Application currently before the PUB.

10.5 Deferred Purchased Power Savings

In 1997, the Pub ordered Hydro to defer $1.1 million in benefits related to a reduced initial purchased power rate relating to interconnecting communities in the area of L'Anse au Clair to Red Bay to the Hydro-Québec system and amortize the balance over a 30-year period. The remaining unamortized savings in the amount of $0.5 million (2013 - $0.5 million) are deferred as a regulatory liability.

10.6 Deferred Foreign Exchange on Fuel

Hydro purchases a significant amount of fuel for the Holyrood Thermal Generating Station (HTGS) in USD. The RSP allows Hydro to defer variances in fuel prices (including foreign exchange fluctuations). During 2014, Hydro recognized in regulatory assets, foreign exchange losses on fuel purchases of $0.3 million (2013 - $0.1 million gain).

10.7 Insurance Proceeds (Net of Amortization)

Pursuant to Order No. P.U. 13 (2012), Hydro records net insurance proceeds against the capital costs and amortizes the balance over the life of the asset. Under IFRS, Hydro is required to recognize the insurance proceeds and corresponding amortization in regulatory liabilities. During 2014, Hydro recorded an increase to regulatory liabilities related to insurance proceeds of $1.8 million (2013 - $4.5 million) and amortization of $0.5 million (2013 - $0.2 million) related to those assets.

10.8 Deferred Lease Costs

As per Order no. P.U. 28 (2013), Hydro received approval to defer lease costs associated with the 16 MW diesel plant and other necessary infrastructure to ensure black start capability at the HTGS. In 2014, Hydro recognized $3.7 million (2013 - $nil) in regulatory assets. Recovery of this balance is subject to a future PUB Order.

10.9 Fuel Supply Deferral

Pursuant to Order no. P.U. 56 (2014), Hydro received approval to defer additional capacity related supply costs incurred during the three months ended March 31, 2014. In 2014, Hydro deferred $9.6 million (2013 - $nil) in regulatory assets. Recovery of this balance is subject to a future PUB Order.

10.10 2014 Cost Deferral

As per Order no. P.U. 58 (2014), Hydro received approval to defer $45.9 million in relation to Hydro's proposed 2014 revenue requirement (2013 -$nil). Accordingly, these costs have been recognized as a regulatory asset. Recovery of this balance is subject to a future PUB Order.

11. OTHER LONG-TERM ASSETS

(millions of Canadian dollars)		**December 31 2014**	December 31 2013	January 1 2013
Long-term receivables	**(a)**	**37.2**	16.7	0.8
Long-term prepayments	**(b)**	**15.0**	9.6	-
Reserve fund	**(c)**	**34.2**	50.5	50.9
Sinking funds	**(d)**	**267.1**	237.9	302.8
		353.5	314.7	354.5
Less: current portion of sinking funds		**(1.5)**	(65.4)	-
		352.0	249.3	354.5

(a) As at December 31, 2014, long-term receivables include $36.9 million (2013 - $15.0 million) related to long-term advances to suppliers in relation to construction of the Lower Churchill Project. Of the $36.9 million, $33.2 million relates to the Muskrat Falls hydroelectric plant and is secured by a $33.2 million letter of credit from a Canadian Schedule 1 Chartered bank. The remaining $0.3 million (2013 - $1.7 million) includes the non-current portion of receivables associated with customer payment plans and the long-term portion of employee purchase programs.

(b) Long-term prepayments include prepaid insurance expenditures related to the Lower Churchill Project.

(c) In 2007, pursuant to the terms of the 1999 Shareholders' Agreement, Churchill Falls commenced the creation of a $75.0 million segregated reserve fund to contribute torwards the funding of capital expenditures related to Churchill Falls' existing facilities and their replacement. Churchill Falls invested $17.0 million in each of 2007, 2008 and 2009 and $8.0 million in each of 2010, 2011 and 2012. In October 2014, $23.4 million was withdrawn to fund a portion of 2014 capital expenditures. As per the terms of the Shareholders' Agreement, these funds will be replaced over a five-year period with $5.84 million due in each of 2015, 2016 and 2017 and $2.92 million due in 2018 and 2019.

This fund must remain in place until the end of the Shareholders' Agreement in 2041. Any further amounts to fund capital expenditures must be replaced. Reserve fund holdings consist of securities issued by the Government of Canada, various provinces of Canada and Canadian Schedule 1 and 2 Chartered banks.

The reserve fund consists of the following:

(millions of Canadian dollars)	**2014**	2013
Balance, beginning of year	**50.5**	50.9
Net discount (premium)	**0.3**	-
Principal withdrawals	**(15.4)**	-
Earnings withdrawn	**(1.0)**	-
Mark-to-market adjustment	**(0.2)**	(0.4)
Balance, end of year	**34.2**	50.5

(d) As at December 31, 2014, sinking funds include $228.4 million (2013 - $267.6 million) related to repayment of Hydro's long-term debt and $40.2 million (2013 - $35.7 million) related to funding of Nalcor's long-term payable under the Upper Churchill Redress Agreement (UCRA).

Sinking fund investments consist of bonds, debentures, promissory notes and coupons issued by, or guaranteed by, the Government of Canada, provincial governments or Canadian Schedule 1 Chartered banks and have maturity dates ranging from 2017 to 2033.

Sinking fund investments in Hydro's debentures, which are intended to be held to maturity are deducted from debt while all other sinking fund investments are shown separately as assets on the consolidated Statement of Financial Position. Annual contributions to the various sinking funds are in accordance with bond indenture terms, and are structured to ensure the availability of adequate funds at the time of expected bond redemption.

Effective yields range from 1.52% to 9.12% (2013 - 1.17% to 9.86%.)

Nalcor's sinking funds are also held to fund the annual payments to the Innu Nation as required under the UCRA.

The sinking funds consist of the following:

(millions of Canadian dollars)	**2014**	2013
Balance, beginning of year	**303.3**	302.8
Contributions	**8.3**	8.4
Earnings	**63.1**	14.7
Disposals	**(126.5)**	(1.8)
Mark-to-market adjustment	**21.2**	(20.8)
Gain on sale of investments	**(0.8)**	-
Balance, end of year	**268.6**	303.3
Less: current portion	**1.5**	65.4
	267.1	237.9

Sinking fund instalments due for the next five years are as follows:

(millions of Canadian dollars)	2015	2016	2017	2018	2019
Sinking fund instalments	8.1	8.1	6.7	6.7	6.7

12. LONG-TERM INVESTMENTS

As at December 31, 2014, long-term investments consist of structured deposit notes of $1,023.8 million (2013 - $1,807.3 million) related to Muskrat Falls, $224.8 million (2013 - $396.7 million) related to Labrador Transco and $1,622.8 million (2013 - $2,273.4 million) related to the LIL Partnership. These notes were acquired on December 20, 2013.

(millions of Canadian dollars)	**December 31 2014**	December 31 2013
Long-term investments, beginning of year	**4,477.4**	-
Contributions	**-**	4,749.6
Redemptions	**(1,667.4)**	(274.5)
Earnings	**61.4**	2.3
Long-term investments, end of year	**2,871.4**	4,477.4

13. TRADE AND OTHER PAYABLES

The composition of trade and other payables is as follows:

(millions of Canadian dollars)	**December 31 2014**	December 31 2013	January 1 2013
Trade payables	**553.0**	344.3	126.8
Accrued interest	**45.9**	37.9	0.3
Due to related parties	**0.8**	1.0	28.7
Rent and royalty payable	**3.1**	3.7	4.0
Other payables	**69.3**	24.8	21.2
	672.1	411.7	181.0

14. DEBT

14.1 Short-term Borrowings

During April 2014, Nalcor converted a $250.0 million (2013 - $250.0 million) unsecured demand operating credit facility with its banker to a $250.0 million committed revolving term credit facility, with a maturity date of January 31, 2016. There were no amounts drawn on this facility at December 31, 2014. Borrowings in CAD may take the form of Prime Rate Advances, Bankers' Acceptances (BA) and letters of credit. Borrowings in USD may take the form of Base Rate Advances, London Interbank Offer Rates (LIBOR) Advances and letters of credit.

On September 18, 2014, Nalcor issued a $1.2 million USD irrevocable letter of credit to New York Independent System Operator Inc., relating to collateral required for Energy Marketing to participate in the New York energy markets. In October 2014, Nalcor issued a $1.3 million USD irrevocable letter of credit to ISO New England Inc., and a $0.2 million irrevocable letter of credit to the Independent Electricity System Operator. These letters relate to collateral required for Energy Marketing to participate in the New England and Ontario energy markets, respectively. In November 2014, Nalcor issued a $1.0 million irrevocable letter of credit to Hydro-Québec relating to collateral requirements for Hydro-Québec transmission customers. These letters are in addition to the three other irrevocable letters of credit drawn at December 31, 2014. Two letters were issued to the Newfoundland Labrador Offshore Petroleum Board, and one was issued to Newfoundland Transshipment Ltd. These letters totaled $4.8 million and relate to Oil and Gas to ensure compliance with regulations relating to petroleum and natural gas exploration and production activities.

In October 2014, Nalcor's Board of Directors approved an unconditional and irrevocable guarantee for a $20.0 million demand operating credit facility for Energy Marketing. In November 2014, Energy Marketing's Board of Directors approved the guarantee and authorized Energy Marketing to obtain a $20.0 million demand operating facility from its banker. At December 31, 2014, the bank had yet to advance the $20.0 million demand operating facility. In the interim, the Board agreed to provide up to $2.0 million in financial support to Energy Marketing.

Hydro maintains a $50.0 million CAD or USD equivalent unsecured demand operating credit facility with its banker and at December 31, 2014, there were no amounts drawn on this facility (2013 - $nil). Borrowings in CAD may take the form of Prime Rate Advances, BAs and Letters of Credit. Borrowings in USD may take the form of Base Rate Advances, LIBOR Advances and Letters of Credit. The facility also provides coverage for overdrafts on Hydro's bank accounts. At December 31, 2014 Hydro had one letter of credit outstanding in the amount of $0.3 million (2013 - $0.3 million). This letter was issued to Department of Fisheries and Oceans as a performance guarantee in relation to the Fish Habitat Compensation Program.

Churchill Falls maintains a $10.0 million CAD or USD equivalent unsecured demand operating credit facility with its banker and at December 31, 2014, there were no amounts drawn on this facility (2013 - $nil). Borrowings in CAD may take the form of Prime Rate Advances and BAs and borrowings in USD may take the form of Base Rate Advances. Churchill Falls has issued three irrevocable letters of credit, totaling $2.0 million, to ensure satisfactory management of its waste management and compliance with a certificate of approval for the transportation of special hazardous wastes granted by the Department of Environment and Conservation.

Oil and Gas maintains a $5.0 million CAD or USD unsecured credit facility. There were no amounts drawn on this facility at December 31, 2014 (2013 - $nil). Borrowings in CAD may take the form of Prime Rate Advances and Letters of Credit. Borrowings in USD may take the form of Base Rate Advances and Letters of Credit. The facility also provides coverage for overdrafts on Oil and Gas's bank accounts. At December 31, 2014, Oil and Gas had no letters of credit outstanding (2013 - $0.3 million).

LCMC maintains a $50.0 million unsecured revolving credit facility with its parent, Nalcor. At December 31, 2014, there was $3.6 million (2013 – nil) outstanding on this facility. Borrowings may take the form of Prime Rate Advances.

Short-term borrowings consist of promissory notes in Hydro totalling $53.0 million (2013 - $41.0 million).

14.2 Long-term Debt

(millions of Canadian dollars)	Face Value	Coupon Rate %	Year of Issue	Year of Maturity	**December 31 2014**	December 31 2013	January 1 2013
Hydro							
V*	0.3	10.50	1989	2014	**0.3**	125.0	124.8
X*	150.0	10.25	1992	2017	**149.7**	149.5	149.4
Y*	300.0	8.40	1996	2026	**294.3**	294.0	293.8
AB*	300.0	6.65	2001	2031	**305.9**	306.1	306.3
AD*	125.0	5.70	2003	2033	**123.7**	123.7	123.7
AE	225.0	4.30	2006	2016	**224.6**	224.4	224.2
AF	200.0	3.60	2014	2045	**197.1**	-	-
LIL LP							
Tranche A	725.0	3.76	2013	2033	**725.3**	725.3	-
Tranche B	600.0	3.86	2013	2045	**600.1**	600.1	-
Tranche C	1,075.0	3.85	2013	2053	**1,075.2**	1,075.2	-
Labrador Transco/Muskrat Falls							
Tranche A	650.0	3.63	2013	2029	**650.2**	650.3	-
Tranche B	675.0	3.83	2013	2037	**675.1**	675.1	-
Tranche C	1,275.0	3.86	2013	2048	**1,275.3**	1,275.3	-
Total debentures	6,300.3				**6,296.8**	6,224.0	1,222.2
Less: Sinking fund investments in own debentures					**47.9**	93.9	88.1
					6,248.9	6,130.1	1,134.1
Less: payments due within one year					**8.4**	82.2	8.2
Total debentures					**6,240.5**	6,047.9	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 2014 was $3.7 million (2013 - $3.7 million).

On September 15, 2014, Hydro raised 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 of 3.6% paid semi-annually.

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

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

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

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

On December 13, 2013, all three tranches of the construction facility were drawn down by way of a single advance of $2.6 billion. Under the terms of the MF/LTA PFA, the $2.6 billion advance is held in an account administered by the collateral agent with a portion of the funds invested in structured deposits notes. Muskrat Falls and Transco draw funds from this account on a monthly basis in accordance with procedures set out in the MF/LTA PFA. Although Muskrat Falls and Transco are jointly and severally liable for the $2.6 billion, only the project ratable share for each, 82% and 18% respectively, is recognized as long-term debt.

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

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

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

(millions of Canadian dollars)	2015	2016	2017	2018	2019
Long-term debt repayment	0.3	225.0	150.0	-	-

15. CLASS B LIMITED PARTNERSHIP UNITS

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

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

	December 31		December 31	
(millions of Canadian dollars)	**Units**	**2014**	Units	2013
Class B limited partnership units, beginning of year	**25**	**73.0**	**-**	**-**
Units issued	**-**	**-**	25	67.7
Accrued interest	**-**	**6.4**	-	5.3
Class B limited partnership units, end of year	**25**	**79.4**	25	73.0

16. DEFERRED CREDITS

Deferred credits consist of funding from the Province, deferred energy sales from Emera and deferred lease revenue.

(millions of Canadian dollars)	**Hydro Wind Credits**	**Oil and Gas Program Funding**	**Deferred Energy Sales**	**Other**	**Total**
Balance at January 1, 2013	1.9	4.8	45.0	0.5	52.2
Additions	-	1.5	46.7	1.4	49.6
Amortization	(1.2)	(2.1)	-	(0.5)	(3.8)
Balance at December 31, 2013	**0.7**	**4.2**	**91.7**	**1.4**	**98.0**
Additions	**-**	**1.1**	**238.3**	**0.1**	**239.5**
Amortization	**-**	**(1.0)**	**-**	**-**	**(1.0)**
	0.7	**4.3**	**330.0**	**1.5**	**336.5**
Less: current portion	**(0.7)**	**(1.2)**	**-**	**(1.5)**	**(3.4)**
Deferred credits, end of year	**-**	**3.1**	**330.0**	**-**	**333.1**

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

In July 2012, Nalcor entered into agreements with Emera related to Phase 1 of the Lower Churchill Project. Under these agreements, Emera is constructing the Maritime Link in exchange for the provision of power and energy by Nalcor for a 35 year period. Nalcor has recorded deferred revenue of $330.0 million (2013 - $91.7 million) which equals the construction costs, capitalized borrowing costs and deferred financing costs to date incurred by Emera. Nalcor has determined that it controls the Maritime Link asset for financial reporting purposes, and as such, has recorded the costs as a component of property, plant and equipment under construction.

17. DEFERRED CONTRIBUTIONS

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

(millions of Canadian dollars)	**December 31 2014**	December 31 2013
Deferred contributions, beginning of year	**11.3**	10.1
Additions	**5.2**	1.9
Amortization	**(0.7)**	(0.7)
	15.8	11.3
Less: current portion	**(0.8)**	(0.6)
Deferred contributions, end of year	**15.0**	10.7

18. DECOMMISSIONING LIABILITIES

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

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

(millions of Canadian dollars)	**December 31 2014**	December 31 2013
Decommissioning liabilities, beginning of year	**33.9**	33.0
Liabilities incurred	**5.9**	-
Liabilities settled	**-**	(0.3)
Accretion	**1.3**	1.2
Revisions	**2.1**	-
Decommissioning liabilities, end of year	**43.2**	33.9
Less: current portion	**(1.1)**	(0.9)
Decommissioning liabilities, end of year	**42.1**	33.0

The total estimated undiscounted cash flows required to settle the HTGS obligations at December 31, 2014 are $32.1 million (2013 - $32.1 million). Payments to settle the liabilities are expected to occur between 2020 and 2024. The fair value of the decommissioning liabilities was determined using the present value of future cash flows discounted at the Company's credit adjusted risk free rate of 2.6% (2013 – 3.6%). Hydro has recorded $25.8 million (2013 - $22.7 million) related to HTGS obligations.

The total estimated undiscounted cash flows required to settle the PCB obligations at December 31, 2014 are $2.5 million (2013 - $2.5 million). Payments to settle the liabilities are expected to occur between 2015 and 2025. The fair value of the decommissioning liabilities was determined using the present value of future cash flows discounted at the Company's credit adjusted risk free rate of 2.8 to 4.6% (2013 - 3.8 to 5.5%). Hydro has recorded (2013 - $2.2 million) related to PCB obligations.

Oil and Gas decommissioning liabilities result from net ownership interests in petroleum and natural gas properties and related well sites. The total undiscounted estimated cash flows required to settle the obligations at December 31, 2014 are $30.5 million (2013 - $14.5 million). Payments to settle the liabilities are expected to occur between 2015 and 2032. The fair value of the decommissioning liabilities was determined using the present value future cash flows discounted at rates ranging from 3.7% to 5.6% (2013 - 4.5% to 5.9%).

A significant number of Nalcor's assets include generation plants, transmission assets and distribution systems These assets can continue to run indefinitely with ongoing maintenance activities. As it is expected that Nalcor's assets will be used for an indefinite period, no removal date can be determined and consequently, a reasonable estimate of the fair value of any related decommissioning liability cannot be determined at this time. If it becomes possible to estimate the fair value of the cost of removing assets that Hydro is required to remove, a decommissioning liability for those assets will be recognized at that time.

19. LONG-TERM PAYABLES

The long-term payables consist of a payable to the Innu Nation under the UCRA, a payable to the Innu Nation under Impact and Benefits Agreement (IBA), a payable to Hydro-Québec related to AEB and a payable related to the Hebron Oil and Gas project.

