NALCOR ENERGY
79TH BOARD OF DIRECTORS MEETING
NOVEMBER 28, 2014

SPARE

nalcor energy

NALCOR ENERGY
SEVENTY-NINTH MEETING OF BOARD OF DIRECTORS

Hydro Place
Boardroom Level 6
St. John's, NL

FRIDAY
November 28, 2014
at 11:00 am

AGENDA

TAB

1. Constitution of the Meeting:
   * Chairperson – Ken Marshall
   * Secretary – Peter Hickman
   * Notice of meeting sent out on November 3, 2014
2. Safety Moment
3. Approval of Agenda
4. Verification of the Minutes of the 78th meeting of the Board held on October 2nd, 2014 (RESOLUTION) 1
5. Business Arising
6. Action List 2
7. Board Committee Reports
   - Audit
   - Governance
   - Safety, Health and Environment
   - Compensation
8. Enterprise Risk Management Policy (RESOLUTION) 3
9. Financial Report
   - Financial Summary 4
   - Approval of Q3 Financial Statements and MD&A (RESOLUTION) 5
   - Approval of 2015 Operating and Capital Budgets (RESOLUTION) 6
   - Approval of 2015 Financial Risk Management Strategy (RESOLUTION). 7
   - Compliance Certificate 8
10. Nalcor Energy Marketing Financial Recommendations (RESOLUTION) 9
11. MFLTA & LIL PFA Amendments 10
12. President's Report
    - 2014 Corporate Performance Review .... A
    - 2015 Corporate Plan (Draft) .... B
13. Business Unit Reports
    - Newfoundland and Labrador Hydro C
    - CF(L)Co .... D
    - Lower Churchill .... E
    - Oil and Gas .... F
    - Bull Arm .... G
    - Energy Marketing .... H
14. Employee Recognition
15. Ratification of Email Resolutions (RESOLUTIONS) I
16. Nalcor Board Annual Work Plan .... J
17. 2015 Meeting Schedule .... K
18. Other Business
19. Date for next meeting
    * Friday, March 13, 2015
20. In Camera Session
21. Termination
22. Lunch

RESOLUTION

79TH NALCOR ENERGY BOARD OF DIRECTORS MEETING
NOVEMBER 28, 2014

VERIFICATION OF MINUTES

BE IT RESOLVED

THAT the minutes of the **SEVENTY-EIGHTH** meeting of the Board of Directors of Nalcor Energy held on October 2, 2014, which minutes are currently before this meeting, be and they are hereby verified as being correct; and

THAT the Chairperson be and is hereby authorized to verify the minutes by signing the Minute Book.

MEMO

Date: November 21, 2014

To: Nalcor Board of Directors

Subject: **Approval of Enterprise Risk Management ("ERM") Policy Statement**

Attached for the consideration and approval of the Board of Directors is an ERM Policy Statement.

The Policy Statement has been prepared in accordance with Corporate Policy & Procedure Guidelines. The Policy outlines guiding principles, high level roles and responsibilities as well as key corporate and line of business level processes supporting the ERM framework. The Policy was created to address the need for a high level corporate statement expressing the commitment of the Board to ERM. Board level engagement and oversight is critical to the success of the ERM program.

This Policy Statement will be reviewed and discussed at meetings of the Governance and Audit Committees to be held on November 26th and 27th, respectively, so the Policy attached is subject to any revisions that may result from discussions at those meetings. Any such revisions will be outlined to the Board at the Board meeting.

Enterprise Risk Management

Governance Considerations

Boundless Energy

nalcor energy

Purpose

- Governance considerations relating to ERM implementation were reviewed with the Audit Committee during the September 10th, 2014 meeting
- The Audit Committee requested that these also be addressed to the Governance Committee

Governance Considerations

- It was suggested that the Governance Committee confirm:
  - That the ERM Framework and Corporate Plan be presented to the Nalcor Energy Board for approval
  - That ERM plans be created for each line of business, and presented to the Board of each entity by their inclusion in strategic and/or operational plans. These plans will include the development of board risk reporting
  - That the Audit Committee will oversee short term ERM implementation, with regularly evaluation of the oversight structure as the framework matures

Questions?

nalcor energy

nalcor energy

Policy Title	**Enterprise Risk Management Policy**
Policy Group	ERM
Policy Number	ERM-1
Accountable Division	Corporate Risk & Insurance
Policy Owner	Chief Risk Officer

1. Policy Statement	Recognizing that the management of risk is critical to achieving corporate objectives and implementing internal control systems, Nalcor Energy ("Nalcor") has implemented an Enterprise Risk Management ("ERM") Framework to ensure that a timely, structured and systematic approach is used to manage key business risks.
2. Purpose	The purpose of this Policy is to outline the key components of Nalcor's ERM Framework, including the infrastructure that facilitates performing the required risk assessments, and developing and approving risk treatment plans. The Framework requires ongoing communication and consultation with key stakeholders, as well as monitoring and reviews of effectiveness, both of the framework itself and also key management actions to manage priority risks.
3. Guiding Principles	Nalcor's ERM Framework is underpinned by principles stating that risk management: 1. Creates and protects value 2. Is an integral part of all organizational processes 3. Is part of decision making 4. Explicitly addresses uncertainty 5. Is systematic, structured and timely 6. Is based on the best available information 7. Is tailored 8. Takes human and cultural factors into account 9. Is transparent and inclusive; and 10. Facilitates continual improvement of the organization
4. Definitions and Terms[1]	**ERM** – a group of coordinated activities, affected by the organization's board of directors, management and other personnel in strategy setting and across the enterprise, designed to identify potential events that may affect the organization's objectives, and to manage related risks to be within the organization's risk appetite and tolerances. **ERM framework** – set of components that provide the foundations for designing, implementing, monitoring, reviewing and continually improving risk management throughout an organization.

[1] *The following definitions are adopted from a number of sources: (1) Committee of Sponsoring Organizations of the Treadway Commission (COSO), (2) Deloitte and Touche LLP and CAN/CSA-ISO 31000-10 as published by the National Standards of Canada.*