(millions of Canadian dollars)	**2014**	2013
Balance, beginning of year	**86.5**	90.5
Payments	**(8.1)**	(8.1)
Additions and revisions	**-**	0.2
Accretion	**3.8**	3.9
	82.2	86.5
Less: current portion	**(8.2)**	(8.2)
Balance, end of year	**74.0**	78.3

Under the UCRA, Nalcor is required to pay to the Innu Nation $2.0 million annually, escalating by 2.5% annually until 2014. Currently, $2.2 million (2013 - $2.2 million) of the amount is current and is recorded in accounts payable and accrued liabilities. Nalcor has sinking funds in the amount of $40.2 million (2013 - $35.7 million) to fund these future obligations.

Under the IBA, Nalcor is required to make annual payments to the Innu Nation that commenced on sanction of the Muskrat Falls hydroelectric plant. The Muskrat Falls hydroelectric plant was sanctioned in December 2012 and the first IBA payment was made at that time. The IBA requires annual payments of $5.0 million escalating by the annual consumer price index from sanction until first commercial power. The present value of the payments using a discount rate of 3.7% is $33.5 million (2013 - $36.8 million). The current portion of the payable at December 31, 2014 is $5.0 million (2013 - $5.0 million).

In September 2012, the joint venture partners in the Hebron project executed the Benefits Agreement Drilling Equipment Set (DES) Settlement Agreement. This Agreement allowed the Hebron partners to adjust the Hebron Benefits Agreement such that the Hebron Project DES could be constructed at a geographic location outside of Newfoundland and Labrador in exchange for a one-time payment to the Province. The total payment was agreed to be $150.0 million payable on June 30, 2016. Nalcor's proportionate 4.9% share of the undiscounted payment will be $7.3 million. The payment is recorded at the present value using a discount rate of 2.6%.

The long-term payable to Hydro-Québec as at December 31, 2014 is the accumulation of differences between energy delivered and the AEB billed during the four-year period from September 1, 2008 to August 31, 2012. Monthly repayments commenced in September 2012 and will terminate on August 31, 2016. The current portion of $1.0 million (2013 - $1.0 million) is included in accounts payable and accrued liabilities. The long-term portion is $0.7 million (2013 - $1.6 million).

20. EMPLOYEE FUTURE BENEFITS

20.1 Pension Plan

Employees participate in the Province's Public Service Pension Plan, a multi-employer defined benefit plan. The employer's contributions of $7.8 million (2013 - $7.3 million) are expensed as incurred.

20.2 Other Benefits

Nalcor provides group life insurance and health care benefits on a cost shared basis to retired employees, and in certain cases, their surviving spouses, in addition to a severance payment upon retirement. In 2014, cash payments to beneficiaries for its unfunded other employee future benefits were $2.7 million (2013 - $3.2 million). An actuarial valuation was performed as at December 31, 2012, with an extrapolation to December 31, 2014. The next actuarial valuation will be performed at December 31, 2015.

For the year ended December 31 (millions of Canadian dollars)	**2014**	2013
Accrued benefit obligation		
Balance at beginning of year	**118.5**	119.9
Current service cost	**4.7**	5.0
Interest cost	**6.1**	4.7
Benefits paid	**(2.7)**	(3.2)
Actuarial loss (gain)	**17.9**	(7.9)
Balance at end of year	**144.5**	118.5

For the year ended December 31 (millions of Canadian dollars)	**2014**	2013
Component of benefit cost		
Current service cost	**4.7**	5.0
Interest cost	**6.1**	4.7
Total benefit expense for the year	**10.8**	9.7

The significant actuarial assumptions used in measuring the accrued benefit obligations and benefit expenses are as follows:

	2014	2013
Discount rate - benefit cost	**5.00%**	4.00%
Discount rate - accrued benefit obligation	**4.20%**	5.00%
Rate of compensation increase	**3.50%**	3.50%

Assumed healthcare trend rates:

	2014	2013
Initial health care expense trend rate	**6.00%**	6.00%
Cost trend decline to	**4.50%**	4.50%
Year that rate reaches the rate it is assumed to remain at	**2020**	2020

A 1% change in assumed health care trend rates would have had the following effects:

Increase (millions of Canadian dollars)	**2014**	2013
Current service and interest cost	**2.4**	2.5
Accrued benefit obligation	**30.9**	22.4

Decrease (millions of Canadian dollars)	**2014**	2013
Current service and interest cost	**(1.7)**	(1.7)
Accrued benefit obligation	**(23.1)**	(17.1)

21. SHAREHOLDER'S EQUITY

21.1 Share Capital

(millions of Canadian dollars)	**December 31 2014**	December 31 2013	January 1 2013
Common shares of par value $1 each Authorized - unlimited Issued and outstanding - 122,500,000	**122.5**	**122.5**	122.5

21.2 Shareholder Contributions

(millions of Canadian dollars)	**December 31 2014**	December 31 2013	January 1 2013
Total contributed capital	**1,469.1**	1,141.8	435.8

On February 3, 2010, the Province established the Churchill Falls (Labrador) Corporation Trust (the Trust) with Churchill Falls as the beneficiary. The purpose of this trust is to fund the external costs and expenses incurred in relation to the motion filed by Churchill Falls seeking a modification to the pricing terms of the Power Contract. During 2014, the Trust contributed $0.2 million (2013 - $1.7 million).

In addition, during 2014, the Province contributed capital in the amount of $327.1 million (2013 - $704.3 million) in relation to Nalcor's capital investments.

22. REVENUE

For the year ended December 31 (millions of Canadian dollars)	**2014**	2013
Electricity sales	**670.4**	661.9
GWAC revenue	**21.1**	21.2
Oil sales	**73.9**	75.5
Royalties	**(9.8)**	(3.3)
Total energy sales	**755.6**	755.3
Lease revenue	**17.8**	16.6
Government funding	**1.0**	2.2
Preferred dividends	**2.7**	3.2
Other	**19.0**	7.6
Total other revenue	**40.5**	29.6

23. OPERATING COSTS

For the year ended December 31 (millions of Canadian dollars)	**2014**	2013
Salaries and benefits expense	**125.7**	113.3
Transmission rental	**20.4**	20.5
Maintenance and materials	**37.2**	29.8
Oil and gas production costs	**11.3**	9.2
Professional services	**26.2**	17.9
Travel and transportation	**9.4**	8.7
Other operating costs	**17.3**	12.6
	247.5	212.0

24. NET FINANCE INCOME AND EXPENSE

For the year ended December 31 (millions of Canadian dollars)	**2014**	2013
Finance income		
Interest on investments	**61.5**	2.4
Interest on sinking fund	**17.1**	20.7
Interest on restricted cash	**8.7**	1.3
Interest on reserve fund	**1.3**	1.5
Other interest income	**2.5**	0.9
	91.1	26.8
Finance costs		
Long-term debt	**276.1**	99.7
Class B Limited Partnership Units	**6.4**	5.3
Foreign exchange loss	**4.7**	0.3
Debt guarantee fee	**3.7**	3.7
Accretion	**5.4**	5.6
Other	**-**	0.8
	296.3	115.4
Interest capitalized during construction	**(133.2)**	(14.8)
	163.1	100.6
Net finance income and expense	**72.0**	73.8

25. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

25.1 Fair Value

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

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

Establishing Fair Value

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

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

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

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

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value. For assets and liabilities that are recognized at fair value on a recurring basis, the Company

determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. There were no transfers between Level 1, 2 and 3 fair value measurements during the years ended December 31, 2014 and 2013.

	Level	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value	Carrying Value	Fair Value
(millions of Canadian dollars)		**December 31, 2014**		December 31, 2013		January 1, 2013	
Financial assets							
Cash and cash equivalents	**1**	**57.7**	**57.7**	93.7	93.7	11.9	11.9
Restricted cash	**1**	**1,133.7**	**1,133.7**	525.5	525.5	-	-
Short-term investments	**1**	**34.4**	**34.4**	1.0	1.0	11.0	11.0
Trade and other receivables	**1**	**249.2**	**249.2**	149.8	149.8	124.7	124.7
Derivative assets	**2**	**11.8**	**11.8**	0.2	0.2	0.1	0.1
Sinking funds - investments in same Hydro issue	**2**	**47.9**	**62.3**	93.9	105.1	88.1	107.3
Sinking funds - other investments	**2**	**268.6**	**268.6**	303.3	303.3	302.8	302.8
Long-term investments	**2**	**2,871.4**	**2,872.4**	4,477.4	4,476.2	-	-
Reserve fund	**2**	**34.2**	**34.2**	50.5	50.5	50.9	50.9
Long-term receivables	**2**	**37.2**	**37.2**	16.7	16.8	0.8	0.8
Financial liabilities							
Short-term borrowings	**1**	**53.0**	**53.0**	41.0	41.0	125.0	125.0
Trade and other payables	**1**	**672.1**	**672.1**	411.7	411.7	181.0	181.0
Derivative liabilities	**2**	**1.6**	**1.6**	1.5	1.5	-	-
Long-term debt (including amount due within one year before sinking funds)	**2**	**6,296.8**	**7,626.7**	6,224.0	6,626.6	1,222.2	1,668.6
Class B limited partnership units	**3**	**79.4**	**79.4**	73.0	73.0	-	-
Long-term payables	**2**	**74.0**	**86.3**	78.3	83.2	82.4	82.6

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

25.2 Risk Management

Nalcor is exposed to certain credit, liquidity and market price risks through its operating, financing and investing activities. Financial risk is managed in accordance with a Board approved policy, which outlines the objectives and strategies for the management of financial risk, including the use of derivative contracts. Permitted financial risk management strategies are aimed at minimizing the volatility of Nalcor's expected future cash flows.

Credit Risk

Nalcor's expected future cash flows are exposed to credit risk through its operating activities, primarily due to the potential for non-performance by its customers, and through its financing and investing activities, based on the risk of non-performance by counterparties to its financial instruments. The degree of exposure to credit risk on cash and cash equivalents, short-term investments, long-term investments and derivative assets as well as from the sale of electricity to customers, including the associated accounts receivable, is determined by the financial capacity and stability of those customers and counterparties. The maximum exposure to credit risk on these financial instruments is represented by their carrying values on the Consolidated Statements of Financial Position at the reporting date.

Credit risk on cash and cash equivalents is considered to be minimal, as Nalcor's cash deposits are held by a Canadian Schedule 1 Chartered bank with a rating of A+ (Standard and Poor's). Credit risk on restricted cash is considered to be minimal, as Nalcor's restricted cash deposits are held by a Canadian Schedule 1 Chartered bank with a rating of AA-

(Standard and Poor's). Credit risk on short-term investments is minimized by limiting holdings to high-quality, investment grade securities issued by the Federal and Provincial governments, as well as BAs and term deposits issued by Canadian Schedule 1 Chartered banks.

Credit exposure on Nalcor's sinking funds is limited by restricting the holdings to long-term debt instruments issued by the Government of Canada or any province of Canada, crown corporations and Canadian Schedule 1 Chartered banks. The following credit risk table provides information on credit exposures according to issuer type and credit rating for the remainder of the sinking funds portfolio:

	Issuer Credit Rating	**Fair Value of Portfolio (%)**	**Issuer Credit Rating**	**Fair Value of Portfolio (%)**
	2014		**2013**	
Provincial Governments	**AA- to AAA**	**5.49%**	AA- to AAA	3.29%
Provincial Governments	**A -to A+**	**40.86%**	A- to A+	38.31%
Provincially Owned Utilities	**AA- to AAA**	**22.57%**	AA- to AAA	16.47%
Provincially Owned Utilities	**A- to A+**	**29.10%**	A- to A+	39.09%
Canadian Schedule 1 Bank	**AA- to AAA**	**-**	AA- to AAA	0.98%
Canadian Schedule 1 Bank	**A- to A+**	**1.98%**	A- to A+	1.86%
Provincially Owned Utilities	**BBB+**	**-**	BBB+	-
		100.00%		100.00%

Credit exposure on the reserve fund is mitigated by adhering to an investment policy which restricts the holdings to long-term debt instruments issued or guaranteed by the Government of Canada or any province of Canada. Investments in the long-term debt instruments of Canadian banks are also permitted, provided the bank is rated A or higher by Standard and Poor's. With the exception of the Government of Canada, holdings of any one issuer are limited to 10.0% of the total principal amount of the portfolio. The following credit risk table provides information on credit exposures according to issuer type and credit rating for the reserve fund:

	Issuer Credit Rating	**Fair Value of Portfolio (%)**	**Issuer Credit Rating**	**Fair Value of Portfolio (%)**
	2014		**2013**	
Provincial Governments	**AA- to AAA**	**-**	AA- to AAA	8.94%
Canadian Schedule 1 or 2 Banks	**AA- to AAA**	**9.14%**	AA- to AAA	16.70%
Provincial Governments	**A- to A+**	**29.28%**	A- to A+	21.25%
Provincially Owned Utilities	**AA- to AAA**	**2.10%**	AA- to AAA	9.09%
Provincially Owned Utilities	**A- to A+**	**9.15%**	A- to A+	6.06%
Canadian Schedule 1 Bank	**A- to A+**	**50.33%**	A- to A+	37.96%
		100.00%		100.00%

Credit exposure on Nalcor's long-term investments is considered to be limited as the structured deposit notes are held by a Canadian Schedule 1 Chartered bank with a rating of AA- (Standard and Poor's). The following credit risk table provides information on credit exposures according to issuer type and credit rating for the long-term investments:

	Issuer Credit Rating	**Fair Value of Portfolio (%)**	**Issuer Credit Rating**	**Fair Value of Portfolio (%)**
	2014		**2013**	
Schedule 1 Canadian Banks	**AA-**	**100.00%**	AA-	100.00%

Credit exposure on derivative assets is limited by the Financial Risk Management Policy, which restricts available counterparties for hedge transactions to Canadian Schedule 1 Chartered banks and Federally Chartered US banks.

Nalcor does not have any significant amounts that are past due and uncollectable, for which a provision has not been recognized at December 31, 2014.

Liquidity Risk

Nalcor is exposed to liquidity risk with respect to its contractual obligations and financial liabilities, including any derivative liabilities related to hedging activities. Liquidity risk management is aimed at ensuring cash is available to meet those obligations as they become due.

Short-term liquidity for Nalcor and its subsidiaries is mainly provided through cash and cash equivalents on hand, funds from operations and an operating credit facility which Nalcor maintains with its banker. During April 2014, Nalcor converted its $250.0 million (2013 - $250.0 million) unsecured demand operating credit facility to a $250.0 million committed revolving term credit facility, with a maturity date of January 31, 2016. There were no amounts drawn on this facility at December 31, 2014 (2013 - $nil). In addition, Hydro has access to a $300.0 million promissory note program and a $50.0 million (2013 - $50.0 million) unsecured demand operating credit facility. Oil and Gas and Churchill Falls also maintain demand operating facilities of $5.0 million (2013 - $5.0 million) and $10.0 million (2013 - $10.0 million), respectively. Churchill Falls maintains a $16.0 million minimum cash balance.

Liquidity risk for Muskrat Falls and Transco is considered to be minimal, as both companies can access the funds drawn down from the Muskrat/LTA construction facility for the payment of construction costs as well as interest payments. The LIL LP has access to the funds drawn down from the LIL construction facility for the payment of construction costs as well as interest payments.

Long-term liquidity risk for Nalcor is managed by the issuance of a portfolio of debentures with maturity dates ranging from 2016 to 2045. Sinking funds have been established for these issues, with the exception of the issues maturing in 2016 and 2045. For Churchill Falls, long-term liquidity risk is managed by maintenance of the reserve fund in accordance with the June 1999 Shareholders' Agreement and a dividend management policy that meets long-term liquidity requirements associated with Churchill Falls' capital expenditure program.

The following are contractual maturities of Nalcor's financial liabilities, including principal and interest as at December 31, 2014:

(millions of Canadian dollars)	**< 1 Year**	**1-3 Years**	**3-5 Years**	**> 5 Years**	**Total**
Trade and other payables	672.1	-	-	-	672.1
Short-term borrowings	53.0	-	-	-	53.0
Long-term debt	8.4	385.3	13.3	5,893.3	6,300.3
Interest	275.0	530.1	499.9	5,136.2	6,441.2
Class B partnership units	-	-	73.2	6.2	79.4
Long-term payables	-	28.5	20.4	38.4	87.3
	1,008.5	943.9	606.8	11,074.1	13,633.3

Market Risk

In the course of carrying out its operating, financing and investing activities, Nalcor 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 Nalcor has significant exposure include those relating to prevailing interest rates, foreign exchange rates, most notably USD/CAD, and current commodity prices, most notably the spot prices for diesel fuel, electricity, No. 6 fuel and oil. These exposures are addressed as part of the Financial Risk Management Strategy.

Interest Rates

Changes in prevailing interest rates will impact the fair value of financial assets and liabilities classified as held for trading or available-for-sale, which includes Nalcor's cash and cash equivalents, short-term investments, sinking

funds and reserve fund. Expected future cash flows associated with those financial instruments can also be impacted. The impact of a 0.5% change in interest rates on net income and other comprehensive income associated with cash and cash equivalents, debt and short-term debt was negligible throughout 2014 due to the short time period to maturity.

The table below shows the impact of a 50 basis point change in interest rates on profit and other comprehensive income associated with the sinking funds, reserve fund, long-term investments and short-term investments at the Statement of Financial Position date:

	Other Comprehensive Income	
(millions of Canadian dollars)	**0.5% Decrease**	**0.5% Increase**
Interest on sinking funds	16.3	(10.0)
Interest on reserve fund	0.8	0.1
	17.1	(9.9)

The impact of interest rates on the expected future cash outflows related to short-term debt, which includes promissory notes and banker's acceptances issued under Nalcor's credit lines and long-term debt, are managed within the corporate financing strategy, whereby floating rate debt exposures and interest rate scenarios are forecast and evaluated. A diversified portfolio of fixed and floating rate debt is maintained and managed with a view to an acceptable risk profile. Key quantitative parameters for interest rate risk management includes the percentage of floating rate debt in the total debt portfolio, coupled with an examination of the weighted average term to maturity of the entire debt portfolio. By setting clear guidelines in respect to these quantitative parameters, Nalcor attempts to minimize the likelihood of a material impact on net income resulting from an unexpected change in interest rates.

Foreign Currency and Commodity Exposure
Nalcor's primary exposure to both foreign exchange and commodity price risk arises from its purchases of No. 6 fuel for consumption at the HTGS, USD denominated electricity sales, rental revenues and the sale of crude oil. For the purchase of No.6 fuel oil, these risks are mitigated through the operation of the RSP. Exposures to USD denominated electricity sales are addressed in accordance with the Board-approved Financial Risk Management Policy. Tactics include the use of forward rate agreements and fixed price commodity swaps.

During 2014, total electricity sales denominated in USD were $56.4 million (2013 - $54.7 million). In 2014, Hydro mitigated foreign exchange risk on these sales through the use of foreign currency forward contracts. In December of 2013, Hydro entered into a series of 12 monthly foreign exchange forward contracts with a notional value of $38.5 million USD to hedge foreign exchange risk on a portion of Hydro's planned USD electricity sales for the year. These contracts had an average exchange rate of $1.08 CAD per USD. In December 2013, Hydro also entered into a series of 12 electricity price forward contracts with a notional value of $14.2 million USD. The average price of these contracts was USD $38.74 per MWh (On Peak) and USD $28.42 per MWh (Off Peak). During 2014, $2.2 million losses from these derivative contracts was recognized in other income and expense (2013 - $0.2 million loss).

In December of 2014, Hydro entered into a series of 12 electricity price forward contracts with a notional value of $32.5 million USD. The average price of these contracts was USD $43.60 per MWh (On Peak) and USD $30.10 per MWh (Off Peak). As at December 31, 2014, the fair value of the derivative asset was $2.7 million (2013 - $0.2 million) and the derivative liability was $0.2 million (2013 - $0.4 million) as presented on the Statement of Financial Position. During 2014, $2.6 million in unrealized gains from these contracts was included in other income and expense (2013 - $nil).

In December of 2014, Energy Marketing entered into a series of twelve monthly foreign exchange forward contracts with a notional value of $41.8 million USD to hedge foreign exchange risk on a portion of planned USD electricity sales to the end of 2015. These contracts have an average exchange rate of $1.14 CAD per USD. At December 31, 2014, $0.9 million losses from these derivative contracts were recognized in other income and expense. The related

electricity price forward contracts for 2015 were entered into by Hydro, as Energy Marketing does not yet have the required International Swaps and Derivatives Association (ISDA) Master Agreements in place with its banks.

During 2014, total oil sales denominated in USD were $67.1 million (2013 - $73.0 million). While Oil and Gas had exposure to fluctuations in the USD/CAD exchange rate on those sales, a significant portion of Oil and Gas' planned capital expenditures for 2014 were denominated in USD, which mitigated this exposure. Furthermore, in December 2013, Oil and Gas entered into a series of 12 commodity price swap contracts USD to mitigate commodity price exposure on energy sales. These contracts had a notional value of USD $31.9 million and provided an average fixed price of $106.75 per barrel on approximately 36.0% of estimated production for 2014. During 2014, $3.0 million in gains from these contracts were included in other income and expense (2013 - $0.8 million loss).

On October 31, 2014, Oil and Gas entered into a series of 12 commodity price swaps to mitigate commodity price exposure in 2015. These contracts have a notional value of $22.6 million USD and provide an average fixed price of $87.44 USD per barrel on 26% of the budgeted production for 2015. During 2014, $7.8 million in unrealized gains from these contracts was included in other comprehensive income (2013 - $nil).

During 2014, total rental revenues at Bull Arm Fabrication denominated in USD were $16.1 million (2013 - $16.1 million). In January 2014, Bull Arm Fabrication entered into a total of 11 forward contracts with a notional value of US $11.7 million to mitigate USD/CAD currency exposure on a portion of its USD denominated lease revenues. These contracts provided Bull Arm Fabrication with an average fixed exchange rate of $1.09 CAD per USD. Combined with the hedges in place as of December 31, 2013, 94% of the expected USD lease revenue for 2014 was hedged, at a weighted average fixed exchange rate of $1.07 CAD per USD. During 2014, $0.3 million in gains from these contracts was included in other income and expense (2013 - $0.3 million loss).

In December 2014, Bull Arm Fabrication entered into a total of 12 forward contracts with a notional value of US $18.2 million, with settlement dates ranging from February 3, 2015 to January 4, 2016. These forward contracts mitigate USD/CAD currency exposure on 92% of expected USD lease revenues for 2015 with an average fixed exchange rate of $1.14 USD per CAD, and one month of expected lease revenue for 2016, with a fixed exchange rate of $1.15 CAD per USD. During 2014, $0.4 million in unrealized losses from these contracts was included in other comprehensive income (2013 - $nil).

25.3 Hedge Accounting

In December 2013, Muskrat Falls entered into nine bond forward contracts totaling $2.0 billion to hedge the interest rate risk on its long-term debt issue. These contracts were designated as part of a cash flow hedging relationship and the resulting loss of $14.1 million was recorded as $12.3 million in other comprehensive income with $1.8 million of ineffectiveness recognized immediately in other income and expense. The loss recorded in other comprehensive income will be recognized in profit or loss over the same period as the related debt instruments which mature between 2029 and 2048.

26. RELATED PARTY TRANSACTIONS

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

Related Party	Relationship
The Province	100% shareholder of Nalcor Energy
Churchill Falls	Joint arrangement of Hydro
Twin Falls	Joint venture of Churchill Falls
The Churchill Falls (Labrador) Corporation Trust	Created by the Province with Churchill Falls as the beneficiary
LIL LP	Partnership in which Nalcor holds 75 Class A Partnership Units
PUB	Agency of the Province

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

(a) Hydro has received funding from the Province for wind feasibility studies in Labrador. As at December 31, 2014, $0.7 million (2013 - $0.7 million) has been recorded in deferred credits.

(b) Hydro is required to contribute to the cost of operations of the PUB as well as the cost of hearings and applications costs. During 2014, Hydro incurred $3.1 million (2013 - $0.6 million) in costs related to the PUB of which $2.4 million (2013 - $0.2 million) was included in accounts payable and accrued liabilities.

(c) The debt guarantee fee for 2014 was $3.7 million (2013 - $3.7 million). It was paid in advance to the Province in March 2014.

(d) Under the terms of the Lease and amendments thereto, Churchill Falls is required to pay the Province an annual rental of 8% of the consolidated net profits before income taxes, as defined in the Lease, and an annual royalty of $0.50 per horsepower year generated, as defined in the Lease. At December 31, 2014, $4.7 million (2013 - $5.6 million) was payable to the Province.

(e) As at December 31, 2014, Hydro has purchased $27.9 million (2013 - $29.6 million) of power generated from assets related to Exploits, which are held by the Province.

(f) On February 3, 2010, the Province established the Trust with Churchill Falls as the beneficiary. The purpose of this trust is to fund the external costs and expenses incurred in relation to the motion filed by Churchill Falls seeking a modification to the pricing terms of the 1969 Power Contract. To date, $4.8 million (2013 - $3.8 million) has been received and $0.2 million (2013 - $0.8 million) has been accrued as receivable from the Trust.

(g) As a result of a sub-lease between Churchill Falls and Twin Falls, certain rights were suspended by Churchill Falls effective June 30, 1974 with the result that Churchill Falls diverted the flow of water from the Twin Falls plant and used the facilities of Twin Falls as required. In consideration for this suspension of rights, Churchill Falls was required to deliver to Twin Falls, during the unexpired term of the sub-lease, horsepower equivalent to the installed horsepower of the Twin Falls plant. Twin Falls was obliged to purchase this power for an amount equal to the average annual cost of operating the Twin Falls plant for the five year period ended March 31, 1974. In addition, Twin Falls was required to pay annually to Churchill Falls a rental amounting to $305,000 and $1.40 per installed horsepower. Twin Falls also paid to Churchill Falls an annual royalty of $0.50 per horsepower year generated, as defined, all calculated as though the power delivered by Churchill Falls to Twin Falls had been generated in the Twin Falls plant. The sub-lease expired December 31, 2014.

(h) Total funding received under the Petroleum Exploration Enhancement Program (PEEP) was $4.5 million over five years. There was no funding provided in 2014 or 2013. Included in deferred credits at year end is a balance of $1.2 million (2013 - $1.6 million) in respect of funding received.

(i) Total funding received under the Offshore Geoscience Data Project (OGDP) was $14.3 million over four years. In 2014, funding of $0.5 million was received from the Province (2013 - $1.5 million). Included in deferred credits at year end is a balance of $2.5 million (2013 - $2.6 million) in respect of funding received.

26.1 Key Management Personnel

Compensation for key management personnel, which Nalcor defines as its executives who have the primary authority and responsibility in planning, directing and controlling the activities of the entity, includes compensation for senior executives. Salaries and employee benefits include base salaries, performance contract payments, vehicle allowances and contributions to employee benefit plans. Post-employment benefits include contributions to the Province's Public Service Pension Plan.

For the year ended December 31 (millions of Canadian dollars)	**2014**	2013
Salaries and employee benefits	**3.4**	3.2
Post-employment benefits	**0.2**	0.2
	3.6	3.4

27. COMMITMENTS AND CONTINGENCIES

(a) Nalcor 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 Nalcor'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 $3,740.7 million as at December 31, 2014 (2013 - $2,424.6 million).

(c) Hydro has entered into a number of long-term power purchase agreements as follows:

Type	Rating	In-service Date	Term
Hydroelectric	175 kW	1988	Continual
Hydroelectric	3 MW	1995	25 years
Hydroelectric	4 MW	1998	25 years
Hydroelectric	300 MW	1998	43 years
Hydroelectric	225 MW	2015	25.5 years
Cogeneration	15 MW	2003	20 years
Wind	390 kW	2004	15 years
Wind	300 kW	2010	Continual
Wind	27 MW	2008	20 years
Wind	27 MW	2009	20 years

Estimated payments due in each of the next five years are as follows:

(millions of dollars)	2015	2016	2017	2018	2019
Power purchases	70.5	71.0	71.0	72.0	72.8

(d) Hydro has issued one irrevocable letter of credit to the Department of Fisheries and Oceans in the amount of $0.3 million as a performance guarantee in relation to the Fish Habitat Compensation Agreement.

(e) Hydro has entered into power sales agreements with third parties. To facilitate market access, Hydro had entered into a transmission service agreement with Hydro-Québec TransEnergie which concludes in 2024.

The transmission rental payments for the next five years are estimated to be as follows:

2015	$19.8 million
2016	$20.0 million
2017	$20.2 million
2018	$20.4 million
2019	$20.6 million

(f) Hydro has received Phase I funding, in the amount of $3.0 million, from the Atlantic Canada Opportunities Agency (ACOA) in relation to a wind-hydrogen-diesel research development project in the community of Ramea. In 2014, Hydro entered into a new funding agreement for Phase II of the project for $2.3 million. This funding is repayable in annual installments of $25,000 per commercial implementation of the resulting product. As at December 31, 2014 there have been no commercial implementations.

(g) In 2014, Hydro entered into three Capacity Assistance Agreements, one with Vale Newfoundland & Labrador Limited (Vale) and two with Corner Brook Pulp and Paper Limited (CBPP) for the purchase of relief up to 15.8 MW, 60 MW and 30 MW, respectively, during the winter period. The supply period defined in the agreements is from December 1 to March 31 of each year, concluding March 2018. Payment for services will be dependent on the successful provision of capacity assistance for the winter period by Vale and CBPP.

(h) In 2014, Hydro entered into a six-month lease with Twin Falls Power Corporation Limited and Wabush Resources Inc. to access a terminal station located on land owned by Wabush Mines. This lease is for a six-month period beginning in January 2015.

(i) On February 23, 2010, Churchill Falls filed a motion against Hydro-Québec in Québec Superior Court. The motion was seeking a modification to the pricing terms of the 1969 Power Contract as of November 30, 2009. On July 24, 2014, Churchill Falls received judgment from the Québec Superior Court which ruled against Churchill Falls. Churchill Falls is appealing the decision and on August 26, 2014 filed an Inscription in Appeal with the Québec Court of Appeal.

(j) In July 2013, Hydro-Québec filed a Motion for Declaratory Judgment (the Motion) in Québec Superior Court relating to the interpretation of the 1969 Power Contract between Churchill Falls and Hydro-Québec and the clarification of certain terms and obligations of the parties under the Renewed Power Contract with Hydro-Québec, which commences in 2016. Churchill Falls has filed a Defense to the Motion and the trial is scheduled to take place in the fall of 2015.

(k) Oil and Gas has the following capital and operating commitments as a result of its joint venture partnerships in the Hebron, Hibernia Southern Extension and White Rose projects:

2015	$112.1 million
2016	$ 75.6 million
2017	$ 22.6 million
2018	$ 3.8 million
2019	$ 3.5 million

28. CAPITAL MANAGEMENT

Nalcor's principal business requires ongoing access to capital in order to maintain assets and ensure the continued delivery of safe and reliable service to its customers. Nalcor also requires access to capital to fund its various development activities relating to Oil and Gas and the Lower Churchill Project. Therefore, Nalcor's primary objective when managing capital is to ensure ready access to capital at a reasonable cost, to minimize its cost of capital within the confines of established risk parameters, and to safeguard Nalcor's ability to continue as a going concern.

The capital managed by Nalcor is comprised of debt (long-term debentures, promissory notes, bank credit facilities and short-term borrowings) and equity (share capital, contributed capital, reserves and retained earnings).

A summary of the consolidated capital structure is outlined below:

(millions of dollars)	**December 31 2014**		December 31 2013		January 1 2013	
Debt						
Long-term debt	**6,240.5**		6,047.9		1,125.9	
Short-term borrowings	**53.0**		41.0		125.0	
Current portion of long-term debt	**8.4**		82.2		8.2	
Sinking funds	**(268.6)**		(303.3)		(302.8)	
	6,033.3	**68.9%**	5,867.8	72.1%	956.3	38.9%
Equity						
Share capital	**122.5**		122.5		122.5	
Shareholder contributions	**1,469.1**		1,141.8		435.8	
Reserves	**(15.8)**		(27.1)		(2.0)	
Retained earnings	**1,146.2**		1,030.6		942.9	
	2,722.0	**31.1%**	2,267.8	27.9%	1,499.2	61.1%
Total Debt and Equity	**8,755.3**	**100.0%**	8,135.6	100.0%	2,455.5	100.0%

Nalcor's committed operating facility has covenants restricting the issuance of debt such that the unconsolidated debt to total capitalization ratio cannot exceed 70.0%. The covenants further stipulate that the debt service coverage ratio should at all times be greater than 1.5 on an unconsolidated basis. As at December 31, 2014, Nalcor was in compliance with these covenants.

28.1 Hydro

Hydro's approach to capital management encompasses various factors including monitoring the percentage of floating rate debt in the total debt portfolio, the weighted average term to maturity of its overall debt portfolio, its percentage of debt to debt plus equity and its interest coverage.

For the regulated portion of Hydro's operations, Management targets a capital structure comprised of 75% debt and 25% equity, a ratio which Management believes to be optimal with respect to its cost of capital. This capital structure is maintained by a combination of dividend policy, contributed equity and debt issuance. The issuance of any new debt with a term greater than one year requires prior approval of the PUB.

Legislation stipulates that the total of the short-term loans issued by Hydro and outstanding at any time shall not exceed a limit as fixed by the Lieutenant-Governor in Council. Short-term loans are those loans issued with a term not exceeding two years. The current limit is set at $300.0 million. There was $53.0 million outstanding as at December 31, 2014 (2013 - $41.0 million). Issuance of long-term and short-term debt by Hydro is further restricted by Bill C-24, an amendment to the Newfoundland and Labrador Hydro Act of 1975. The Bill effectively limits Hydro's total borrowings, which includes both long and short-term debt, to $1.6 billion at any point in time.

28.2 Oil and Gas

Oil and Gas' objective when managing capital is to maintain its ability to fund operating costs and expenditures related to development and production assets, on a timely basis. Oil and Gas maintains an unsecured demand credit facility, which is used to finance operations in the short-term. Long-term capital includes share capital, shareholder contributions and retained earnings. Oil and Gas' future requirements for capital are expected to increase, as construction begins on new development assets. During this time, it is expected that Oil and Gas' cash from operations will be sufficient to fund a portion of its capital needs. Additional requirements will be funded entirely through shareholder contributions.

28.3 Bull Arm

Bull Arm Fabrication's objective when managing capital is to maintain its ability to continue as a going concern. The focus of the capital management policy is to provide flexibility to ensure cash continues to be available to satisfy capital requirements. Prior to January 2009, net earnings received were payable to the Province. From January 2009 to December 2012, earnings were retained by Bull Arm Fabrication. In 2013, Bull Arm Fabrication implemented its Board approved dividend policy of paying dividends to Nalcor when cash balances exceed $1.0 million, an amount which would provide coverage for approximately 12 months of operating expenses assuming no cash inflows.

28.4 Churchill Falls

Churchill Falls' objective when managing capital is to maintain its ability to continue as a going concern. Churchill Falls' requirements for capital in the future are expected to increase, coincident with the aging of the plant and related infrastructure and the execution of the long-term asset management plan. The focus of the capital management policy is to provide flexibility to ensure cash continues to be available to satisfy capital requirements. Managing the level of dividend payments is a key aspect of ensuring the availability of funding to maintain the plant and infrastructure.

At present, the capital position of Churchill Falls is comprised entirely of equity capital (issued capital, shareholder contributions, reserves and retained earnings). The capital structure is adjusted through the amount of dividends paid to shareholders.

28.5 Muskrat Falls

Long-term capital includes long-term debt, share capital, contributed capital and retained earnings. Muskrat Falls' objectives when managing capital are to maintain its ability to continue as a going concern and to ensure timely payment of its contractual obligations as they relate to the construction of the Muskrat Falls hydroelectric plant. Muskrat Falls' future requirements for capital are expected to continue to increase commensurate with progress on construction. During this time, proceeds from the construction facility and contributed capital will be sufficient to fund the development of the Muskrat Falls hydroelectric plant.

28.6 Transco

Long-term capital includes long-term debt, share capital, contributed capital and retained earnings. Transco's objectives when managing capital are to maintain its ability to continue as a going concern and to ensure timely payment of its contractual obligations as they relate to the construction of the Labrador Transmission Assets. Transco's future requirements for capital are expected to continue to increase commensurate with progress on the construction. During this time, proceeds from the construction facility and contributed capital will be sufficient to fund the development of the Labrador Transmission Assets.

28.7 LIL LP

The capital position of the LIL LP is comprised of partner capital (issued units, cash calls and retained earnings) and long-term debt. The capital structure is adjusted through distributions paid to Limited Partners.

The LIL LP's objective when managing capital is to maintain its ability to continue as a going concern and fund the construction of the LIL. The LIL LP's requirements for capital in the future are expected to increase, coincident with the development of the LIL. The focus of the capital management policy is to provide flexibility to ensure cash continues to be available to satisfy capital requirements. Managing cash calls from the limited partners is a key aspect of ensuring the availability of funding to proceed with the development of the LIL.