	Risk – the effect of uncertainty on objectives. **Risk appetite** – the nature and amount of risk an organization is willing to take on in pursuing its goals. Forms the bounds within which management must operate the business. **Risk assessment** – the overall process of risk identification, risk analysis and risk evaluation. **Risk management** - is the identification, assessment, and prioritization of risks followed by coordinated and economical application of resources to minimize, monitor, and control the probability and/or impact of unfortunate event(s) or to maximize the realization of opportunities. **Risk treatment** – often referred to as risk mitigation, it describes a process undertaken to modify a risk which can include avoiding the risk, accepting the risk to pursue opportunity, removing the risk source, changing the likelihood, changing the consequences, sharing or transferring the risk or retaining the risk by informed decision.
5. Scope of Application	This policy applies to all divisions and lines of business within Nalcor Energy.
6. Standards and Requirements	CAN/CSA-ISO 31000-10 (Risk Management – Principles and guidelines) COSO Enterprise Risk Management – Integrated Framework.
7. Process/Procedure[2]	Corporate Level Processes and Procedures Once fully implemented, much of the benefit of an ERM framework lies in its ability to support and supplement the decision making process. It is another lens to assist management in allocating resources, prioritizing efforts, and aligning focus across the organization's portfolio. At Nalcor, this includes six lines of business with varied operations and activities. At a Corporate level, this involves: • Setting risk appetite and tolerances • Completing an annual risk assessment at a portfolio level • Determining priority risks • Assigning ownership for these risks • Developing reporting to the Executive and Board, including Risk Profiles and Detailed Risk Treatment Plans • Approving Risk Treatment for priority risks • Overseeing the implementation and consistent application of the framework within the lines of business • Overseeing status of risk treatment plans for priority risks • Ensuring that review and monitoring activities take place as required within the framework, and that they embody a spirit of continuous improvement • Reviewing and approving Corporate ERM plans and ERM Policy, which are

[2] *Adopted from CAN/CSA-ISO31000-10*

	reviewed and approved by the Board The activities above are driven largely by an ERM Corporate Oversight Committee, whose membership includes members of the Leadership Team and other senior managers. Additional detail regarding the execution of these activities and the use of the Risk Profile and Detailed Risk Treatment Plan templates can be found in the ERM Framework and Procedures document. **Line of Business - Processes and Procedures** While the ERM Corporate Oversight Committee focuses on developing a portfolio level view, the individual lines of business are required to complete an entity level risk assessment as part of the annual strategic planning process. This is captured in a template referred to as the Risk Register. Data in the Risk Register informs the portfolio view, but is expected to be more granular. The portfolio level risks identified can be thought of as enterprise risks, while the additional level of detail created in the Risk Register include more detailed components under each. There will often be several component risks at a line of business level which are shown as a theme, or enterprise level risk when the overall portfolio is discussed. At a line of business level, key activities include: • Completing an annual risk assessment (for each line of business) as part of completing annual plans which is linked to the objectives in the plan • Determining which risks link to the current operational plan • Completing analysis and evaluation of the identified risks • Assigning ownership for these risks • Overseeing status of risk treatment plans for key risks • Reviewing risk appetite statements for continued relevance, and recommending changes to the board as appropriate • Ensuring that review and monitoring activities take place as required within the framework, and that they embody a spirit of continuous improvement • Overseeing any ERM initiatives that impact the lines of business directly (eg. ERM maturity assessments, use of Risk Registers, etc.) • Reviewing and approving the ERM Framework and Procedures document, via representation at the ERM ~~Sub-~~Committee • ~~Reviewing and providing feedback on the ERM Policy document~~ • Providing feedback on the application of the framework within the lines of business • Carrying out process level risk assessments, as required by COSO, for critical processes and linking these assessments to the entity level, as appropriate At a line of business level, the activities above are driven largely by the ERM ~~Sub-~~Committee, which includes representation from all lines of business as well as Corporate support functions such as Information Technology, Human Resources, etc. Additional detail regarding the execution of these activities, the use of the Risk Register and other tools and templates can be found in the more detailed ERM Framework and Procedures document. ERM Framework and Procedures ERM Toolset

8. Responsibilities	**High level roles and responsibilities** There are three broad stakeholder groups who must fulfill their roles in order for the ERM framework to be effective; front line staff and management, the Corporate Risk department and independent overseers (ie. Auditors and the Board). Front line staff and management All staff have a responsibility to appropriately balance risk and reward within the activities that they operate, and to raise concerns where they are unsure this balance has been struck. Employees must understand their role with respect to processing transactions and are the ones who bring risk treatment (ie. internal controls) to life. For ~~A~~additional guidance on management's role with respect to ensuring appropriate internal control systems within their entity or department, the Management Control Policy should be referenced. Each line of business has an identified representative on the ERM ~~Sub-~~Committee. This individual is responsible to identify the right risk owners, oversee the documentation of risk analysis and evaluation, and support the development of risk treatment plans where this is challenging. They will also monitor progress of priority treatment plans within their line of business, and will report status and emerging risks to the Committee. The above activities are to be carried out using tools and templates provided by Corporate Risk, and in a manner consistent with other lines of business. Where training needs are identified for their line of business, they are responsible to communicate this to the Corporate Risk department and to work with them to design an appropriate approach Corporate Risk department A great deal of accountability for ERM framework design and implementation at the corporate-level has been delegated to the CRO, from the CFO/VP Finance. The CRO and their department are responsible to: • Oversee the annual risk assessment process, in coordination with Strategic Planning • Act as a resource to coach and educate staff impacted by ERM implementation regarding the policy framework and its application • Chair the ERM ~~Sub-~~Committee and Co-Chair the ERM Corporate Oversight Committee • Ensure Risk Committee meetings take place at least quarterly and that there is adequate representation and expertise on the Committee • Review Policy and other guidance at least annually for quality and adherence to best practice • Provide training to lines of business as required and/or requested • Facilitate corporate/portfolio level risk assessment workshops at least annually • Monitor ERM framework and process • Monitor risk treatment plans for priority risks • Report progress against ERM plan(s) to Executive and Board as required The risk department is positioned to provide independent validation of compliance

	with ERM Policy and plans, as well as to monitor objectively the status of priority risk treatment plans. Auditors/Board of Directors The Board is charged with the role of representing the enterprise's stakeholders in respect to risk issues. This includes providing effective oversight of the enterprise's risk profile, and in particular, ensuring that executive management is effectively governing and managing the enterprise's risk environment. Additionally, they are responsible for ensuring that management has a process for identifying the principal risks of the Corporation's business and ensuring the implementation of appropriate systems to effectively monitor and manage such risks with a view to the long-term viability of the Corporation. This includes oversight of internal control, management information systems, and regulatory compliance processes. ~~The Board is charged with the role of representing the enterprise's stakeholders in respect to risk issues. Through the~~The Governance ~~Audit~~ Committee~~,~~ will provide primary support to the Board in fulfilling this mandate, including reviewing ERM Policy and Corporate ERM Plans and making recommendations to the Board ~~approves and periodically reviews ERM Policy and Corporate ERM Plans~~regarding their approval. Board approval is also required where risk appetite and tolerances are established or updated, following a similar process of review and recommendation by the Governance Committee. ~~This Committee has the responsibility and accountability to provide effective oversight of the enterprise's risk profile, and in particular, should ensure that executive management is effectively governing and managing the enterprise's risk environment. Additionally, they are responsible for ensuring that management has a process for identifying the principal risks of the Corporation's business and ensuring the implementation of appropriate systems to effectively monitor and manage such risks with a view to the long-term viability of the Corporation. This includes oversight of internal control, management information systems, and regulatory compliance processes.~~ Internal auditors and external service providers~~auditors~~ are responsible to report independently to the Board regarding the effectiveness of activities taken by management ~~and risk~~, as well as priority risk treatment plans and ERM framework/process. Note regarding conflicting interests The roles as outlined above support independent and objective quality assurance over the ERM framework and process application within the organization, and also with respect to the effectiveness of priority risk treatment plans. As a general principle, independence and/or objectivity can be impaired where a function or individual is responsible for assessing the quality of their own work. It is important that the Corporate Risk department is recognized as a source of assurance over the activities of front line staff and management. It is not appropriate for members of this department to make management decisions regarding risk appetite,