29. SUPPLEMENTARY CASH FLOW INFORMATION

(millions of Canadian dollars)	**2014**	2013
Trade and other receivables	**(99.4)**	(25.1)
Prepayments	**(10.2)**	(15.6)
Inventories	**(21.9)**	(13.2)
Trade and other payables	**260.4**	230.7
Changes in non-cash working capital balances	**128.9**	176.8
Interest received	**35.8**	3.4
Interest paid	**272.2**	91.6

30. SEGMENT INFORMATION

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

(millions of Canadian dollars)	Hydro Regulated	Churchill Falls	Oil and Gas	Energy Marketing	Bull Arm Fabrication	Phase 1 Lower Churchill Project	Corporate and Other Activities	Inter-Segment	Total
	For the year ended December 31, 2014								
Revenue									
Energy sales	549.4	71.9	64.1	74.1	-	-	0.1	(4.0)	755.6
Other revenue	2.2	1.0	15.3	1.5	17.8	-	-	2.7	40.5
	551.6	72.9	79.4	75.6	17.8	-	0.1	(1.3)	796.1
Expenses									
Fuels	(268.1)	-	-	-	-	-	-	-	(268.1)
Power purchased	(63.8)	-	-	(8.5)	-	-	-	4.0	(68.3)
Operating costs	(139.1)	(41.4)	(21.6)	(27.6)	(1.0)	(2.3)	(14.5)	-	(247.5)
Depreciation and depletion	(56.0)	(13.8)	(22.5)	-	-	-	(0.4)	-	(92.7)
Exploration and evaluation	-	-	(1.2)	-	-	-	-	-	(1.2)
Net finance income and expense	(74.2)	1.2	-	(1.0)	(0.6)	(0.1)	2.7	-	(72.0)
Other income and expense	0.9	(1.8)	3.0	(0.5)	1.1	-	(0.1)	-	2.6
Share of profit of joint venture	-	0.4	-	-	-	-	-	-	0.4
Preferred dividends	-	2.7	-	-	-	-	-	(2.7)	-
(Loss) profit before regulatory adjustments	(48.7)	20.2	37.1	38.0	17.3	(2.4)	(12.2)	-	49.3
Regulatory adjustments	66.3	-	-	-	-	-	-	-	66.3
Profit (loss) for the year	17.6	20.2	37.1	38.0	17.3	(2.4)	(12.2)	-	115.6
Capital expenditures*	208.5	33.0	237.5	1.4	-	1,536.7	4.8	-	2,021.9
Total assets	2,159.3	498.2	800.9	8.3	3.7	6,555.6	625.2	(8.1)	10,643.1

***Capital expenditures include non-cash additions of $238.3 million related to the Maritime Link and $6.4 million related to Class B Limited Partnership Unit accrued interest.**

(millions of Canadian dollars)	Hydro Regulated	Churchill Falls	Oil and Gas	Energy Marketing	Bull Arm Fabrication	Phase 1 Lower Churchill Project	Corporate and Other Activities	Inter-Segment	Total
				For the year ended December 31, 2013					
Revenue									
Energy sales	543.1	75.6	72.2	68.2	-	-	0.3	(4.1)	755.3
Other revenue	2.5	1.0	6.1	-	16.6	-	0.2	3.2	29.6
	545.6	76.6	78.3	68.2	16.6	-	0.5	(0.9)	784.9
Expenses									
Fuels	(190.9)	-	-	-	-	-	-	-	(190.9)
Power purchased	(59.4)	-	-	(7.7)	-	-	-	4.1	(63.0)
Operating costs	(113.0)	(41.3)	(19.1)	(26.7)	(0.9)	(0.2)	(10.8)	-	(212.0)
Depreciation and depletion	(51.3)	(13.0)	(25.1)	-	(0.1)	-	(0.4)	-	(89.9)
Exploration and evaluation	-	-	(7.4)	-	-	-	-	-	(7.4)
Net finance income and expense	(74.3)	1.5	0.3	(0.3)	0.1	-	(1.1)	-	(73.8)
Other income and expense	0.9	(1.3)	(0.8)	(0.2)	(0.2)	(1.8)	(0.1)	-	(3.5)
Share of profit of joint venture	-	0.4	-	-	-	-	-	-	0.4
Preferred dividends	-	3.2	-	-	-	-	-	(3.2)	-
Profit (loss) before regulatory adjustments	57.6	26.1	26.2	33.3	15.5	(2.0)	(11.9)	-	144.8
Regulatory adjustments	(57.1)	-	-	-	-	-	-	-	(57.1)
Profit (loss) for the year	0.5	26.1	26.2	33.3	15.5	(2.0)	(11.9)	-	87.7
Capital expenditures	86.6	32.5	184.7	0.4	-	726.7	6.5	-	1,037.4
Total assets	1,959.6	486.0	548.3	6.6	3.6	6,080.9	447.6	(8.9)	9,523.7

*Capital expenditures include non-cash additions of $46.7 million related to the Maritime Link and $5.3 million related to Class B Limited Partnership Unit accrued interest.

31. EXPLANATION OF TRANSITION TO IFRS

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

These annual audited consolidated financial statements have been prepared with the accounting policies described in Note 2 and in accordance with the existing IFRS with an effective date of December 31, 2014. Related comparatives have also been prepared under IFRS effective at January 1, 2013. In preparing its opening IFRS Statement of Financial Position, Nalcor has adjusted amounts reported previously in financial statements prepared in accordance with GAAP. An explanation of how the transition from GAAP to IFRS has affected Nalcor's financial position, financial performance and cash flow is set out in the following tables and the notes that accompany the tables.

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

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

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

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

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

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

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

31.1 Reconciliation of Equity

(millions of Canadian dollars)	Notes	January 1, 2013 Previous GAAP	Effect of Transition to IFRS	IFRS	December 31, 2013 Previous GAAP	Effect of Transition to IFRS	IFRS
ASSETS							
Current assets							
Cash and cash equivalents	a	12.1	(0.2)	11.9	94.0	(0.3)	93.7
Restricted cash		-	-	-	525.5	-	525.5
Short-term investments	a	11.5	(0.5)	11.0	1.7	(0.7)	1.0
Trade and other receivables	a	125.0	(0.3)	124.7	150.2	(0.4)	149.8
Current portion of regulatory assets	i	2.2	(2.2)	-	2.2	(2.2)	-
Current portion of sinking funds		-	-	-	65.4	-	65.4
Prepayments		5.6	-	5.6	11.6	-	11.6
Inventories	i	62.1	(0.1)	62.0	75.2	-	75.2
Derivative assets		0.1	-	0.1	0.2	-	0.2
Total current assets		218.6	(3.3)	215.3	926.0	(3.6)	922.4
Non-current assets							
Property, plant and equipment	a,b,c,d,e,f,g,i	2,435.0	367.4	2,802.4	3,204.3	538.3	3,742.6
Petroleum and natural gas properties	b,d,e	376.0	(376.0)	-	552.6	(552.6)	-
Investment property	b,c	-	1.1	1.1	-	1.1	1.1
Regulatory assets	i	62.8	(62.8)	-	62.2	(62.2)	-
Other long-term assets		354.5	-	354.5	314.7	-	314.7
Investment in joint arrangement	a	-	0.7	0.7	-	1.1	1.1
Long-term investments		-	-	-	4,477.4	-	4,477.4
Total non-current assets		3,228.3	(69.6)	3,158.7	8,611.2	(74.3)	8,536.9
Total assets		3,446.9	(72.9)	3,374.0	9,537.2	(77.9)	9,459.3
Regulatory deferrals	i	-	65.1	65.1	-	64.4	64.4
Total assets and regulatory deferrals		3,446.9	(7.8)	3,439.1	9,537.2	(13.5)	9,523.7

(millions of Canadian dollars)	Notes	January 1, 2013 Previous GAAP	Effect of Transition to IFRS	IFRS	December 31, 2013 Previous GAAP	Effect of Transition to IFRS	IFRS
LIABILITIES AND EQUITY							
Current liabilities							
Short-term borrowings		125.0	-	125.0	41.0	-	41.0
Trade and other payables	a	181.1	(0.1)	181.0	411.7	-	411.7
Current portion of long-term debt		8.2	-	8.2	82.2	-	82.2
Current portion of regulatory liabilities	i	169.0	(169.0)	-	214.0	(214.0)	-
Current portion of other liabilities	a,f	8.6	(0.1)	8.5	5.8	0.2	6.0
Derivative liabilities		-	-	-	1.5	-	1.5
Total current liabilities		491.9	(169.2)	322.7	756.2	(213.8)	542.4
Non-current liabilities							
Long-term debt		1,125.9	-	1,125.9	6,047.9	-	6,047.9
Class B partnership units		-	-	-	73.0	-	73.0
Regulatory liabilities	b,i	33.2	(33.2)	-	40.3	(40.3)	-
Deferred credits		45.0	-	45.0	93.5	-	93.5
Deferred contributions	b,f	-	9.9	9.9	-	10.7	10.7
Decommissioning liabilities	a,b,g	30.0	1.9	31.9	33.1	(0.1)	33.0
Employee benefits liability	h	73.6	46.3	119.9	81.4	37.1	118.5
Long-term payable		82.4	-	82.4	78.3	-	78.3
Total non-current liabilities		1,390.1	24.9	1,415.0	6,447.5	7.4	6,454.9
Total liabilities		1,882.0	(144.3)	1,737.7	7,203.7	(206.4)	6,997.3
Shareholder's Equity							
Share capital		122.5	-	122.5	122.5	-	122.5
Shareholder contributions		435.8	-	435.8	1,141.8	-	1,141.8
Reserves	a,h	43.6	(45.6)	(2.0)	10.6	(37.7)	(27.1)
Retained earnings	b,d,e,h	963.0	(20.1)	942.9	1,058.6	(28.0)	1,030.6
Total equity		1,564.9	(65.7)	1,499.2	2,333.5	(65.7)	2,267.8
Total liabilities and equity		3,446.9	(210.0)	3,236.9	9,537.2	(272.1)	9,265.1
Regulatory deferrals	i	-	202.2	202.2	-	258.6	258.6
Total liabilities, equity and regulatory deferrals		3,446.9	(7.8)	3,439.1	9,537.2	(13.5)	9,523.7

31.2 Reconciliation of Profit and Comprehensive Income for the Year Ended December 31, 2013

(millions of Canadian dollars)	Notes	Previous GAAP	Effect of Transition to IFRS	IFRS
Energy sales	a	756.0	(0.7)	755.3
Other revenue	a, f	28.8	0.8	29.6
Revenue		**784.8**	**0.1**	**784.9**
Fuels		(190.9)	-	(190.9)
Power purchased	a	(63.2)	0.2	(63.0)
Operating costs	a,h	(215.4)	3.4	(212.0)
Depreciation and depletion	a,b,d,e,f,g,i	(87.7)	(2.2)	(89.9)
Exploration and evaluation	d	-	(7.4)	(7.4)
Net finance income and expense	b,g	(72.5)	(1.3)	(73.8)
Other income and expense	a	(3.9)	0.4	(3.5)
Share of profit of joint venture	a	-	0.4	0.4
Profit for the year, before regulatory adjustments		**151.2**	**(6.4)**	**144.8**
Regulatory adjustments	h,i	(55.6)	(1.5)	(57.1)
Profit for the year, before regulatory adjustments		**95.6**	**(7.9)**	**87.7**
Other comprehensive income:				
Net change in fair value of available for sale financial instruments		(5.0)	-	(5.0)
Net change in fair value of derivatives designated as cash flow hedges		(12.3)	-	(12.3)
Net change in fair value of financial instruments reclassified to profit or loss		(15.7)	-	(15.7)
Net change in fair value of employee benefit liability	h	-	7.9	7.9
Total comprehensive income for the year		**62.6**	**-**	**62.6**

31.3 Reconciliation of Cash Flows for the Year Ended December 31, 2013

(millions of Canadian dollars)	Previous GAAP	Effect of Transition to IFRS	IFRS
Cash provided by (used in):			
Operating activities	441.3	(30.9)	410.4
Investing activities	(5,516.0)	28.9	(5,487.1)
Financing activities	5,156.6	1.9	5,158.5
Net increase in cash and cash equivalents	81.9	(0.1)	81.8

31.4 Notes to the Reconciliation

(a) Accounting for Joint Arrangements

Under GAAP, Nalcor accounted for its interests in subsidiaries in which it has joint control using proportionate consolidation. IFRS 11 requires joint arrangements to be classified as either joint operations or joint ventures. Hydro has determined that Churchill Falls is a joint operation and therefore accounts for the investment by recognizing its share of assets, liabilities and profit or loss in relation to its interest in the 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 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 Statements of Financial Position at cost plus post acquisition changes in Churchill Falls' share of net assets of the joint venture. The Statements of Profit and Comprehensive Income reflect the share of the profit or loss of the joint venture.

(b) Property, Plant and Equipment

Regulated Hydro

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

Other Property, Plant and Equipment

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

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

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

(c) Investment Property

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

(d) Exploration and Evaluation Expenditures and Petroleum and Natural Gas Properties

Under GAAP, Nalcor employed the full cost method of accounting whereby all costs related to the acquisition, exploration for and development of petroleum and natural gas assets were capitalized. Under IFRS, pre-license exploration and evaluation costs are recognized in the Statements of Profit and Comprehensive Income as incurred. On January 1, 2013, upon transition to IFRS, $4.7 million of pre-license exploration and evaluation costs were recorded in retained earnings. As at December 31, 2013, the amount recorded in retained earnings was $12.1 million. Under IFRS, Nalcor recognized $7.4 million associated with exploration programs in exploration and evaluation expense for the year ended December 31, 2013.

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

(e) Depletion

Under Canadian GAAP, depletion of petroleum and natural gas properties was determined using cash flows and reserve estimates based on proved reserves. Under IFRS, entities may select to determine depletion using either proved reserves or proved and probable reserves. Nalcor has selected a policy of calculating depletion using cash flows and reserve estimates based on proved and probable reserves. On January 1, 2013, the selected policy resulted in a decrease in accumulated depletion of $9.3 million. As at December 31 2013, the policy change resulted in a decrease in accumulated depletion of $5.4 million. The selected policy resulted in an increase of $3.9 million in depletion for the year ended December 31, 2013.

(f) Contributions in Aid of Construction

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

(g) Decommissioning Liabilities

Under GAAP, decommissioning liabilities were measured based upon the estimated futures cash flows required to settle the obligation, discounted using the credit-adjusted risk-free rate upon recognition. Subsequent measurement reflected changes to estimated timing and amount of cash flows, but not changes to the discount rate. Under IFRS, decommissioning liabilities are measured using a discount rate reflecting risks specific to the liability. Subsequent measurement reflects changes in the estimated timing and amount of cash flows as well as changes to reflect market interest rates. The change resulted in an increase in decommissioning liabilities of $1.9 million on transition to IFRS at January 1, 2013. As at December 31, 2013, this resulted in a decrease of $0.1 million in decommissioning liabilities and a corresponding increase in property, plant and equipment.

Under GAAP, $1.3 million of accretion costs were presented in depreciation expense for the twelve months ended December 31, 2013. Under IFRS, accretion has been reclassified as net finance income and expense.

(h) Employee Benefits

Adoption of IAS 19 resulted in an increase in the employee benefit liability as at January 1, 2013 of $46.3 million and a corresponding decrease in equity of $46.3 million.

In addition, for the year ended December 31, 2013, adoption of the amended IAS 19 also resulted in a decrease in operating costs of $3.0 million. For the year ended December 31, 2013, adoption of the amended IAS 19 resulted in an increase in the employee benefit liability of $37.0 million, an increase in retained earnings of $0.7 million, and a decrease in reserves of $37.7 million.

(i) Regulatory deferrals

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

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

32. SUBSEQUENT EVENTS

On March 2, 2015, Nalcor increased the irrevocable letter of credit issued to New York Independent System Operator Inc. from $1.2 million USD to $2.6 million USD.

On March 17, 2015, Oil and Gas entered into a series of 8 commodity price swaps with a notional value of $4.5 million USD to mitigate commodity price exposure. These contracts provide Oil and Gas with an average fixed price of $59.25 USD per barrel on an additional 75,410 barrels of production for the remainder of 2015 and the first quarter of 2016.

Subsequent to December 31, 2014, LIL LP entered into new capital commitments totaling $55.4 million.

33. COMPARATIVE FIGURES

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

Appendix 3

Newfoundland and Labrador Hydro Consolidated Financial Statements

NEWFOUNDLAND AND LABRADOR HYDRO
CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014

DIRECTORS

KEN MARSHALL
President – Atlantic Region
Rogers Communications

LEO ABBASS
Corporate Director

ERIN BREEN
Partner, Simmons+ Partners Defence

EDMUND 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
Chairperson

EDMUND MARTIN
President and Chief Executive Officer

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

GILBERT BENNETT
Vice President, Lower Churchill Project

ROBERT HENDERSON
Vice President, Newfoundland and Labrador Hydro

PAUL HUMPHRIES
Vice President, System Operations and Planning

WAYNE CHAMBERLAIN
General Counsel and Corporate Secretary

PETER HICKMAN
Assistant Corporate Secretary

SCOTT PELLEY
Corporate Treasurer

CARLA RUSSELL
General Manager, Finance

HEAD AND CORPORATE OFFICE
P.O. Box 12400
Hydro Place, 500 Columbus Drive
St. John's, NL
Canada A1B 4K7

Deloitte LLP
5 Springdale Street
Suite 1000
St. John's, NL A1E 0E4 Canada

Tel: (709) 576-8480
Fax: (709) 576-8460
www.deloitte.ca

Independent Auditor's Report

To the Lieutenant-Governor in Council, Province of Newfoundland and Labrador

We have audited the accompanying consolidated financial statements of Newfoundland and Labrador Hydro, which comprise the consolidated statements of financial position as at December 31, 2014, December 31, 2013 and January 1, 2013, and the consolidated statements of profit and comprehensive income, changes in equity and cash flows for the years ended December 31, 2014 and December 31, 2013, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Newfoundland and Labrador Hydro as at December 31, 2014, December 31, 2013 and January 1, 2013, and its financial performance and its cash flows for the years ended December 31, 2014 and December 31, 2013, in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Professional Accountants
March 18, 2015

NEWFOUNDLAND AND LABRADOR HYDRO
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at (millions of Canadian dollars)	Notes	**December 31 2014**	December 31 2013	January 1 2013
ASSETS				
Current assets				
Cash and cash equivalents	5	**25.4**	18.0	11.6
Short-term investments		**3.3**	-	-
Trade and other receivables	6	**105.0**	103.6	102.0
Inventories	7	**97.1**	75.2	62.0
Current portion of sinking funds	10	**-**	65.4	-
Prepayments		**5.8**	4.5	3.9
Derivative assets	19	**2.7**	0.2	-
Total current assets		**239.3**	266.9	179.5
Non-current assets				
Property, plant and equipment	8	**2,037.9**	1,865.4	1,820.4
Other long-term assets	10	**262.9**	254.4	315.0
Investment in joint arrangement		**1.5**	1.1	0.7
Total assets		**2,541.6**	2,387.8	2,315.6
Regulatory deferrals	9	**124.2**	64.4	65.1
Total assets and regulatory deferrals		**2,665.8**	2,452.2	2,380.7
LIABILITIES AND EQUITY				
Current liabilities				
Short-term borrowings	11	**53.0**	41.0	52.0
Trade and other payables	12	**151.3**	118.4	92.2
Current portion of long-term debt	11	**8.4**	82.2	8.2
Deferred credits		**0.7**	0.7	1.9
Current portion of deferred contributions	13	**0.8**	0.6	0.2
Derivative liabilities	19	**0.2**	0.4	-
Total current liabilities		**214.4**	243.3	154.5
Non-current liabilities				
Long-term debt	11	**1,239.3**	1,046.6	1,125.9
Deferred contributions	13	**11.4**	10.7	9.9
Decommissioning liabilities	14	**28.0**	24.8	26.7
Long-term payables		**0.7**	1.6	2.6
Employee benefits liability	15	**127.7**	105.5	108.9
Total liabilities		**1,621.5**	1,432.5	1,428.5
Shareholder's equity				
Share capital	16	**22.5**	22.5	22.5
Shareholder contributions	16	**118.6**	118.4	116.7
Reserves		**(4.8)**	(5.5)	3.3
Retained earnings		**655.9**	625.7	607.5
Total equity		**792.2**	761.1	750.0
Regulatory deferrals	9	**252.1**	258.6	202.2
Total liabilities, equity and regulatory deferrals		**2,665.8**	2,452.2	2,380.7

See accompanying notes

Commitments and contingencies (Note 21)
Explanation of transition to IFRS (Note 25)
Subsequent event (Note 26)

On behalf of the Board:

DIRECTOR

DIRECTOR

NEWFOUNDLAND AND LABRADOR HYDRO
CONSOLIDATED STATEMENTS OF PROFIT AND COMPREHENSIVE INCOME

For the year ended December 31 (millions of Canadian dollars)	Notes	**2014**	2013
Energy sales		**691.2**	681.3
Other revenue		**5.9**	6.6
Revenue		**697.1**	687.9
Fuels		**(268.1)**	(190.9)
Power purchased		**(68.3)**	(63.0)
Operating costs	17	**(210.1)**	(182.2)
Depreciation	8	**(69.8)**	(64.3)
Net finance income and expense	18	**(74.0)**	(73.1)
Other income and expense		**(0.5)**	(0.7)
Share of profit of joint arrangement		**0.4**	0.4
Profit, before regulatory adjustments		**6.7**	114.1
Regulatory adjustments	9	**66.3**	(57.1)
Profit for the year		**73.0**	57.0
Other comprehensive income (loss) for the year		**0.7**	(8.8)
Total comprehensive income for the year		**73.7**	48.2

See accompanying notes

NEWFOUNDLAND AND LABRADOR HYDRO
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(millions of Canadian dollars)	Note	Share Capital	Shareholder Contributions	Fair Value Reserve	Employee Benefit Reserve	Retained Earnings	Total
Balance at January 1, 2014		**22.5**	**118.4**	**24.9**	**(30.4)**	**625.7**	**761.1**
Profit for the year		**-**	**-**	**-**	**-**	**73.0**	**73.0**
Other comprehensive income							
Net change in fair value of available-for-sale financial instruments		**-**	**-**	**27.4**	**-**	**-**	**27.4**
Actuarial loss on employee benefit liability	**15**	**-**	**-**	**-**	**(15.7)**	**-**	**(15.7)**
Net change in fair value of financial instruments reclassified to profit or loss		**-**	**-**	**(11.0)**	**-**	**-**	**(11.0)**
Total comprehensive income (loss) for the year		**-**	**-**	**16.4**	**(15.7)**	**73.0**	**73.7**
Capital contributions	**16**	**-**	**0.2**	**-**	**-**	**-**	**0.2**
Dividends	**16**	**-**	**-**	**-**	**-**	**(42.8)**	**(42.8)**
Balance at December 31, 2014		**22.5**	**118.6**	**41.3**	**(46.1)**	**655.9**	**792.2**
Balance at January 1, 2013		22.5	116.7	42.8	(39.5)	607.5	750.0
Profit for the year		-	-	-	-	57.0	57.0
Other comprehensive income							
Net change in fair value of available-for-sale financial instruments		-	-	(5.0)	-	-	(5.0)
Actuarial gain on employee benefit liability	15	-	-	-	9.1	-	9.1
Net change in fair value of financial instruments reclassified to profit or loss		-	-	(12.9)	-	-	(12.9)
Total comprehensive income (loss) for the year		-	-	(17.9)	9.1	57.0	48.2
Capital contributions	16	-	1.7	-	-	-	1.7
Dividends	16	-	-	-	-	(38.8)	(38.8)
Balance at December 31, 2013		22.5	118.4	24.9	(30.4)	625.7	761.1

See accompanying notes

NEWFOUNDLAND AND LABRADOR HYDRO
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the year ended December 31 (millions of Canadian dollars)	Notes	**2014**	2013
Cash provided from (used in)			
Operating activities			
Profit for the year		**73.0**	57.0
Adjusted for items not involving a cash flow:			
Depreciation	8	**69.8**	64.3
Accretion	18	**1.3**	1.3
Amortization of deferred contributions	13	**(0.8)**	(0.7)
Employee benefits	15	**6.5**	5.7
Regulatory adjustments	9	**(66.3)**	57.1
Gain on disposal of property, plant and equipment		**(0.6)**	(1.2)
Share of profit of joint arrangement		**(0.4)**	(0.4)
Other		**(1.6)**	-
		80.9	183.1
Changes in non-cash working capital balances	23	**8.3**	10.8
Net cash provided from operating activities		**89.2**	193.9
Investing activities			
Additions to property, plant and equipment	8	**(242.9)**	(119.2)
Increase in short-term investments		**(3.3)**	-
Decrease (increase) in sinking funds		**101.0**	(27.6)
Additions to reserve fund	10	**(0.3)**	-
Withdrawal from reserve fund	10	**16.4**	-
Proceeds on disposal of property, plant and equipment		**3.3**	8.6
Net cash used in investing activities		**(125.8)**	(138.2)
Financing activities			
Issuance of long-term debt	11	**197.1**	-
Retirement of long-term debt	11	**(124.7)**	-
Dividends paid to Nalcor Energy	16	**(42.8)**	(38.8)
Increase (decrease) in short-term borrowings	11	**12.0**	(11.0)
Decrease (increase) in long-term receivables	10	**1.4**	(0.9)
Decrease in long-term payable		**(0.9)**	(1.0)
Increase in contributed capital	16	**0.2**	1.7
Increase in deferred contributions	13	**1.7**	1.9
Decrease in deferred credits		**-**	(1.2)
Net cash provided from (used in) financing activities		**44.0**	(49.3)
Net increase in cash and cash equivalents		**7.4**	6.4
Cash and cash equivalents, beginning of year		**18.0**	11.6
Cash and cash equivalents, end of year		**25.4**	18.0

Supplementary cash flow information (Note 23)

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's head office is located in St. John's, Newfoundland and Labrador. Hydro is a 100% owned subsidiary of Nalcor Energy (Nalcor).

Hydro holds interests in the following entities:

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

A 51% 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 annual audited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). Hydro adopted International Financial Reporting Standards (IFRS) as of January 1, 2014, with the date of transition effective January 1, 2013. Hydro has adopted accounting policies which are based on IFRS applicable as at December 31, 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 25.

Previously, the annual audited consolidated 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 Company's financial position, financial performance and cash flows is provided in Note 25.

These annual audited consolidated financial statements have been prepared on a historical cost basis, except for financial instruments 'at fair value through profit or loss' (FVTPL) and 'available-for-sale' (AFS) financial assets which have been measured at fair value. The annual audited consolidated financial statements are presented in Canadian Dollars and all values rounded to the nearest million, except when otherwise noted. These annual audited consolidated financial statements were approved by Hydro's Board of Directors (the Board) on March 13, 2015.

2.2 Basis of Consolidation

The annual audited consolidated financial statements include the financial statements of Hydro, its subsidiary company, Lower Churchill Development Corporation (LCDC) and its share of investment in a joint arrangement. Intercompany transactions and balances have been eliminated upon consolidation.

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

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

Churchill Falls holds 33.3% of the equity share capital of Twin Falls. This investment is accounted for using the equity method.

2.3 Cash and Cash Equivalents and Short-term Investments

Cash and cash equivalents consist of amounts on deposit with a Schedule 1 Canadian bank, as well as highly liquid short-term investments with original maturities of three months or less at date of purchase. Short-term investments with original maturities, at date of purchase, beyond three months and less than twelve months are classified as short-term investments. The effective interest rates on these investments at December 31, 2014 ranged from 1.21% to 1.23% (2013 — 1.12% to 1.15%) per annum. Cash and cash equivalents are recorded at cost which approximates fair value while short-term investments are measured at fair value.

2.4 Trade and Other Receivables

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

2.5 Inventories

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

2.6 Property, Plant and Equipment

Items of property, plant and equipment are recognized using the cost model and thus are recorded at cost less accumulated depreciation and accumulated impairment losses. Cost includes materials, labour, contracted services, professional fees and, for qualifying assets, borrowing costs capitalized in accordance with Hydro's accounting policy as per Note 2.7. 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 are not revalued for financial reporting purposes. Depreciation of these assets commences when the assets are ready for their intended use.

Hydro

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

Generation plant	
Hydroelectric	45 to 100 years
Thermal	35 to 65 years
Diesel	25 to 55 years
Transmission	
Lines	30 to 65 years
Terminal stations	40 to 55 years
Distribution system	30 to 55 years
Other assets	5 to 55 years

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

Transmission lines include the support structures, foundations and insulators associated with lines at voltages of 230,

138 and 69 kilovolt (kV). Terminal stations assets are used to step up voltages of electricity and to step down voltages for distribution.

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

Other assets include telecontrol, computer software, buildings, insulators and conductors which are carried at cost less accumulated amortization.

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	5 to 45 years

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

2.7 Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that 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.

2.8 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 (CGU) to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs 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 CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

2.9 Investment in Joint Arrangement

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

Effective June 18, 1999, Hydro, Churchill Falls and Hydro-Québec entered into a shareholders' agreement which provided, among other matters, that certain of the strategic operating, financing and investing policies of Churchill Falls be subject to approval jointly by Hydro and Hydro-Québec who are members 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. Hydro accounts for its investment in Churchill Falls by recognizing its share of assets, liabilities and profit or loss in relation to its interest in the joint operation.

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.

2.10 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 unit credit method, with actuarial valuations being completed every three years and extrapolated at the end of each reporting period based on service and Management's best estimate of salary escalation, retirement ages of employees and expected health care costs.

Actuarial gains and losses on Hydro's defined benefit obligation are recognized in reserves 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.

2.11 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 Statements of Financial Position date using the current discount rate.

2.12 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 expense. 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.

2.13 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 measured. 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.

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. The rate during the term of the Renewed Power Contract is 2.0 mills per kW.

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 2041.

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. Churchill Falls also provides 225 MW to Twin Falls.

2.14 Net Finance Income and Expense

For all financial instruments measured at amortized cost and interest bearing financial assets classified as AFS, 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.

2.15 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. Those foreign exchange gains and losses not included in regulatory deferrals are recorded in profit or loss as net finance income and expense.

2.16 Income Taxes

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

2.17 Financial Instruments

Financial assets and financial liabilities are recognized in the Consolidated Statements 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 FVTPL', 'held-to-maturity' investments, 'AFS' financial assets, 'loans and receivables', financial liabilities 'at FVTPL', financial instruments used for hedging and other financial liabilities. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Classification of Financial Instruments

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

Cash and cash equivalents	Loans and receivables
Short-term investments	AFS financial assets
Trade and other receivables	Loans and receivables
Derivative instruments	At FVTPL
Sinking funds – investments in same Hydro issue	Held-to-maturity investments
Sinking funds – other investments	AFS financial assets
Long-term receivable	Loans and receivables
Trade and other payables	Other financial liabilities
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 financial instrument and allocating interest income or expense 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 financial instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Income or expense is recognized on an effective interest basis for financial instruments other than those financial assets and liabilities classified at FVTPL.

Financial Assets

(ii) Financial Assets at FVTPL

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

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that 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 re-measurement recognized in other income and expense.

(iii) Loans and Receivables

Trade receivables, loans and other receivables with 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.

(iv) 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.

(v) 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.

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 and the definitions of a financial liability and equity instrument.

(vii) Financial Liabilities at FVTPL

A financial liability may be classified as at FVTPL if the contracted liability contains one or more embedded derivatives, and if the embedded derivative significantly modified the cash flows or if the embedded derivative is not closely related to the host liability. Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising from re-measurement recognized in profit or loss.

(viii) 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.

(ix) Derivative Instruments and Financial Instruments Used for Hedging

Derivative instruments are utilized by Hydro to manage market risk. Hydro's policy is not to utilize derivative instruments for speculative purposes. Derivatives are initially measured at fair value at the date the derivative contracts are entered into and are subsequently measured at their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging relationship.

2.18 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 any 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 the collateralized borrowing for the proceeds received. Hydro derecognizes financial liabilities when, and only when, its obligations are discharged, cancelled or they expire.

2.19 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.

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.

2.20 Regulatory Deferrals

Hydro's revenues from its electrical sales to most customers within the Province are subject to rate regulation by the PUB. Hydro's borrowing and capital expenditure programs are also subject to review and approval by the PUB. Rates are set through periodic general rate applications utilizing a cost of service (COS) methodology. The allowed rate of return on rate base is 7.4% (2013 - 7.4%) +/- 15 basis points. Hydro applies various accounting policies that differ from enterprises that do not operate in a rate regulated environment. Generally, these policies result in the deferral and amortization of costs or credits are expected to be recovered or refunded in future rates. In the absence of rate regulation, these amounts would be included in the determination of profit or loss in the year the amounts are incurred. The effects of rate regulation on the consolidated financial statements are disclosed in Note 9.

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 reviewed if the revision affects only that period or 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 net finance income and expense. 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 unit credit 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), Churchill Falls continues to apply the terms of the previous agreement which expired August 31, 2012. Management continues to work to negotiate terms of a new agreement.

3.2 Use of Judgment

(i) Property, Plant and Equipment

Hydro's accounting policy relating to property, plant and equipment is described in Note 2.6. In applying this policy, judgment is used in determining whether certain costs are additions to the carrying amount of the property, plant and equipment as opposed to repairs and maintenance. If an asset has been developed,

judgment is required to identify the point at which the asset is capable of being used as intended and to identify the directly attributable borrowing costs to be included in the carrying value of the development asset. Judgment is also used in determining the appropriate componentization structure for Hydro's property, plant and equipment.

(ii) Revenue

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

When recognizing deferrals and related amortization of costs or credits in Hydro Regulated, Management assumes that such costs or credits will be recovered or refunded through customer rates in future years. Recovery of some of these deferrals are subject to a future PUB order. As such, there is a risk that some or all of the regulatory deferrals will not be approved by the PUB which could have a material impact on Hydro Regulated's net income in the year the order is received.

4. FUTURE CHANGES IN ACCOUNTING POLICIES

Hydro has not applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 9	Financial Instruments[1]
IFRS 15	Revenue from Contracts with Customers[2]
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations[3]
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortization[3]
Amendments to IAS 19	Defined Benefit Plans: Employee Contributions[4]

[1]Effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.
[2]Effective for annual periods beginning on or after January 1, 2017, with earlier application permitted.
[3]Effective for annual periods beginning on or after January 1, 2016, with earlier application permitted.
[4]Effective for annual periods beginning on or after July 1, 2014, with earlier application permitted.

4.1 IFRS 9 Financial Instruments

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for de-recognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include:

a) impairment requirements for financial assets, and
b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key Requirements of IFRS 9:

- All recognized financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on

specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributed to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Management anticipates that the application of IFRS 9 in the future may have a material impact on amounts reported in respect of the Company's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until Management undertakes a detailed review.

4.2 IFRS 15 Revenue from Contracts with Customers

In May 2014, IFRS 15 was issued and establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a five-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer.
Step 2: Identify the performance obligations in the contract.
Step 3: Determine the transaction price.
Step 4: Allocate the transaction price to the performance obligations in the contract.
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15

Management anticipates that the application of IFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Company's financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until Management performs a detailed review.

4.3 Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations

The amendments to IFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in IFRS 3 Business Combinations. Specifically, the amendments state that the relevant principles on accounting for business combinations IFRS 3 and other standards (i.e. IAS 36 Impairment of Assets regarding impairment testing of a CGU to which goodwill on acquisition of a joint operation has been allocated) should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation.

A joint operation is also required to disclose the relevant information required by IFRS 3 and other standards for business combinations.

The amendments of IFRS 11 apply prospectively for annual periods beginning on or after January 1, 2016. Management does not anticipate that the application of these amendments to IFRS 11 will have a material impact on the Company's financial statements.

4.4 Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortization

The amendments to IAS 16 prohibit entities from using revenue-based depreciation methods for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortization of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

a) when the intangible asset is expressed as a measure of revenue, or
b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after January 1, 2016. Currently, the Company uses the straight-line method for depreciation of its property, plant and equipment. Management believes that the straight-line method is the most appropriate method to reflect the consumption of economic benefit inherent in the respective assets and, accordingly, does not anticipate that the application of these amendments to IAS 16 and IAS 38 will have a material impact on the Company's financial statements.

4.5 Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

The amendments to IAS 19 clarify how an entity should account for contributions made by employees or third parties to defined benefit plans, based on whether those contributions are dependent on the number of years of service provided by the employee.

For contributions that are independent of the number of years of service, the entity may either recognize the contributions as a reduction in the service cost in the period in which the related service is rendered, or attribute them to the employees' periods of service using the projected unit credit method; whereas for contributions that are dependent on the number of years of service, the entity is required to attribute them to the employees' periods of service.

Management does not anticipate that the application of these amendments to IAS 19 will have a significant impact on the Company's financial statements.

5. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents is as follows:

(millions of Canadian dollars)	**December 31 2014**	December 31 2013	January 1 2013
Cash	**20.5**	11.4	11.6
Cash equivalents	**4.9**	6.6	-
	25.4	18.0	11.6

6. TRADE AND OTHER RECEIVABLES

The composition of trade and other receivables is as follows:

(millions of Canadian dollars)	**December 31 2014**	December 31 2013	January 1 2013
Trade receivables	**89.7**	99.9	92.9
Recevables due from related parties	**15.0**	12.2	11.8
Other receivables	**11.5**	0.9	1.9
Insurance receivables	**-**	-	4.6
Allowance for doubtful accounts	**(11.2)**	(9.4)	(9.2)
	105.0	103.6	102.0

The following is an aged analysis of receivables, net of allowance for doubtful accounts:

(millions of Canadian dollars)	**December 31 2014**	December 31 2013	January 1 2013
0-60 days	**104.0**	100.5	100.3
60+ days	**1.0**	3.1	1.7
	105.0	103.6	102.0

A reconciliation of the beginning and ending amount of allowance for doubtful accounts is as follows:

(millions of Canadian dollars)	**December 31 2014**	December 31 2013
Allowance for doubtful accounts at beginning of year	**(9.4)**	(9.2)
Amounts provided for during the year	**(1.9)**	(0.3)
Amounts written off as uncollectable	**0.1**	0.1
Allowance for doubtful accounts at end of year	**(11.2)**	(9.4)

7. INVENTORIES

The composition of inventory is as follows:

(millions of Canadian dollars)	**December 31 2014**	December 31 2013	January 1 2013
Number 6 fuel	**49.4**	30.8	20.6
Material and other	**36.9**	35.0	32.6
Diesel fuel	**4.4**	4.2	4.0
Other fuel	**4.1**	2.7	2.3
Consruction aggregates	**2.3**	2.5	2.5
	97.1	75.2	62.0

The cost of inventories recognized as an expense during the year is $275.3 million (2013 - $196.3 million)

8. 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	173.3	43.2	2,244.9
Additions	-	(0.1)	-	119.3	119.2
Decommissioning liability revisions	(2.0)	(0.6)	-	-	(2.6)
Disposals	(7.0)	(1.6)	(1.5)	-	(10.1)
Transfers	60.5	54.2	25.4	(140.1)	-
Other adjustments	0.2	0.1	0.2	-	0.5
Balance at December 31, 2013	**1,477.2**	**654.9**	**197.4**	**22.4**	**2,351.9**
Additions	**0.4**	**(0.1)**	**-**	**242.4**	**242.7**
Disposals	**(2.1)**	**(1.8)**	**(1.3)**	**-**	**(5.2)**
Transfers	**48.2**	**57.3**	**18.1**	**(123.4)**	**0.2**
Decommissioning liability revisions	**2.2**	**0.1**	**-**	**-**	**2.3**
Balance at December 31, 2014	**1,525.9**	**710.4**	**214.2**	**141.4**	**2,591.9**
Depreciation					
Balance at January 1, 2013	301.1	80.8	42.6	-	424.5
Depreciation expense	33.8	18.0	12.5	-	64.3
Disposals	(1.8)	(0.3)	(0.6)	-	(2.7)
Other adjustments	0.2	0.1	0.1	-	0.4
Balance at December 31, 2013	**333.3**	**98.6**	**54.6**	**-**	**486.5**
Depreciation expense	**38.1**	**18.9**	**12.8**	**-**	**69.8**
Disposals	**(1.2)**	**(0.4)**	**(0.9)**	**-**	**(2.5)**
Transfers	**(0.4)**	**0.5**	**0.1**	**-**	**0.2**
Balance at December 31, 2014	**369.8**	**117.6**	**66.6**	**-**	**554.0**
Carrying value					
Balance at January 1, 2013	1,124.4	522.1	130.7	43.2	1,820.4
Balance at December 31, 2013	1,143.9	556.3	142.8	22.4	1,865.4
Balance at December 31, 2014	**1,156.1**	**592.8**	**147.6**	**141.4**	**2,037.9**

9. REGULATORY DEFERRALS

	January 1 2013	Regulatory activity	December 31 2013	Regulatory activity	**December 31 2014**	**Remaining Recovery Settlement Period (years)**
Regulatory asset deferrals						
Foreign exchange losses	62.6	(2.1)	60.5	(2.1)	**58.4**	27.0
Foreign exchange on fuel	0.1	(0.1)	-	0.3	**0.3**	n/a
Deferred lease costs	-	-	-	3.7	**3.7**	n/a
2014 cost deferral	-	-	-	45.9	**45.9**	n/a
Fuel supply deferral	-	-	-	9.6	**9.6**	n/a
Deferred energy conservation costs	2.4	1.5	3.9	2.4	**6.3**	n/a
	65.1	(0.7)	64.4	59.8	**124.2**	
Regulatory liability deferrals						
Rate stabilization plan (RSP)	(201.7)	(52.1)	(253.8)	7.8	**(246.0)**	n/a
Insurance proceeds (net)	-	(4.3)	(4.3)	(1.3)	**(5.6)**	n/a
Deferred power purchase savings	(0.5)	-	(0.5)	-	**(0.5)**	12.5
	(202.2)	(56.4)	(258.6)	6.5	**(252.1)**	

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

(millions of Canadian dollars)	**2014**	2013
RSP amortization	**41.2**	58.9
Rural rate adjustment	**9.1**	11.4
RSP fuel deferral	**(76.1)**	(35.3)
RSP interest	**18.0**	17.1
Total RSP activity	**(7.8)**	52.1
2014 cost deferral	**(45.9)**	-
Fuel supply deferral	**(9.6)**	-
Amortization of deferred foreign exchange losses	**2.1**	2.1
Deferred foreign exchange on fuel	**(0.3)**	0.1
Deferred energy conservation	**(2.4)**	(1.5)
Insurance proceeds (net)	**1.3**	4.3
Deferred lease costs	**(3.7)**	-
Total regulatory adjustments	**(66.3)**	57.1

The following section describes Hydro's regulatory deferrals which will be, or are expected to be, reflected in customer rates in future periods and have been established through the rate setting process. In the absence of rate regulation, these amounts would be reflected in operating results in the year and net income for 2014 would have decreased by $66.3 million (2013 - $57.1 million increase).

9.2 Rate Stabilization Plan (RSP)

The PUB ordered Hydro to implement a rate stabilization plan (RSP) which primarily provides for the deferral of fuel expense variances resulting from changes in fuel prices, hydrology and load and associated interest. Additionally, the RSP also includes costs associated with the island interconnected and isolated systems. Adjustments required in utility rates to cover the amortization of the balance are implemented on July 1 of each year. Similar adjustments required in industrial rates are implemented on January 1 of each year.

During 2014 Hydro recorded a net decrease in regulatory liabilities of $7.8 million (2013 - $52.1 million increase) resulting in an RSP ending balance for 2014 of $246.0 million (2013 - $253.8 million). Included in the balance is $75.6 million (2013 - $119.4 million) which is to be refunded in the following year, with the exception of hydraulic variations, which will be refunded at a rate of 25% of the outstanding balance at year end. The remaining portion of

the RSP balance totaling $170.4 million (2013 - $134.4 million) has been set aside with $124.0 million (2013 - $115.3 million) to be refunded to Newfoundland Power's retail customers, $10.9 million (2013 - $10.9 million) to be used to phase in Island Industrial rate increases and $35.5 million (2013 - $8.2 million) subject to a future regulatory ruling.

9.3 Deferred Foreign Exchange Losses

In 2002, the PUB ordered Hydro to defer realized foreign exchange losses related to the issuance of Swiss Franc and Japanese Yen denominated debt and amortize the balance over a 40-year period. Accordingly, these costs were recognized as a regulatory asset. During 2014, the amortization of $2.1 million (2013 - $2.1 million) reduced regulatory assets.

9.4 Deferred Energy Conservation Costs

The PUB ordered the deferral of costs associated with an electrical conservation program for residential, industrial, and commercial sectors. In 2014, Hydro recognized $2.4 million (2013 - $1.5 million) as a regulatory asset. Recovery of this balance will be addressed as part of Hydro's General Rate Application currently before the PUB.

9.5 Deferred Purchased Power Savings

In 1997, the Pub ordered Hydro to defer $1.1 million in benefits related to a reduced initial purchased power rate relating to interconnecting communities in the area of L'Anse au Clair to Red Bay to the Hydro-Québec system and amortize the balance over a 30-year period. The remaining unamortized savings in the amount of $0.5 million (2013 - $0.5 million) are deferred as a regulatory liability.

9.6 Deferred Foreign Exchange on Fuel

Hydro purchases a significant amount of fuel for Holyrood Thermal Generating Station (HTGS) in USD. The RSP allows Hydro to defer variances in fuel prices (including foreign exchange fluctuations). During 2014, Hydro recognized in regulatory assets, foreign exchange losses on fuel purchases of $0.3 million (2013 - $0.1 million gain).

9.7 Insurance Proceeds (Net of Amortization)

Pursuant to Order No. P.U. 13 (2012), Hydro records net insurance proceeds against the capital costs and amortizes the balance over the life of the asset. Under IFRS, Hydro is required to recognize the insurance proceeds and corresponding amortization in regulatory liabilities. During 2014, Hydro recorded an increase to regulatory liabilities related to insurance proceeds of $1.8 million (2013 - $4.5 million) and amortization of $0.5 million (2013 - $0.2 million) related to those assets.

9.8 Deferred Lease Costs

As per Order no. P.U. 28 (2013), Hydro received approval to defer lease costs associated with the 16 MW diesel plant and other necessary infrastructure to ensure black start capability at the HTGS. In 2014, Hydro recognized $3.7 million (2013 - $nil) in regulatory assets. Recovery of this balance is subject to a future PUB Order.

9.9 Fuel Supply Deferral

Pursuant to Order no. P.U. 56 (2014), Hydro received approval to defer additional capacity related supply costs incurred during the three months ended March 31, 2014. In 2014, Hydro deferred $9.6 million (2013 - $nil) in regulatory assets. Recovery of this balance is subject to a future PUB Order.

9.10 2014 Cost Deferral

As per Order no. P.U. 58 (2014), Hydro received approval to defer $45.9 million in relation to Hydro's proposed 2014 revenue requirement (2013 - $nil). Accordingly, these costs have been recognized as a regulatory asset. Recovery of this balance is subject to a future PUB Order.

10. OTHER LONG-TERM ASSETS

(millions of Canadian dollars)		**December 31 2014**	December 31 2013	January 1 2013
Long-term receivables	**(a)**	**0.3**	1.7	0.8
Reserve fund	**(b)**	**34.2**	50.5	50.9
Sinking funds	**(c)**	**228.4**	267.6	263.3
		262.9	319.8	315.0
Less: current portion of sinking funds		**-**	(65.4)	-
		262.9	254.4	315.0

(a) The balance of $0.3 million (2013 - $1.7 million) includes the non-current portion of receivables associated with customer payment plans and the long-term portion of employee purchase programs.

(b) Pursuant to the terms of the 1999 shareholders' agreement, in 2007, Churchill Falls commenced the creation of a $75.0 million segregated reserve fund to contribute towards the funding of capital expenditures related to Churchill Falls' existing facilities and their replacement. Churchill Falls invested $17.0 million in each of 2007, 2008 and 2009 and $8.0 million in each of 2010, 2011 and 2012. In October 2014, $23.4 million was withdrawn to fund a portion of 2014 capital expenditures. As per the terms of the shareholders' agreement, these funds will be replaced over a five-year period with $5.84 million due in each of 2015, 2016 and 2017 and $2.92 million due in 2018 and 2019.

This fund must remain in place until the end of the shareholders' agreement in 2041. Any amounts removed to fund capital expenditures must be replaced. Reserve fund holdings consist of securities issued by the Government of Canada, various provinces of Canada and Schedule 1 and 2 Canadian Chartered Banks.

The reserve fund consists of the following:

(millions of Canadian dollars)	**2014**	2013
Opening balance	**50.5**	50.9
Principal withdrawals	**(15.4)**	-
Earnings withdrawn	**(1.0)**	-
Net discount (premium)	**0.3**	-
Mark to market adjustment	**(0.2)**	(0.4)
Fair value of reserve fund	**34.2**	50.5

(c) As at December 31, 2014, sinking funds include $228.4 million (2013 - $267.6 million) related to repayment of Hydro's long-term debt. Sinking fund investments consist of bonds, debentures, promissory notes and coupons issued by, or guaranteed by, the Government of Canada, provincial governments or Schedule 1 banks, and have maturity dates ranging from 2017 to 2033.

Hydro debentures, which are intended to be held to maturity, are deducted from debt while all other sinking fund investments are shown separately on the Statements of Financial Position as assets. Annual contributions to the various sinking funds are in accordance with bond indenture terms, and are structured to ensure the availability of adequate funds at the time of expected bond redemption. Effective yields range from 1.52% to 9.12% (2013 - 1.17% to 9.86%.).

The sinking fund consists of the following:

(millions of Canadian dollars)	**2014**	2013
Balance, beginning of year	**267.6**	263.3
Contributions	**8.3**	8.2
Earnings	**11.0**	13.6
Disposals	**(74.2)**	-
Valuation adjustment	**16.5**	(17.5)
Gain on sale of	**(0.8)**	-
Balance, end of year	**228.4**	267.6
Less: current portion of sinking funds	**-**	65.4
	228.4	202.2

Sinking fund instalments due for the next five years are as follows:

(millions of Canadian dollars)	2015	2016	2017	2018	2019
Sinking fund instalments	8.1	8.1	6.7	6.7	6.7

11. DEBT

11.1 Short-term Borrowings

Hydro used promissory notes to fulfil its short-term funding requirements. As at December 31, 2014, there was $53.0 million in short-term borrowings outstanding (2013 - $41.0 million).

Hydro also maintains a $50.0 million CAD or USD equivalent unsecured demand operating credit facility with its banker and at year end there were no amounts drawn on this facility (2013 - $nil). Advances may take the form of a Prime Rate Advance or the issuance of a Bankers' Acceptances (BA). The facility also provides coverage for overdrafts on Hydro's bank accounts. At year end, Hydro has one letter of credit outstanding, reducing the availability of the credit facility by $0.3 million (2013 - $0.3 million).

Churchill Falls maintains a $10.0 million CAD or USD equivalent unsecured demand operating credit facility with its banker and at December 31, 2014 there were no amounts drawn on this facility (2013 - $nil). Borrowings in CAD may take the form of Prime Rate Advances and BAs and borrowings in USD may take the form of Base Rate Advances. Churchill Falls has issued three irrevocable letters of credit, totaling $2.0 million, to ensure satisfactory management of its waste management and compliance with a certificate of approval for the transportation of special hazardous wastes granted by the Department of Environment and Conservation.

11.2 Long-term Debt

(millions of Canadian dollars)	Face Value	Coupon Rate %	Year of Issue	Year of Maturity	**December 31 2014**	December 31 2013	January 1 2013
Hydro							
V*	0.3	10.50	1989	2014	**0.3**	125.0	124.8
X*	150.0	10.25	1992	2017	**149.7**	149.5	149.4
Y*	300.0	8.40	1996	2026	**294.3**	294.0	293.8
AB*	300.0	6.65	2001	2031	**305.9**	306.1	306.3
AD*	125.0	5.70	2003	2033	**123.7**	123.7	123.7
AE	225.0	4.30	2006	2016	**224.6**	224.4	224.2
AF	200.0	3.60	2014	2045	**197.1**	-	-
Total debentures	1,300.3				**1,295.6**	1,222.7	1,222.2
Less: Sinking fund investments in own debentures					**47.9**	93.9	88.1
					1,247.7	1,128.8	1,134.1
Less: payments due within one year					**8.4**	82.2	8.2
Total debentures					**1,239.3**	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 2014 was $3.7 million (2013 - $3.7 million).

On September 15, 2014, Hydro raised 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 of 3.6% paid semi-annually.

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

(millions of Canadian dollars)	2015	2016	2017	2018	2019
Long-term debt repayment	0.3	225.0	150.0	-	-

12. TRADE AND OTHER PAYABLES

The composition of trade and other payables is as follows:

(millions of Canadian dollars)	**December 31 2014**	December 31 2013	January 1 2013
Trade payables	**100.6**	74.6	47.0
Accrued interest payable	**28.8**	28.7	28.7
Payables due to related parties	**2.7**	2.5	3.7
Other payables	**19.2**	12.6	12.8
	151.3	118.4	92.2

13. 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)	**December 31 2014**	December 31 2013
Deferred contributions, beginning of year	**11.3**	10.1
Additions	**1.7**	1.9
Amortization	**(0.8)**	(0.7)
Deferred contributions, end of year	**12.2**	11.3
Less: current portion	**(0.8)**	(0.6)
	11.4	10.7

14. DECOMMISSIONING LIABILITIES

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

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

(millions of Canadian dollars)	**December 31 2014**	December 31 2013
Decommissioning liabilities, beginning of year	**24.8**	26.7
Liabilities settled	**(0.1)**	(0.1)
Accretion	**1.0**	0.8
Revisions	**2.3**	(2.6)
Decommissioning liabilities, end of year	**28.0**	24.8

The total estimated undiscounted cash flows required to settle the HTGS obligations at December 31, 2014 are $32.1 million (2013 - $32.1 million). Payments to settle the liability are expected to occur between 2020 and 2024. The fair value of the decommissioning liabilities was determined using the present value of future cash flows discounted at the Company's credit adjusted risk free rate of 2.6% (2013 - 3.6%). Hydro has recorded $25.8 million (2013 - $22.7 million) related to HTGS obligations.

The total estimated undiscounted cash flows required to settle the PCB obligations at December 31, 2014 are $2.5 million (2013 - $2.5 million). Payments to settle the liability are expected to occur between 2015 and 2025. The fair value of the decommissioning liabilities was determined using the present value of future cash flows discounted at the Company's credit adjusted risk free rate of 2.8% to 4.6% (2013 - 3.8% and 5.5%). Hydro has recorded $2.2 million (2013 - $2.2 million) related to PCB obligations.

A significant number of Hydro's assets include generation plants, transmission assets and distribution systems. These assets can continue to run indefinitely with ongoing maintenance activities. As it is expected that Hydro's assets will be used for an indefinite period, no removal date can be determined and, consequently, a reasonable estimate of the fair value of any related decommissioning liability cannot be determined at this time. If it becomes possible to estimate the fair value of the cost of removing assets that Hydro is required to remove, a decommissioning liability for those assets will be recognized at that time.

15. EMPLOYEE BENEFITS LIABILITY

15.1 Pension Plan

Employees participate in the Province's Public Service Pension Plan, a multi-employer defined benefit plan. The employer's contributions of $6.2 million (2013 - $5.7 million) are expensed as incurred.

15.2 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 2014, cash payments to beneficiaries for its unfunded other employee future benefits were $2.4 million (2013 - $2.9 million). An actuarial valuation was performed as at December 31, 2012, with an extrapolation to December 31, 2014. The next actuarial valuation will be performed at December 31, 2015.