	tolerance or treatment. Similarly, i~~I~~nternal auditors or e~~E~~xternal service providers ~~Auditors~~ give ~~provide~~ management and the Board ~~with~~ assurance over the quality of the work done by the Corporate Risk department. It is important this design and these principles are upheld in order to not compromise the quality assurance which is built into the framework. The main accountabilities and responsibilities of ~~the~~ key stakeholders are fully described in the ERM R.A.C.I. matric~~x~~es which may be viewed or downloaded from the link indicated below, and also in the ERM Framework and Procedures document. Management Control Policy ERM R.A.C.I Matric~~x~~es ERM Framework and Procedures
9. Supporting and Related Documents	ERM Framework and Procedures ERM Toolset ERM R.A.C.I. Matric~~x~~es Management Control Policy

Formatted: Indent: Left: 0"

Formatted: Indent: Left: 0"

nalcor energy

Policy Title	**Enterprise Risk Management Policy**
Policy Group	ERM
Policy Number	ERM-1
Accountable Division	Corporate Risk & Insurance
Policy Owner	Chief Risk Officer

1. Policy Statement	Recognizing that the management of risk is critical to achieving corporate objectives and implementing internal control systems, Nalcor Energy ("Nalcor") has implemented an Enterprise Risk Management ("ERM") Framework to ensure that a timely, structured and systematic approach is used to manage key business risks.
2. Purpose	The purpose of this Policy is to outline the key components of Nalcor's ERM Framework, including the infrastructure that facilitates performing the required risk assessments, and developing and approving risk treatment plans. The Framework requires ongoing communication and consultation with key stakeholders, as well as monitoring and reviews of effectiveness, both of the framework itself and also key management actions to manage priority risks.
3. Guiding Principles	Nalcor's ERM Framework is underpinned by principles stating that risk management: 1. Creates and protects value 2. Is an integral part of all organizational processes 3. Is part of decision making 4. Explicitly addresses uncertainty 5. Is systematic, structured and timely 6. Is based on the best available information 7. Is tailored 8. Takes human and cultural factors into account 9. Is transparent and inclusive; and 10. Facilitates continual improvement of the organization.
4. Definitions and Terms[1]	**ERM** – a group of coordinated activities, affected by the organization's board of directors, management and other personnel in strategy setting and across the enterprise, designed to identify potential events that may affect the organization's objectives, and to manage related risks to be within the organization's risk appetite and tolerances. **ERM framework** – set of components that provide the foundations for designing, implementing, monitoring, reviewing and continually improving risk management throughout an organization.

[1] *The following definitions are adapted from a number of sources: (1) Committee of Sponsoring Organizations of the Treadway Commission (COSO), (2) Deloitte and Touche LLP and CAN/CSA-ISO 31000-10 as published by the National Standards of Canada.*

	Risk – the effect of uncertainty on objectives. **Risk appetite** – the nature and amount of risk an organization is willing to take on in pursuing its goals. Forms the bounds within which management must operate the business. **Risk assessment** – the overall process of risk identification, risk analysis and risk evaluation. **Risk management** - is the identification, assessment, and prioritization of risks followed by coordinated and economical application of resources to minimize, monitor, and control the probability and/or impact of unfortunate event(s) or to maximize the realization of opportunities. **Risk treatment** – often referred to as risk mitigation, it describes a process undertaken to modify a risk which can include avoiding the risk, accepting the risk to pursue opportunity, removing the risk source, changing the likelihood, changing the consequences, sharing or transferring the risk or retaining the risk by informed decision.
5. Scope of Application	This policy applies to all divisions and lines of business within Nalcor Energy.
6. Standards and Requirements	CAN/CSA-ISO 31000-10 (Risk Management – Principles and guidelines). COSO Enterprise Risk Management – Integrated Framework.
7. Process/Procedure[2]	**Corporate Level Processes and Procedures** Once fully implemented, much of the benefit of an ERM framework lies in its ability to support and supplement the decision making process. It is another lens to assist management in allocating resources, prioritizing efforts, and aligning focus across the organization's portfolio. At Nalcor, this includes six lines of business with varied operations and activities. At a Corporate level, this involves: • Setting risk appetite and tolerances • Completing an annual risk assessment at a portfolio level • Determining priority risks • Assigning ownership for these risks • Developing reporting to the Executive and Board, including Risk Profiles and Detailed Risk Treatment Plans • Approving Risk Treatment for priority risks • Overseeing the implementation and consistent application of the framework within the lines of business • Overseeing status of risk treatment plans for priority risks • Ensuring that review and monitoring activities take place as required within the framework, and that they embody a spirit of continuous improvement • Reviewing and approving Corporate ERM plans and ERM Policy, which are are

[2] *Adopted from CAN/CSA-ISO31000-10*

reviewed and approved by the Board

The activities above are driven largely by an ERM Corporate Committee, whose membership includes members of the Leadership Team and other senior managers. Additional detail regarding the execution of these activities and the use of the Risk Profile and Detailed Risk Treatment Plan templates can be found in the ERM Framework and Procedures document.

Line of Business - Processes and Procedures

While the ERM Corporate Committee focuses on developing a portfolio level view, the individual lines of business are required to complete an entity level risk assessment as part of the annual strategic planning process. This is captured in a template referred to as the Risk Register. Data in the Risk Register informs the portfolio view, but is expected to be more granular. The portfolio level risks identified can be thought of as enterprise risks, while the additional level of detail created in the Risk Register include more detailed components under each. There will often be several component risks at a line of business level which are shown as a theme, or enterprise level risk when the overall portfolio is discussed.

At a line of business level, key activities include:

- Completing an annual risk assessment (for each line of business) as part of completing annual plans which is linked to the objectives in the plan
- Determining which risks link to the current operational plan
- Completing analysis and evaluation of the identified risks
- Assigning ownership for these risks
- Overseeing status of risk treatment plans for key risks
- Reviewing risk appetite statements for continued relevance, and recommending changes to the board as appropriate
- Ensuring that review and monitoring activities take place as required within the framework, and that they embody a spirit of continuous improvement
- Overseeing any ERM initiatives that impact the lines of business directly (eg. ERM maturity assessments, use of Risk Registers, etc.)
- Reviewing and approving the ERM Framework and Procedures document, via representation at the ERM Sub Committee
- Reviewing and providing feedback on the ERM Policy document
- Providing feedback on the application of the framework within the lines of business
- Carrying out process level risk assessments, as required by COSO, for critical processes and linking these assessments to the entity level, as appropriate

At a line of business level, the activities above are driven largely by the ERM Sub-Committee, which includes representation from all lines of business as well as Corporate support functions such as Information Technology, Human Resources, etc. Additional detail regarding the execution of these activities, the use of the Risk Register and other tools and templates can be found in the more detailed ERM Framework and Procedures document.

ERM Framework and Procedures

ERM Toolset

8. Responsibilities	High level roles and responsibilities

8. Responsibilities

High level roles and responsibilities

There are three broad stakeholder groups who must fulfill their roles in order for the ERM framework to be effective; front line staff and management, the Corporate Risk department and independent overseers (ie. Auditors and the Board).

Front line staff and management

All staff have a responsibility to appropriately balance risk and reward within the activities that they operate, and to raise concerns where they are unsure this balance has been struck. Employees must understand their role with respect to processing transactions and are the ones who bring risk treatment (ie. internal controls) to life. Additional guidance on management's role with respect to ensuring appropriate internal control systems within their entity or department, the Management Control Policy should be referenced.

Each line of business has an identified representative on the ERM Sub-Committee. This individual is responsible to identify the right risk owners, oversee the documentation of risk analysis and evaluation, and support the development of risk treatment plans where this is challenging. They will also monitor progress of priority treatment plans within their line of business, and will report status and emerging risks to the Committee. The above activities are to be carried out using tools and templates provided by Corporate Risk, and in a manner consistent with other lines of business. Where training needs are identified for their line of business, they are responsible to communicate this to the Corporate Risk department and to work with them to design an appropriate approach.

Corporate Risk department

A great deal of accountability for ERM framework design and implementation at the corporate-level has been delegated to the CRO, from the CFO/VP Finance. The CRO and their department are responsible to:

- Oversee the annual risk assessment process, in coordination with Strategic Planning
- Act as a resource to coach and educate staff impacted by ERM implementation regarding the policy framework and its application
- Chair the ERM Sub-Committee and Co-Chair the ERM Corporate Committee
- Ensure Risk Committee meetings take place at least quarterly and that there is adequate representation and expertise on the Committee
- Review Policy and other guidance at least annually for quality and adherence to best practice
- Provide training to lines of business as required and/or requested
- Facilitate corporate/portfolio level risk assessment workshops at least annually
- Monitor ERM framework and process
- Monitor risk treatment plans for priority risks
- Report progress against ERM plan(s) to Executive and Board as required

The risk department is positioned to provide independent validation of compliance with ERM Policy and plans, as well as to monitor objectively the status of priority risk treatment plans.

Auditors/Board of Directors

The Board is charged with the role of representing the enterprise's stakeholders in respect to risk issues. Through the Audit Committee, the Board approves and periodically reviews ERM Policy and Corporate ERM Plans. Board approval is also required where risk appetite and tolerances are established or updated. This Committee has the responsibility and accountability to provide effective oversight of the enterprise's risk profile, and in particular, should ensure that executive management is effectively governing and managing the enterprise's risk environment. Additionally, they are responsible for ensuring that management has a process for identifying the principal risks of the Corporation's business and ensuring the implementation of appropriate systems to effectively monitor and manage such risks with a view to the long-term viability of the Corporation. This includes oversight of internal control, management information systems, and regulatory compliance processes.

Internal and external auditors are responsible to report independently to the Board regarding the effectiveness of activities taken by management and risk, as well as priority risk treatment plans and ERM framework/process.

Note regarding conflicting interests

The roles as outlined above support independent and objective quality assurance over the ERM framework and process application within the organization, and also with respect to the effectiveness of priority risk treatment plans.

As a general principle, independence and/or objectivity can be impaired where a function or individual is responsible for assessing the quality of their own work. It is important that the Corporate Risk department is recognized as a source of assurance over the activities of front line staff and management. It is not appropriate for members of this department to make management decisions regarding risk appetite, tolerance or treatment.

Similarly, Internal or External Auditors provide management and the Board with assurance over the quality of the work done by the Corporate Risk department.

It is important this design and these principles are upheld in order to not compromise the quality assurance which is built into the framework.

The main accountabilities and responsibilities of the key stakeholders are fully described in the ERM R.A.C.I. matrix which may be viewed or downloaded from the link indicated below, and also in the ERM Framework and Procedures document.

Management Control Policy

ERM R.A.C.I Matrix

ERM Framework and Procedures

9. Supporting and Related Documents	ERM Framework and Procedures ERM Toolset ERM R.A.C.I. Matrix Management Control Policy

RESOLUTION

79th NALCOR ENERGY BOARD OF DIRECTORS MEETING
NOVEMBER 28, 2014

APPROVAL OF ERM POLICY STATEMENT

BE IT RESOLVED

THAT the Enterprise Risk Management Policy Statement presented to the Board of Directors at its meeting of November 28, 2014, be and it is hereby approved.

Pages 22 - 24 have been fully redacted and replaced with this page.

Headlines (Cont'd.)

- [redacted]

- Capital spend in LCP – Phase 1 is down by $162.3M offset by increased capital spend of $150.1M in Hydro (includes gas turbine of $110.0M).

Pages 26 - 30 have been fully redacted and replaced with this page.

Highlights (cont'd.)

- Phase 1 – Lower Churchill Project
  - Budgeted net expenses of $0.5M
  - Forecast net expenses of $0.5M
- Capital Expenditures
  - Budgeted capital expenditures of $1,830.0M
  - Forecast capital expenditures of $1,802.2M primarily due to:
    - An increase in Hydro's capital expenditures of $150.1M mainly due to a PUB approved Holyrood GT, a Labrador West transmission project, the Sunnyside Transformer, the Western Avalon replacement of transmission lines and tap charger and the Bay D'Espoir 230kV line upgrade partially offset by;
    - A decrease in Gull Island capital expenditures of $18.5M due to refundable transmission service deposits which were budgeted for 2014 and payments are not expected in 2014;
    - A decrease in LCP – Phase 1 capital costs of $162.3M mainly due later than planned award and commencement of activities associated with the HVdc and HVac transmission lines, converter and switchyard construction, and synchronous condensers and lower progress than planned on the Astaldi Powerhouse contract.

nalcor energy

Pages 32 - 33 have been fully redacted and replaced with this page.