For the year ended December 31 (millions of Canadian dollars)	**2014**	2013
Accrued benefit obligation		
Balance, beginning of year	**105.5**	108.9
Current service cost	**3.5**	4.1
Interest cost	**5.4**	4.5
Benefits paid	**(2.4)**	(2.9)
Actuarial loss (gain)	**15.7**	(9.1)
Balance, end of year	**127.7**	105.5

For the year ended December 31 (millions of Canadian dollars)	**2014**	2013
Component of benefit cost		
Current service cost	**3.5**	4.1
Interest cost	**5.4**	4.5
Total benefit expense for the year	**8.9**	8.6

The significant actuarial assumptions used in measuring the accrued benefit obligations and benefit expenses are as follows:

	2014	2013
Discount rate - benefit cost	**5.00%**	4.00%
Discount rate - accrued benefit obligation	**4.20%**	5.00%
Rate of compensation increase	**3.50%**	3.50%

Assumed healthcare trend rates:

	2014	2013
Initial health care expense trend rate	**6.00%**	6.00%
Cost trend decline to	**4.50%**	4.50%
Year that rate reaches the rate it is assumed to remain at	**2020**	2020

A 1% change in assumed health care trend rates would have had the following effects:

Increase (millions of Canadian dollars)	**2014**	2013
Current service and interest cost	**2.0**	2.1
Accrued benefit obligation	**27.4**	20.0

Decrease (millions of Canadian dollars)	**2014**	2013
Current service and interest cost	**(1.5)**	(1.5)
Accrued benefit obligation	**(20.6)**	(15.3)

16. SHAREHOLDER'S EQUITY

16.1 Share Capital

The share capital of Hydro is summarized below:

(millions of Canadian dollars)	**December 31 2014**	December 31 2013	January 1 2013
Common shares of par value of $1 each			
Authorized - 25,000,000			
Issued and outstanding - 22,503,902	**22.5**	22.5	22.5

16.2 Shareholder Contributions

(millions of Canadian dollars)	**December 31 2014**	December 31 2013	January 1 2013
Total contributed capital	**118.6**	118.4	116.7

On February 3, 2010, the Province established the Churchill Falls (Labrador) Corporation Trust (the Trust) with Churchill Falls as the beneficiary. The purpose of this Trust is to fund the external costs and expenses incurred in relation to the motion filed by Churchill Falls seeking a modification to the pricing terms of the 1969 Power Contract. During 2014, the Trust contributed capital in the amount of $0.2 million (2013 - $1.7 million).

16.3 Dividends

(millions of Canadian dollars)	**December 31 2014**	December 31 2013
Declared during the year		
Final dividend for prior year: $0.15 per share (2013 - $0.10)	**3.5**	2.2
Interim dividend for current year: $1.75 per share (2013 - $1.63)	**39.3**	36.6
	42.8	38.8

17. OPERATING COSTS

For the year ended December 31 (millions of Canadian dollars)	**2014**	2013
Salaries and benefits expense	**110.5**	101.8
Transmission rental	**20.4**	20.5
Maintenance and materials	**36.8**	29.5
Professional services	**19.7**	13.3
Rental and royalty expense	**3.1**	3.7
Travel and transportation costs	**8.3**	7.9
Other operating costs	**11.3**	5.5
	210.1	182.2

18. NET FINANCE INCOME AND EXPENSE

For the year ended December 31(millions of Canadian dollars)	**2014**	2013
Finance income		
Interest on sinking fund	**15.8**	19.4
Interest on reserve fund	**1.3**	1.5
Other interest income	**0.5**	0.6
	17.6	21.5
Finance expense		
Long-term debt	**85.5**	90.5
Foreign exchange loss	**4.4**	0.7
Debt guarantee fee	**3.7**	3.7
Accretion	**1.3**	1.3
Other	**1.5**	0.6
	96.4	96.8
Interest capitalized during construction	**(4.8)**	(2.2)
	91.6	94.6
Net finance income and expense	**74.0**	73.1

19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

19.1 Fair Value

The estimated fair values of financial instruments as at December 31, 2014, December 31, 2013 and January 1, 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 a financial instrument, the fair value estimates below do not reflect the fair value of Hydro as a whole.

Establishing Fair Value

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

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

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

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

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value. For assets and liabilities that are recognized at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. There were no transfers between Level 1, 2 and 3 fair value measurements during the years ended December 31, 2014 and 2013.

As of December 31, 2014, Hydro did not have any level 3 instruments.

(millions of Canadian dollars)	Level	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value	Carrying Value	Fair Value
		December 31, 2014		December 31, 2013		January 1, 2013	
Financial assets							
Cash and cash equivalents	**1**	**25.4**	**25.4**	18.0	18.0	11.6	11.6
Short-term investments	**1**	**3.3**	**3.3**	-	-	-	-
Trade and other receivables	**1**	**105.0**	**105.0**	103.6	103.6	102.0	102.0
Derivative assets	**2**	**2.7**	**2.7**	0.2	0.2	-	-
Sinking funds - investments in same Hydro issue	**2**	**47.9**	**62.3**	93.9	105.1	88.1	107.3
Sinking funds - other investments	**2**	**228.4**	**228.4**	267.6	267.6	263.3	263.3
Reserve fund	**2**	**34.2**	**34.2**	50.5	50.5	50.9	50.9
Long-term receivables	**2**	**0.3**	**0.3**	1.7	1.8	0.8	0.8
Financial liabilities							
Trade and other payables	**1**	**151.3**	**151.3**	118.4	118.4	92.2	92.2
Short-term borrowings	**1**	**53.0**	**53.0**	41.0	41.0	52.0	52.0
Derivative liabilities	**2**	**0.2**	**0.2**	0.4	0.4	-	-
Long-term debt (including amount due within one year before sinking funds)	**2**	**1,295.6**	**1,694.6**	1,222.7	1,545.5	1,222.2	1,668.6
Long-term payables	**2**	**0.7**	**0.8**	1.6	1.7	2.6	2.8

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

19.2 Risk Management

Hydro is exposed to certain credit, liquidity and market price risks through its operating, investing and financing activities. Financial risk is managed in accordance with a Board-approved policy, which outlines the objectives and strategies for the management of financial risk, including the use of derivative contracts. Permitted financial risk management strategies are aimed at minimizing the volatility of Hydro's expected future cash flows.

Credit Risk

Hydro's expected future cash flow is exposed to credit risk through its operating activities, primarily due to the potential for non-performance by its customers, and through its financing and investing activities, based on the risk of non-performance by counterparties to its financial instruments. The degree of exposure to credit risk on cash and cash equivalents and derivative assets as well as from the sale of electricity to customers, including the associated accounts receivable, is determined by the financial capacity and stability of those customers and counterparties. The maximum exposure to credit risk on these financial instruments is represented by their carrying values on the Statements of Financial Position at the reporting date.

Credit risk on cash and cash equivalents is minimal, as Hydro's cash deposits are held by a Canadian Schedule 1 Chartered Bank with a rating of A+ (Standard and Poor's).

Credit risk on short-term investments is minimized by limiting holdings to high-quality, investment grade securities issued by Federal and Provincial governments, as well as Bankers' Acceptances and term deposits issued by Canadian Schedule 1 Chartered Banks.

Credit exposure on Hydro's sinking funds is limited by restricting the holdings to long-term debt instruments issued by the Government of Canada or any province of Canada, crown corporations and Canadian Schedule 1 Chartered Banks. The following credit risk table provides information on credit exposures according to issuer type and credit rating for the remainder of the long-term investment portfolio:

	Issuer Credit Rating	Fair Value of Portfolio (%)	Issuer Credit Rating	Fair Value of Portfolio (%)
	2014		2013	
Provincial Governments	**AA- to AAA**	**4.93%**	AA- to AAA	2.72%
Provincial Governments	**A- to A+**	**41.74%**	A- to A+	38.84%
Provincially owned utilities	**AA- to AAA**	**19.70%**	AA- to AAA	13.99%
Provincially owned utilities	**A- to A+**	**31.39%**	A- to A+	41.34%
Schedule 1 Canadian banks	**AA- to AAA**	**-**	AA- to AAA	1.07%
Schedule 1 Canadian banks	**A- to A+**	**2.24%**	A- to A+	2.04%
		100.00%		100.00%

Credit exposure on the reserve fund is mitigated by adhering to an investment policy which restricts the holdings to long-term debt instruments issued or guaranteed by the Government of Canada or any province of Canada. Investment in the long-term debt instruments of Canadian banks are also permitted, provided the bank is rated A or higher by Standard and Poor's. With the exception of Government of Canada, holdings of any one issuer are limited to 10% of the total principal amount of the portfolio. The following credit risk table provides information on credit exposures according to issuer type and credit rating for the reserve fund:

	Issuer Credit Rating	Fair Value of Portfolio (%)	Issuer Credit Rating	Fair Value of Portfolio (%)
	2014		2013	
Provincial Governments	**AA- to AAA**	**-**	AA- to AAA	8.94%
Canadian Schedule 1 or 2 banks	**AA- to AAA**	**9.14%**	AA- to AAA	16.70%
Provincial Governments	**A- to A+**	**29.28%**	A- to A+	21.25%
Provincially owned utilities	**AA- to AAA**	**2.10%**	AA- to AAA	9.09%
Provincially owned utilities	**A- to A+**	**9.15%**	A- to A+	6.06%
Canadian Schedule 1 banks	**A- to A+**	**50.33%**	A- to A+	37.96%
		100.00%		100.00%

Credit exposure on derivative assets is limited by the Financial Risk Management Policy, which restricts available counterparties for hedge transactions to Canadian Schedule 1 Chartered Banks, and Federally Chartered US Banks.

Hydro's exposure to credit risk on its energy sales and associated accounts receivable is determined by the credit quality of its customers. Hydro's three largest customers account for 81.6% (2013 - 81.9%) of total energy sales and 64.7% (2013 – 72.2%) of accounts receivable. These customers are comprised of rate regulated entities or organizations with investment grade credit ratings.

Liquidity Risk

Hydro is exposed to liquidity risk with respect to its contractual obligations and financial liabilities, including any derivative liabilities related to hedging activities. Liquidity risk management is aimed at ensuring cash is available to meet those obligations as they become due.

Short-term liquidity is mainly provided through cash and cash equivalents on hand, funds from operations, and a $300.0 million promissory note program. In addition, Hydro maintains a $50.0 million (2013 - $50.0 million) unsecured demand operating facility with its primary banker in order to meet any requirements beyond those forecasted for a given period. Churchill Falls also maintains a $16.0 million (2013 - $16.0 million) minimum cash balance as well as a $10.0 million (2013 - $10.0 million) unsecured demand operating facility with its banker.

Long-term liquidity risk is managed by the issuance of a portfolio of debentures with maturity dates ranging from 2015 to 2045. Sinking funds have been established for these issues, with the exception of the issues maturing in 2016 and 2045.

For Churchill Falls, long-term liquidity risk is managed by maintenance of the reserve fund in accordance with the June 1999 shareholders' agreement and a dividend management policy that meets long-term liquidity requirements associated with Churchill Falls capital expenditure program.

The following are the contractual maturities of Hydro's financial liabilities, including principal and interest, as at December 31, 2014:

(millions of dollars)	**<1 Year**	**1-3 Years**	**3-5 years**	**> 5 Years**	**Total**
Trade and other payables	151.3	-	-	-	151.3
Short-term borrowings	53.0	-	-	-	53.0
Long-term payable	-	0.7	-	-	0.7
Long-term debt	8.4	385.3	13.3	893.3	1,300.3
Interest	84.5	150.1	119.0	670.8	1,024.4
	297.2	536.1	132.3	1,564.1	2,529.7

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 the Financial Risk Management Strategy.

Interest Rates

Changes in prevailing interest rates will impact the fair value of financial assets and liabilities classified as held for trading or available-for-sale, which includes Hydro's cash and cash equivalents, short-term investments and sinking funds. Expected future cash flows associated with those financial instruments can also be impacted. The impact of a 0.5% change in interest rates on net income and other comprehensive income associated with cash and cash equivalents and short-term debt was negligible throughout 2014 due to the short time period to maturity.

The table below shows the impact of a 50 basis point change in interest rates on other comprehensive income associated with the sinking funds at the Statement of Financial Position date:

	Other Comprehensive Income	
(millions of dollars)	**0.5% Decrease**	**0.5% Increase**
Interest on sinking fund	9.7	(11.4)
Interest on reserve fund	0.8	0.1
	10.5	(11.3)

Foreign Currency and Commodity Exposure

Hydro's primary exposure to both foreign exchange and commodity price risk arises from its purchases of No. 6 fuel for consumption at the HTGS, and USD denominated electricity sales. For the purchase of No. 6 fuel oil, these risks are mitigated through the operation of the RSP. Exposures in USD denominated electricity sales are addressed in accordance with the Board-approved Financial Risk Management Policy. Tactics include the use of forward rate agreements and fixed price commodity swaps.

During 2014, total electricity sales denominated in USD were $56.4 million (2013 - $54.7 million). In 2014, Hydro mitigated foreign exchange risk on these sales through the use of foreign currency forward contracts. In December of 2013, Hydro entered into a series of 12 monthly foreign exchange forward contracts with a notional value of $38.5 million USD to hedge foreign exchange risk on a portion of Hydro's planned USD electricity sales for the year. These contracts had an average exchange rate of $1.08 CAD per USD. In December 2013, Hydro also entered into a series of

12 electricity price forward contracts with a notional value of $14.2 million USD. The average price of these contracts was USD $38.74 per MWh (On Peak) and USD $28.42 per MWh (Off Peak). During 2014, $2.2 million in losses from these derivative contracts was recognized in other income and expense (2013 - $0.2 million loss).

In December of 2014, Hydro entered into a series of 12 electricity price forward contracts with a notional value of $32.5 million USD. The average price of these contracts was USD $43.60 per MWh (On Peak) and USD $30.10 per MWh (Off Peak). As at December 31, 2014, the fair value of the derivative asset was $2.7 million (2013 - $0.2 million) and the derivative liability was $0.2 million (2013 - $0.4 million) as presented on the Statement of Financial Position. During 2014, $2.6 million in unrealized gains from these contracts was included in other income and expense (2013 - $nil).

20. RELATED PARTY TRANSACTIONS

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

Related Party	Relationship
Nalcor Energy (Nalcor)	100.0% shareholder of Hydro
The Province	100.0% 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
Nalcor Energy Marketing (NEM)	Wholly owned subsidiary of Nalcor

(a) Hydro has received funding from the Province for wind feasibility studies in Labrador. As at December 31, 2014, $0.7 million (2013 - $0.7 million) has been recorded in deferred credits.

(b) Hydro is required to contribute to the cost of operations of the PUB as well as the cost of hearings and applications costs. During 2014, Hydro incurred $3.1 million (2013 - $0.6 million) in costs related to the PUB, of which, $2.4 million (2013 - $0.2 million) was included in accounts payable and accrued liabilities.

(c) As at December 31, 2014, Hydro has a payable to related parties of $0.9 million (2013 - $0.4 million) and a receivable from related parties for $2.5 million (2013 - $0.6 million). This payable/receivable consists of various intercompany operating costs and power purchases.

(d) The debt guarantee fee for 2014 was $3.7 million (2013 - $3.7 million). It was paid in advance to the Province in March 2014.

(e) As at December 31, 2014, Hydro recovered $5.8 million (2013 - $5.5 million) of operating costs from related parties representing the provision of administrative services.

(f) As at December 31, 2014, Hydro has purchased $27.9 million (2013 - $29.6 million) of power generated from assets related to Exploits, which are held by the Province.

(g) As at December 31, 2014, Hydro has a net intercompany labour expense of $2.9 million (2013 - $1.9 million).

(h) Under the terms of the Churchill Falls (Labrador) Corporation Limited (Lease) Act, 1961 (the Lease) and amendments thereto, Churchill Falls is required to pay the Province an annual rental of 8% of the consolidated net profits before income taxes, as defined in the Lease, and an annual royalty of $0.50 per horsepower year generated, as defined in the Lease. At December 31, 2014, $4.7 million (2013 - $5.6 million) was payable to the Province.

(i) On February 3, 2010, the Province established the Trust with Churchill Falls as the beneficiary. The purpose of this trust is to fund the external costs and expenses incurred in relation to the motion filed by Churchill Falls seeking a modification to the pricing terms of the 1969 Power Contract. To date, $4.8 million (2013 - $3.8 million) has been received and $0.2 million (2013 - $0.8 million) has been accrued receivable from the Trust.

(j) As a result of a sub-lease between Churchill Falls and Twin Falls, certain rights were suspended by Churchill Falls effective June 30, 1974 with the result that Churchill Falls diverted the flow of water from the Twin Falls plant and used the facilities of Twin Falls as required. In consideration for this suspension of rights, Churchill Falls was required to deliver to Twin Falls, during the unexpired term of the sub-lease, horsepower equivalent to the installed horsepower of the Twin Falls plant. Twin Falls was obliged to purchase this power for an amount equal to the average annual cost of operating the Twin Falls plant for the five year period ended March 31, 1974. In addition, Twin Falls was required to pay annually Churchill Falls a rental amounting to $305,000 and $1.40 per installed horsepower. Twin Falls also paid to Churchill Falls an annual royalty of $0.50 per horsepower year generated, as defined, all calculated as though the power delivered by Churchill Falls to Twin Falls had been generated in the Twin Falls plant. The sub-lease expired December 31, 2014.

20.1 Key Management Personnel Compensation

Compensation for key management personnel, which Hydro defines as its executives who have the primary authority and responsibility for planning, directing and controlling the activities of the entity, includes compensation for senior executives. Salaries and employee benefits include base salaries, performance contract payments, vehicle allowances and contributions to employee benefit plans. Post-employment benefits include contributions to the Province's Public Service Pension Plan.

(millions of Canadian dollars)	**2014**	2013
Salaries and short-term employee benefits	**1.5**	0.9
Post-employment benefits	**0.1**	-
	1.6	0.9

21. 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 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 $29.6 million as at December 31, 2014 (2013 - $25.4 million).

(c) Hydro has entered into a number of long-term power purchase agreements as follows:

Type	Rating	In-service Date	Term
Hydroelectric	175 kW	1988	Continual
Hydroelectric	3 MW	1995	25 years
Hydroelectric	4 MW	1998	25 years
Hydroelectric	300 MW	1998	43 years
Hydroelectric	225 MW	2015	25 years
Cogeneration	15 MW	2003	20 years
Wind	390 kW	2004	15 years
Wind	300 kW	2010	Continual
Wind	27 MW	2008	20 years
Wind	27 MW	2009	20 years

Estimated payments due in each of the next five years are as follows:

(millions of dollars)	2015	2016	2017	2018	2019
Power purchases	70.5	71.0	71.0	72.0	72.8

(d) Hydro has issued one irrevocable letter of credit to the Department of Fisheries and Oceans in the amount of $0.3 million as a performance guarantee in relation to the Fish Habitat Compensation Agreement.