Segment Earnings
($ millions)

Segments	2013 Annual Actual	2014 Annual Budget	2014 Annual Forecast
Regulated Hydro	[redacted]	[redacted]	[redacted]
Churchill Falls	[redacted]	[redacted]	[redacted]
Energy Marketing	[redacted]	[redacted]	[redacted]
Oil and Gas	[redacted]	[redacted]	[redacted]
Bull Arm Fabrication	[redacted]	[redacted]	[redacted]
Phase 1 Lower Churchill Project	(2.0)	(0.5)	(0.5)
Corporate and Other	[redacted]	[redacted]	[redacted]
Net Income	[redacted]	[redacted]	[redacted]

nalcor energy

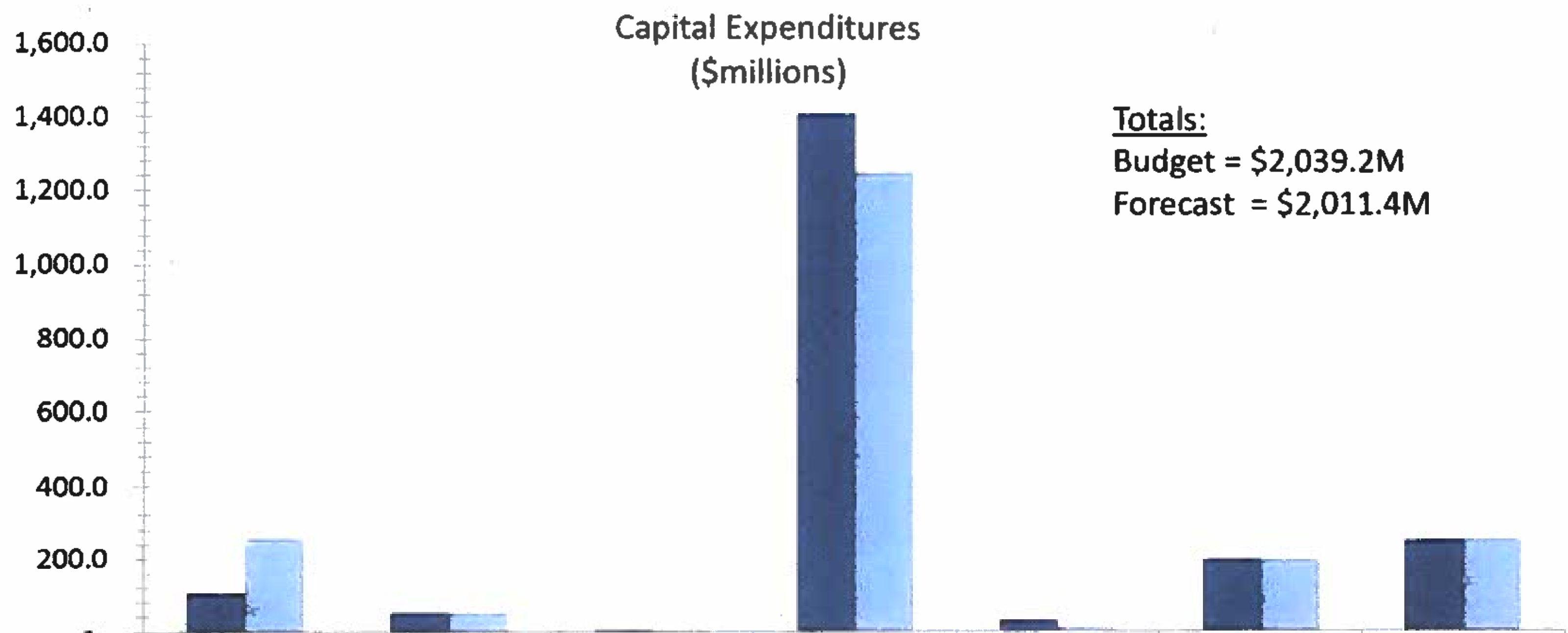
Pages 35 - 37 have

been fully redacted

and replaced with

this page.

2014 Forecast Capital Expenditures



	Regulated Hydro	Churchill Falls (100%)	Energy Marketing	LCP Phase 1	Gull Island	Maritime Link *	Oil & Gas
Budget	[redacted]			1,410.8	28.0	194.0	[redacted]
Forecast				1,248.5	9.5	194.0	

* Includes costs for Nalcor and Emera.

nalcor energy

Pages 39 - 68 have

been fully redacted

and replaced with

this page.

Lower Churchill

October 31, 2014

nalcor energy

LCP Phase 1 Consolidated

nalcor energy

Phase 1 Highlights

- YTD actual costs of $902.9M for MF, LTA, and LIL are lower than YTD Project Budget baseline of $1,028.1M by $125.2M primarily due to:
  - Later than planned award and commencement of activities associated with the HVdc and HVac transmission lines;
  - Later than planned award and commencement of activities associated with the converter and switchyard construction, and synchronous condensers.
  - Lower progress than planned on the Astaldi Powerhouse contract;

- Forecast capital costs of $1,124.2M is lower than Project Budget baseline of $1,286.5M by $162.3M primarily due to:
  - Later than planned award and commencement of activities associated with the HVdc and HVac transmission lines;
  - Later than planned award and commencement of activities associated with the converter and switchyard construction, and synchronous condensers;
  - While progress is lower than planned on the Astaldi Powerhouse contract, the forecast predicts a significant catchup in schedule out to the end of 2014.

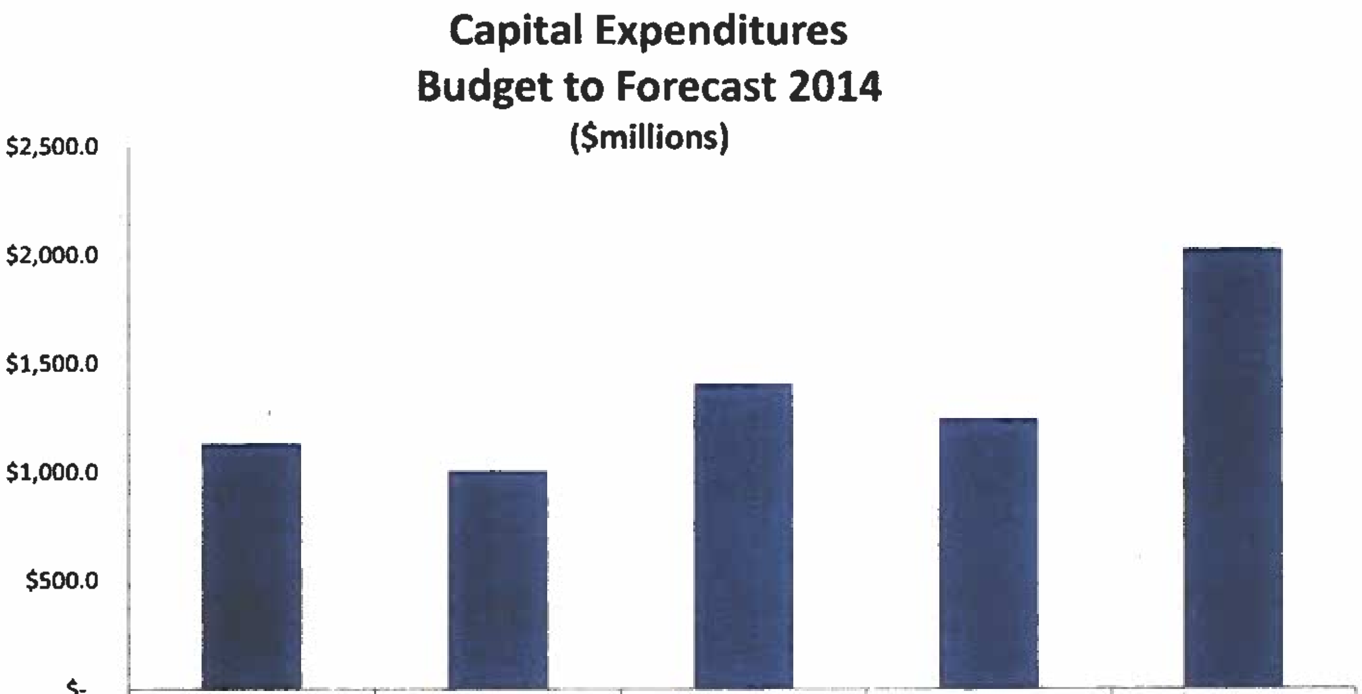
- Debt draws under the Project Finance Agreements totaled $979.6M as at the end of October

Phase 1 Cost Summary

($000's CAD)	YTD Budget	YTD Actual	2014 Budget	2014 Forecast	TTD Actuals
Owners Team, Admin & EPCM Services	$ 85,147	$ 93,992	$ 102,326	$ 106,903	$ 408,682
Feasibility Engineering	$ 743	$ -	$ 891	$ -	$ 37,284
Environmental & Regulatory Compliance	$ 5,418	$ 5,101	$ 6,522	$ 6,247	$ 26,171
Aboriginal Affairs	$ 2,548	$ 1,154	$ 2,766	$ 1,802	$ 5,982
Procurement & Construction	$ 925,117	$ 797,612	$1,164,279	$1,003,442	$1,380,603
Commercial & Legal	$ 9,129	$ 5,074	$ 9,721	$ 5,820	$ 16,779
Sub-Total	**$1,028,102**	**$ 902,933**	**$1,286,505**	**$1,124,214**	**$1,875,501**
Financing Costs	$ 3,426	$ 2,664	$ 4,624	$ 4,624	$ 46,721
Interest During Construction (Net)	$ 101,235	$ 99,084	$ 119,688	$ 119,688	$ 113,257
Sub-Total	**$ 104,661**	**$ 101,748**	**$ 124,312**	**$ 124,312**	**$ 159,978**
Total	**$1,132,763**	**$1,004,681**	**$1,410,817**	**$1,248,526**	**$2,035,479**

Note: YTD Actual costs above include currency impact of $13 in Owners Team, Admin & EPCM Services, $7,471 in Procurement and Construction, $8 in Commercial & Legal, and $93 in Financing Costs.

Phase 1 Capital Expenditures



	YTD Budget	YTD Actual	2014 Budget	Forecast	TTD Actuals
■ 2014	$1,132.8	$1,004.7	$1,410.8	$1,248.5	$2,035.5

Muskrat Falls

Muskrat Falls Highlights

- YTD actual costs of $455.5M is lower than YTD Project Budget baseline of $490.3M by $34.8M primarily due to:
    - Lower progress than planned on the Astaldi Powerhouse contract.
- Forecast capital costs of $568.5M is lower than Project Budget baseline of $588.0M by $19.5M primarily due to:
    - While progress is lower than planned on the Astaldi Powerhouse contract, the forecast predicts a significant catchup in schedule out to the end of 2014.
- Debt draws under the Project Finance Agreements totaled $979.6M as at the end of October

Muskrat Falls Cost Summary

($000's CAD)	YTD Budget	YTD Actual	2014 Budget	2014 Forecast	TTD Actuals
Owners Team, Admin & EPCM Services	$ 39,102	$ 45,704	$ 47,017	$ 51,830	$ 237,747
Feasibility Engineering	$ 104	$ -	$ 125	$ -	$ 16,552
Environmental & Regulatory Compliance	$ 1,594	$ 4,648	$ 1,914	$ 5,071	$ 17,013
Aboriginal Affairs	$ 2,014	$ 1,148	$ 2,105	$ 1,634	$ 5,434
Procurement & Construction	$ 441,304	$ 400,594	$ 530,546	$ 506,044	$ 847,973
Commercial & Legal	$ 6,226	$ 3,411	$ 6,307	$ 3,918	$ 7,422
Sub-Total	**$ 490,344**	**$ 455,505**	**$ 588,014**	**$ 568,497**	**$1,132,141**
Financing Costs	$ 1,457	$ 1,490	$ 1,957	$ 1,957	$ 19,902
Interest During Construction (Net)	$ 44,465	$ 43,584	$ 51,386	$ 51,386	$ 50,565
Sub-Total	**$ 45,922**	**$ 45,074**	**$ 53,343**	**$ 53,343**	**$ 70,467**
Total	**$ 536,266**	**$ 500,579**	**$ 641,357**	**$ 621,840**	**$1,202,608**

Note: YTD Actual costs above include currency impact of $12 in Owners Team, Admin & EPCM Services, $901 in Procurement and Construction, $5 in Commercial & Legal, and $39 in Financing Costs.

Labrador Transmission Assets

Labrador Transmission Assets Highlights

- YTD actual costs of $148.6M is lower than YTD Project Budget baseline of $172.8M by $24.2M primarily due to:
  - Lower progress than planned on the construction and clearing for the HVac line;
  - Lower progress than planned on the switchyards contract.
- Forecast capital costs of $185.5M is lower than Project Budget baseline of $208.5M by $23.0M
  - Lower progress than planned on the construction and clearing for the HVac line;
  - Lower progress than planned on the switchyards contract.
- Debt draws under the MF/LTA Project Finance Agreement totaled $160.9M as at the end of October

Labrador Transmission Assets Cost Summary

($000's CAD)	YTD Budget	YTD Actual	2014 Budget	2014 Forecast	TTD Actuals
Owners Team, Admin & EPCM Services	$ 6,085	$ 21,315	$ 7,302	$ 22,840	$ 65,405
Feasibility Engineering	$ 21	$ -	$ 25	$ -	$ 299
Environmental & Regulatory Compliance	$ 42	$ (11)	$ 47	$ (7)	$ 642
Aboriginal Affairs	$ 100	$ 0	$ 140	$ 47	$ 0
Procurement & Construction	$ 166,063	$ 126,667	$ 200,464	$ 161,900	$ 203,134
Commercial & Legal	$ 480	$ 648	$ 507	$ 696	$ 1,474
Sub-Total	**$ 172,791**	**$ 148,619**	**$ 208,485**	**$ 185,476**	**$ 270,954**
Financing Costs	$ 320	$ 216	$ 430	$ 430	$ 4,031
Interest During Construction (Net)	$ 10,235	$ 9,542	$ 11,698	$ 11,698	$ 10,095
Sub-Total	**$ 10,555**	**$ 9,758**	**$ 12,128**	**$ 12,128**	**$ 14,126**
Total	**$ 183,346**	**$ 158,377**	**$ 220,613**	**$ 197,604**	**$ 285,080**

Note: YTD Actual costs above include currency impact of $873 in Procurement and Construction, $2 in Commercial & Legal, and $9 in Financing Costs.