(e) Hydro has entered into power sales agreements with third parties. To facilitate market access, Hydro had entered into a transmission service agreement with Hydro-Québec TransEnergie which concludes in 2024.

The transmission rental payments for the next five years are estimated to be as follows:

2015	$19.8 million
2016	$20.0 million
2017	$20.2 million
2018	$20.4 million
2019	$20.6 million

(f) Hydro has received Phase I funding, in the amount of $3.0 million, from the Atlantic Canada Opportunities Agency (ACOA) in relation to a wind-hydrogen-diesel research development project in the community of Ramea. In 2014, Hydro entered into a new funding agreement for Phase II of the project for $2.3 million. This funding is repayable in annual installments of $25,000 per commercial implementation of the resulting product. As at December 31, 2014 there have been no commercial implementations.

(a) In 2013, Hydro entered into a Power Purchase Agreement with Muskrat Falls Corporation (Muskrat Falls) for the purchase of energy and capacity from the Muskrat Falls Plant. The supply period under the agreement is 50 years and commences at the date of commissioning of the Muskrat Falls plant.

(g) In 2013, Hydro entered into the Transmission Funding Agreement (TFA) with Labrador-Island Link Operating Corporation (LIL Opco), in which Hydro has committed to make payments which will be sufficient for LIL Opco to recover all costs associated with rent payments under the LIL Lease and the payment, operating and maintenance costs incurred by LIL Opco. Hydro will be required to begin mandatory payments associated with the TFA upon commissioning of the LIL assets. The term of the TFA is anticipated to continue until the service life of the LIL assets has expired.

(h) In 2014, Hydro entered into three Capacity Assistance Agreements, one with Vale Newfoundland & Labrador Limited (Vale) and two with Corner Brook Pulp and Paper Limited (CBPP) for the purchase of relief power up to 15.8 MW, 60 MW and 30 MW, respectively, during the winter period. The supply period defined in the agreements is from December 1 to March 31 of each year, concluding March 2018. Payment for services will be dependent on the successful provision of capacity assistance for the winter period by Vale and CBPP.

(i) The arrangements under which Churchill Falls supplies the 225 MW Twinco Block to Twin Falls expired on December 31, 2014. As a result, a new power purchase agreement (PPA) between Churchill Falls and Hydro for the sale of up to 225 MW of power produced by the Churchill Falls Generating Station was signed by Churchill Falls and Hydro, and is effective January 1, 2015.

The Sub-lease between Twinco and Churchill Falls dated November 15, 1961 giving Twinco the right to develop hydroelectric power on the Unknown River (the Sub-lease) expired on December 31, 2014. A sub-lease was signed between Hydro, Churchill Falls and Twin Falls naming Hydro as the sublessee of the transmission lines and related assets from Churchill Falls to Labrador West, covering the period of January 1 to June 30, 2015. In addition, Hydro entered into a six-month lease with Twin Falls Power Corporation Limited and Wabush Resources Inc. to access a terminal station located on land owned by Wabush Mines. This lease was for a six-month period beginning in January 2015.

Discussions continue between Churchill Falls, Twin Falls and Hydro regarding the commercial matters arising from the expiration of the Sub-lease, including the ownership of assets and the assumption of liabilities (including any environmental liabilities). The consolidated financial statements for the year ended December 31, 2014 do not include adjustments to the carrying values and classification of assets and liabilities as they are undeterminable at this time. These adjustments could be material.

(j) On February 23, 2010, Churchill Falls filed a motion against Hydro-Québec in Québec Superior Court. The motion was seeking a modification to the pricing terms of the 1969 Power Contract as of November 30, 2009. On July 24, 2014, Churchill Falls received judgment from the Québec Superior Court which ruled against Churchill Falls. Churchill Falls is appealing the decision and on August 26, 2014 filed an Inscription in Appeal with the Québec Court of Appeal.

(k) In July 2013, Hydro-Québec filed a Motion for Declaratory Judgment (the Motion) in Québec Superior Court relating to the interpretation of the 1969 Power Contract between Churchill Falls and Hydro-Québec and the clarification of certain terms and obligations of the parties under the Renewed Power Contract with Hydro-Québec, which commences in 2016. Churchill Falls has filed a Defense to the Motion and the trial is scheduled to take place in the fall of 2015.

(l) In 2014, Hydro entered into a six-month lease with Twin Falls Power Corporation Limited and Wabush Resources Inc. to access a terminal station located on land owned by Wabush Mines. This lease is for a six-month period beginning in January 2015.

22. CAPITAL MANAGEMENT

Hydro's principal business requires ongoing access to capital in order to maintain assets to ensure the continued delivery of safe and reliable service to its customers. Therefore, Hydro's primary objective when managing capital is to ensure ready access to capital at a reasonable cost, to minimize its cost of capital within the confines of established risk parameters, and to safeguard Hydro's ability to continue as a going concern.

The capital managed by Hydro is comprised of debt (long-term debentures, promissory notes, bank credit facilities and bank indebtedness) and equity (share capital, contributed capital, reserves and retained earnings).

A summary of the capital structure is outlined below:

(millions of dollars)	**December 31 2014**		December 31 2013		January 1 2013	
Debt						
Long-term debt	**1,239.3**		1,046.6		1,125.9	
Short-term borrowings	**53.0**		41.0		52.0	
Current portion of long-term debt	**8.4**		82.2		8.2	
Sinking funds	**(228.4)**		(267.6)		(263.3)	
	1,072.3	**57.5%**	902.2	54.2%	922.8	55.2%
Equity						
Share capital	**22.5**		22.5		22.5	
Contributed capital	**118.6**		118.4		116.7	
Reserves	**(4.8)**		(5.5)		3.3	
Retained earnings	**655.9**		625.7		607.5	
	792.2	**42.5%**	761.1	45.8%	750.0	44.8%
Total Debt and Equity	**1,864.5**	**100.0%**	1,663.3	100.0%	1,672.8	100.0%

22.1 Hydro

Hydro's approach to capital management encompasses various factors including monitoring the percentage of floating rate debt in the total debt portfolio, the weighted average term to maturity of its overall debt portfolio, its percentage of debt to debt plus equity and its interest coverage.

For the regulated portion of Hydro's operations, Management targets a capital structure comprised of 75% debt and 25% equity, a ratio which Management believes to be optimal with respect to its cost of capital. This capital structure is maintained by a combination of dividend policy, contributed equity and debt issuance. The issuance of any new debt with a term greater than one year requires prior approval of the PUB.

Legislation stipulates that the total of the short-term loans issued by Hydro and outstanding at any time shall not exceed a limit as fixed by the Lieutenant-Governor in Council. Short-term loans are those loans issued with a term not exceeding two years. The current limit is set at $300.0 million. There was $53.0 million outstanding as at December 31, 2014 (2013 - $41.0 million). Issuance of long-term and short-term debt by Hydro is further restricted by Bill C-24, an amendment to the Newfoundland and Labrador Hydro Act of 1975. The Bill effectively limits Hydro's total borrowings, which includes both long and short-term debt, to $1.6 billion at any point in time.

22.2 Churchill Falls

Churchill Falls' objective when managing capital is to maintain its ability to continue as a going concern. Churchill Falls' requirements for capital in the future are expected to increase, coincident with the aging of the plant and related infrastructure and the execution of the long-term asset management plan. The focus of the capital management policy is to provide flexibility to ensure cash continues to be available to satisfy capital requirements. Managing the level of dividend payments is a key aspect of ensuring the availability of funding to maintain the plant and infrastructure.

At present, the capital position of Churchill Falls is comprised entirely of equity capital (issued capital, shareholder contributions, reserves and retained earnings). The capital structure is adjusted through the amount of dividends paid to shareholders.

23. SUPPLEMENTARY CASH FLOW INFORMATION

(millions of Canadian dollars)	**2014**	2013
Trade and other receivables	**(1.4)**	(1.6)
Prepayments	**(1.3)**	(0.6)
Inventories	**(21.9)**	(13.2)
Trade and other payables	**32.9**	26.2
Changes in non-cash working capital balances	**8.3**	10.8
Interest received	**19.8**	2.4
Interest paid	**88.8**	91.1

24. SEGMENT INFORMATION

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

(millions of Canadian dollars)	**Hydro Regulated**	**Churchill Falls**	**Energy Marketing**	**Other**	**Inter-Segment**	**Total**
			2014			
Energy sales	**549.4**	**71.9**	**73.9**	**-**	**(4.0)**	**691.2**
Other revenue	**2.2**	**1.0**	**-**	**-**	**2.7**	**5.9**
Revenue	**551.6**	**72.9**	**73.9**	**-**	**(1.3)**	**697.1**
Fuels	**(268.1)**	**-**	**-**	**-**	**-**	**(268.1)**
Power purchased	**(63.8)**	**-**	**(8.5)**	**-**	**4.0**	**(68.3)**
Operating costs	**(139.1)**	**(41.4)**	**(27.3)**	**(2.3)**	**-**	**(210.1)**
Depreciation	**(56.0)**	**(13.8)**	**-**	**-**	**-**	**(69.8)**
Net finance income and expense	**(74.2)**	**1.2**	**(1.0)**	**-**	**-**	**(74.0)**
Other income and expense	**0.9**	**(1.8)**	**0.5**	**(0.1)**	**-**	**(0.5)**
Share of profit of joint venture	**-**	**0.4**	**-**	**-**	**-**	**0.4**
Preferred dividends	**-**	**2.7**	**-**	**-**	**(2.7)**	**-**
(Loss) profit before regulatory adjustments	**(48.7)**	**20.2**	**37.6**	**(2.4)**	**-**	**6.7**
Regulatory adjustments	**66.3**	**-**	**-**	**-**	**-**	**66.3**
Profit (loss) for the year	**17.6**	**20.2**	**37.6**	**(2.4)**	**-**	**73.0**
Capital expenditures	**208.5**	**33.0**	**1.4**	**-**	**-**	**242.9**
Total assets	**2,159.3**	**498.2**	**8.3**	**-**	**-**	**2,665.8**

(millions of Canadian dollars)	Hydro Regulated	Churchill Falls	Energy Marketing	Other	Inter-Segment	Total
			2013			
Energy sales	543.1	75.6	66.7	-	(4.1)	681.3
Other revenue	2.5	1.0	-	(0.1)	3.2	6.6
Revenue	545.6	76.6	66.7	(0.1)	(0.9)	687.9
Fuels	(190.9)	-	-	-	-	(190.9)
Power purchased	(59.4)	-	(7.7)	-	4.1	(63.0)
Operating costs	(113.0)	(41.3)	(27.1)	(0.8)	-	(182.2)
Depreciation	(51.3)	(13.0)	-	-	-	(64.3)
Net finance income and expense	(74.3)	1.5	(0.3)	-	-	(73.1)
Other income and expense	0.9	(1.3)	(0.2)	(0.1)	-	(0.7)
Share in profit of joint venture	-	0.4	-	-	-	0.4
Preferred dividends	-	3.2	-	-	(3.2)	-
Profit (loss) before regulatory adjustments	57.6	26.1	31.4	(1.0)	-	114.1
Regulatory adjustments	(57.1)	-	-	-	-	(57.1)
Profit (loss) for the year	0.5	26.1	31.4	(1.0)	-	57.0
Capital expenditures	86.6	32.5	0.1	-	-	119.2
Total assets	1,959.6	486.0	6.6	-	-	2,452.2

25. 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 annual consolidated financial statements have been prepared with the accounting policies described in Note 2 and in accordance with the existing IFRS in effect at December 31, 2014. 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 exceptions were applied at the transition date:

Property, plant and equipment – deemed cost
Prior to transition to IFRS, the carrying amount of property, plant and equipment included amounts that were determined through rate regulated guidance. On transition to IFRS, Hydro 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 borrowing costs to be capitalized prospectively from the date of transition.

25.1 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 regulatory assets	f	2.2	(2.2)	-	2.2	(2.2)	-
Current portion of sinking funds		-	-	-	65.4	-	65.4
Prepayments		3.9	-	3.9	4.5	-	4.5
Inventories	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,f	1,805.5	14.9	1,820.4	1,845.0	20.4	1,865.4
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 arrangement	a	-	0.7	0.7	-	1.1	1.1
Total non-current assets		2,183.3	(47.2)	2,136.1	2,161.6	(40.7)	2,120.9
Total assets		2,366.1	(50.5)	2,315.6	2,432.1	(44.3)	2,387.8
Regulatory deferrals	f	-	65.1	65.1	-	64.4	64.4
Total assets and regulatory deferrals		2,366.1	14.6	2,380.7	2,432.1	20.1	2,452.2

(millions of Canadian dollars)	Notes	Previous GAAP	Effect of Transitio to IFRS	IFRS	Previous GAAP	Effect of Transitio 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)	-
Deferred credits		1.9	-	1.9	0.7	-	0.7
Current portion of decommissioning liabilities	a	0.3	(0.3)	-	0.4	(0.4)	-
Current portion of deferred contributions	b,c	-	0.2	0.2	-	0.6	0.6
Derivative liabilities		-	-	-	0.4	-	0.4
Total current liabilities		323.7	(169.2)	154.5	457.1	(213.8)	243.3
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,c	-	9.9	9.9	-	10.7	10.7
Decommissioning liabilities	a,b,d	24.6	2.1	26.7	24.7	0.1	24.8
Employee benefits liability	e	69.3	39.6	108.9	75.3	30.2	105.5
Long-term payables		2.6	-	2.6	1.6	-	1.6
Total non-current liabilities		1,255.6	18.4	1,274.0	1,188.5	0.7	1,189.2
Total liabilities		1,579.3	(150.8)	1,428.5	1,645.6	(213.1)	1,432.5
Shareholder's Equity							
Share capital		22.5	-	22.5	22.5	-	22.5
Shareholder contributions		116.7	-	116.7	118.4	-	118.4
Reserves	e	42.8	(39.5)	3.3	25.5	(31.0)	(5.5)
Retained earnings	a,b,e	604.8	2.7	607.5	620.1	5.6	625.7
Total equity		786.8	(36.8)	750.0	786.5	(25.4)	761.1
Total liabilities and equity		2,366.1	(187.6)	2,178.5	2,432.1	(238.5)	2,193.6
Regulatory deferrals	f	-	202.2	202.2	-	258.6	258.6
Total liabilities, equity and regulatory deferrals		2,366.1	14.6	2,380.7	2,432.1	20.1	2,452.2

25.2 Reconciliation of Comprehensive Income for the Year Ended December 31, 2013

(millions of Canadian dollars)	Notes	Previous GAAP	Effect of Transition to IFRS	IFRS
Energy sales	a	682.3	(1.0)	681.3
Other revenue	a,b,c	5.9	0.7	6.6
Revenue		688.2	(0.3)	687.9
Fuels		(190.9)	-	(190.9)
Power purchased	a	(63.2)	0.2	(63.0)
Operating costs	a,e	(185.0)	2.8	(182.2)
Depreciation	a,b,c,d,f	(65.9)	1.6	(64.3)
Net finance income and expense	a,b,d	(72.3)	(0.8)	(73.1)
Other income and expense	a	(1.1)	0.4	(0.7)
Share of profit of joint arrangement	a	-	0.4	0.4
Profit, before regulatory adjustments		109.8	4.3	114.1
Regulatory adjustments	e,f	(55.6)	(1.5)	(57.1)
Profit for the year		54.2	2.8	57.0
Other comprehensive income:				
Net change in fair value of available for sale financial instruments		(5.0)	-	(5.0)
Net change in fair value of financial instruments reclassified to profit or loss	a	(12.3)	(0.6)	(12.9)
Actuarial gain on employee benefit liability	e	-	9.1	9.1
Total comprehensive income for the year		36.9	11.3	48.2

25.3 Reconciliation of Cash Flows for the Year Ended December 31, 2013

(millions of Canadian dollars)	Previous GAAP	Effect of Transition to IFRS	IFRS
Cash provided from (used in):			
Operating activities	194.5	(0.6)	193.9
Investing activities	(136.7)	(1.5)	(138.2)
Financing activities	(51.3)	2.0	(49.3)
Net increase in cash and cash equivalents	6.5	(0.1)	6.4

25.4 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 recognizes its share of assets, liabilities and profit or loss in relation to its interest in the 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 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 Statements of Financial Position at cost plus post acquisition changes in Churchill Falls' share of net assets of the joint venture. The Statements of Profit and Comprehensive Income reflect the share of the profit or loss of the joint venture.

(b) Property, Plant and Equipment

Regulated Hydro

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

Other Property, Plant and Equipment

Under GAAP, Hydro 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. Hydro 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 Chuchill Falls' contributions in aid of construction	9.7	10.1
Reclassify Hydro contributions in aid of construction	1.6	-
Reclassify insurance proceeds to regulatory deferrals	4.3	-
Revision of Hydro decommissioning liabilities	0.1	2.1
Other property, plant and equipment adjustments	4.8	2.8
Property, plant and equipment as reported under IFRS	1,865.4	1,820.4

(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 contributions 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 million in decommissioning liabilities and a corresponding increase in property, plant and equipment.

Under GAAP, $0.8 million of accretion costs were presented in depreciation expense for the year ended December 31, 2013. Under IFRS, accretion has been reclassified as a finance expense.

(e) Employee Benefits

Adoption of IAS 19, resulted in an increase in the employee benefit liability as at January 1, 2013 of $39.6 million and a corresponding decrease in reserves of $39.5 million and retained earnings of $0.1 million. For the year ended December 31, 2013, adoption of the amended IAS 19 resulted in an increase of $30.2 million to the employee benefit liability, a decrease in reserves of $31.0 million and an increase in retained earnings of $0.8 million.

In addition, for the year ended December 31, 2013, adoption of the amended IAS 19 also resulted in a decrease in operating costs of $2.4 million.

(f) Regulatory deferrals

Under GAAP, Hydro included certain regulatory deferrals in inventories and property, plant and equipment. IFRS 14 requires that all regulatory assets and liabilities be disclosed separately in the Statements of Financial Position. As a result, Hydro reclassified $0.1 million from inventories to regulatory deferrals at January 1, 2013, and reclassified $4.3 million from property, plant and equipment to regulatory deferrals at December 31, 2013.

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

26. SUBSEQUENT EVENTS

Nalcor, Hydro and Emera Incorporated (Emera), entered into a Memorandum of Understanding (MOU Agreement) dated March 4, 2013, as was amended by an Extension Agreement dated February 25, 2014 and further amended by an Extension Agreement No. 2 dated November 4, 2014 providing for, among other things, the transfer of the Service Agreement by Emera to Nalcor or an affiliate of Nalcor in accordance with the terms and conditions set out in the MOU Agreement. As of February 1, 2015, transfer of the Service Agreement was finalized and NEM acquired 2MW of long-term transmission service in New Brunswick.