Labrador-Island Link

Labrador-Island Link Highlights

- YTD actual costs of $298.8M is lower than YTD Project Budget baseline of $365.0M by $66.2M primarily due to:
  - Later than planned award and commencement of activities associated with the HVdc transmission line;
  - Later than planned award and commencement of activities associated with the converter and switchyard construction, and synchronous condensers;
  - Lower progress than planned on the SOBI Offshore contracts;
  - Lower EPCM staffing for LIL than budgeted.

- Forecast capital costs of $370.2M is lower than Project Budget baseline of $490.0M by $119.8M primarily due to:
  - Later than planned award and commencement of activities associated with the HVdc transmission line;
  - Later than planned award and commencement of activities associated with the converter and switchyard construction, and synchronous condensers;
  - Lower progress than planned on the SOBI Offshore contracts;
  - Lower EPCM staffing for LIL than budgeted.

- Debt draws under the LIL Project Finance Agreement totaled $275.3M as at the end of October

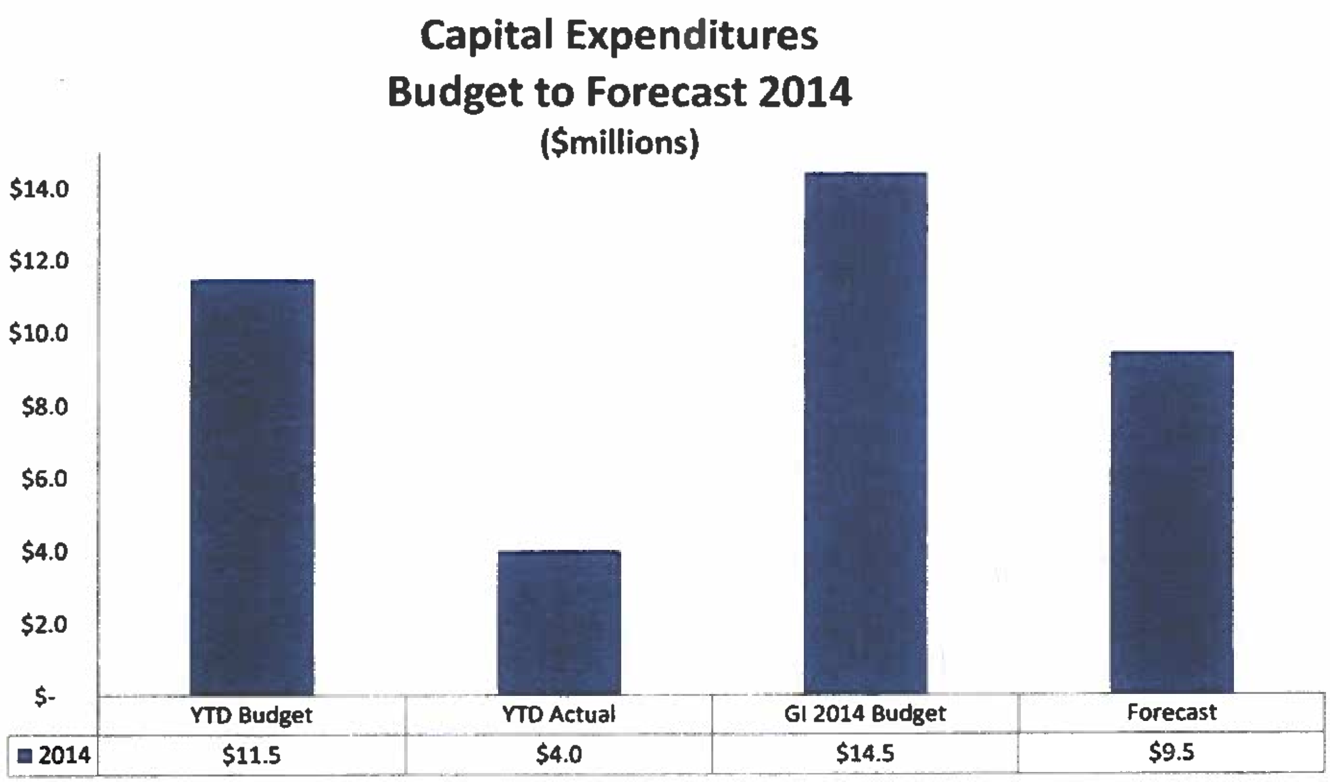
Labrador-Island Link Cost Summary

($000's CAD)	YTD Budget	YTD Actual	2014 Budget	2014 Forecast	TTD Actuals
Owners Team, Admin & EPCM Services	$ 39,960	$ 26,973	$ 48,007	$ 32,232	$ 105,531
Feasibility Engineering	$ 618	$ -	$ 741	$ -	$ 20,432
Environmental & Regulatory Compliance	$ 3,782	$ 463	$ 4,561	$ 1,183	$ 8,515
Aboriginal Affairs	$ 434	$ 6	$ 521	$ 121	$ 547
Procurement & Construction	$ 317,749	$ 270,351	$ 433,269	$ 335,498	$ 329,495
Commercial & Legal	$ 2,423	$ 1,014	$ 2,907	$ 1,206	$ 7,884
Sub-Total	**$ 364,966**	**$ 298,807**	**$ 490,006**	**$ 370,240**	**$ 472,404**
Financing Costs	$ 1,649	$ 958	$ 2,237	$ 2,237	$ 22,788
Interest During Construction (Net)	$ 46,535	$ 45,958	$ 56,604	$ 56,604	$ 52,597
Sub-Total	**$ 48,184**	**$ 46,916**	**$ 58,841**	**$ 58,841**	**$ 75,385**
Total	**$ 413,150**	**$ 345,723**	**$ 548,847**	**$ 429,081**	**$ 547,789**

Note: YTD Actual costs above include currency impact of $5,696 in Procurement and Construction, $2 in Commercial & Legal, and $46 in Financing Costs.

LCP Phase 2 - Gull Island

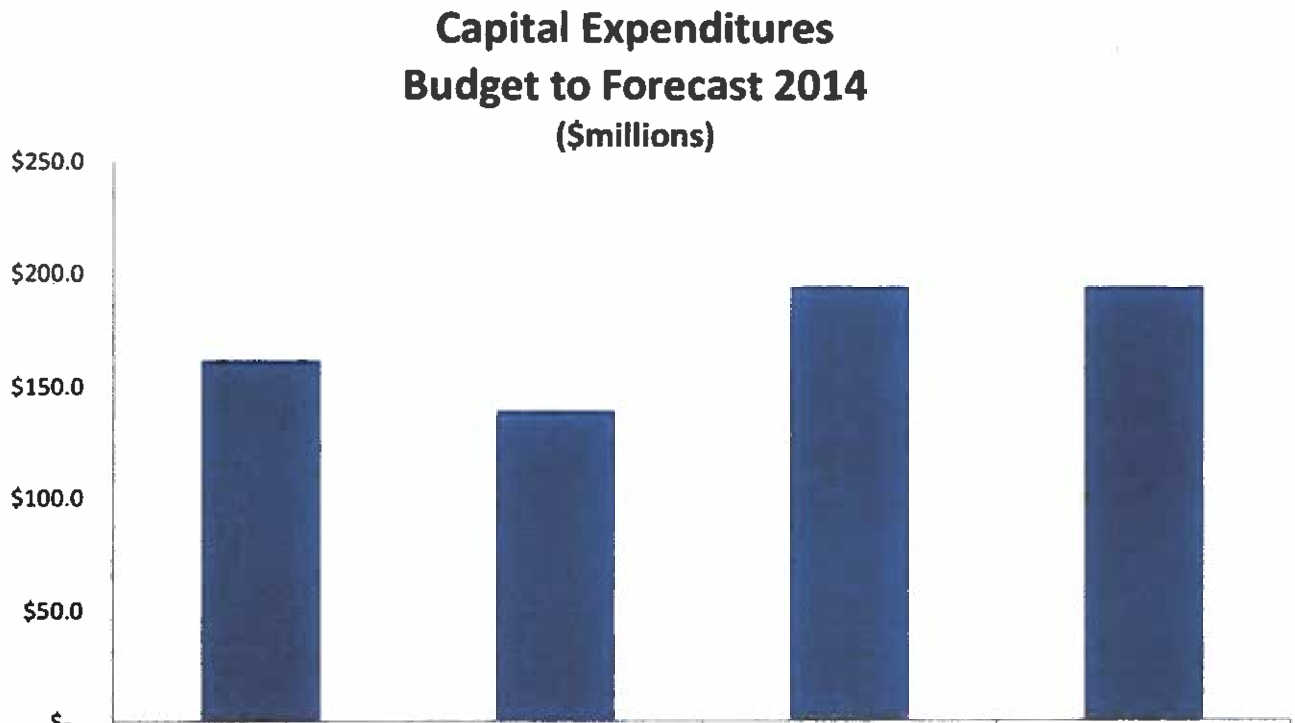
Gull Island YTD Capital Expenditures



- Refundable transmission service deposits of $13.5 million were budgeted for 2014, however no payments are anticipated for the year.

Maritime Link (Full Costs)

Maritime Link YTD Capital Expenditures (Full Cost)



	YTD Budget	YTD Actual	2014 Budget	Forecast
Emera	$159.9	$138.0	$191.9	$191.9
Nalcor	$1.8	$0.9	$2.1	$2.1

Pages 87 - 95 have been fully redacted and replaced with this page.

NALCOR ENERGY
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
September 30, 2014

Unaudited

DIRECTORS

KEN MARSHALL
Acting Chairperson
President – Atlantic Region
Rogers Cable

LEO ABBASS
Corporate Director

ALLAN HAWKINS*
Mayor, Grand Falls Windsor

ERIN BREEN
Partner, Simmons+ Partners Defence

ED MARTIN
President and Chief Executive Officer

TOM CLIFT
Professor
Faculty of Business Administration
Memorial University of Newfoundland and Labrador

GERALD SHORTALL
Chartered Accountant
Corporate Director

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

OFFICERS

KEN MARSHALL
Acting Chairperson

ED MARTIN
President and Chief Executive Officer

DERRICK STURGE
Vice President, Finance and Chief Financial Officer

CHRIS KIELEY
Vice President, Strategic Planning
and Business Development

JIM KEATING
Vice President, Oil and Gas

GERARD McDONALD
Vice President, Human Resources
and Organizational Effectiveness

JOHN MacISAAC
Vice President, Project Execution and Technical Services

GILBERT BENNETT
Vice President, Lower Churchill Project

DAWN DALLEY
Vice President, Corporate Relations

ROB HENDERSON
Vice President, Newfoundland and Labrador Hydro

PAUL HUMPHRIES
Vice President, System Operations and Planning

WAYNE CHAMBERLAIN
General Counsel and Corporate Secretary

PETER HICKMAN
Assistant Corporate Secretary

ROBERT HULL
General Manager, Finance

AUBURN WARREN
General Manager, Commercial, Treasury and Risk

*Resigned October 16, 2014

NALCOR ENERGY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Unaudited)

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

See accompanying notes

Subsequent events (Note 22)

On behalf of the Board:

DIRECTOR

DIRECTOR

NALCOR ENERGY
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(Unaudited)

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

See accompanying notes

NALCOR ENERGY
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(Unaudited)

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

See accompanying notes

NALCOR ENERGY
CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

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

Supplementary cash flow information (Note 19)

See accompanying notes

NALCOR ENERGY
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

1. DESCRIPTION OF BUSINESS

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

1.1 Subsidiaries

Nalcor holds interests in the following subsidiaries:

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

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

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

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

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

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

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

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

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

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

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

1. DESCRIPTION OF BUSINESS (cont'd.)

1.2 Investments in Joint Arrangements

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

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

1.3 Variable Interest Entities

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

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of Compliance and Basis of Measurement

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

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

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

These financial statements have been prepared on a historical cost basis, except for financial assets 'at fair value through profit or loss' and 'available-for-sale' financial assets which have been measured at fair value. The condensed interim consolidated financial statements are presented in Canadian Dollars and all values rounded to the nearest million, except when otherwise noted. **The financial statements were approved by the Board of Directors of Nalcor on XX,2014.**

2.2 Basis of Consolidation

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

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

2.2 Basis of Consolidation (cont'd.)

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

Although Hydro retains its 65.8% ownership interest, the agreement changed the nature of the relationship between Hydro and Hydro-Québec, with respect to Churchill Falls, from that of majority and minority shareholders, respectively, to that of a joint operation. Accordingly, Hydro has applied the proportionate consolidation method of accounting for its interest in Churchill Falls subsequent to the effective date of the shareholders' agreement.

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

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

2.3 Cash and Cash Equivalents

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

2.4 Trade and Other Receivables

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

2.5 Inventory

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

2.6 Property, Plant and Equipment

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

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

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

Hydro

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

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

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

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

Churchill Falls

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

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

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

Oil and Gas

(i) Development and Production Costs

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

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

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

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

(ii) Subsequent Costs

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

(iii) Depletion

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

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

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

Lower Churchill Project

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

Other Assets

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

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

2.7 Exploration and Evaluation Assets

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

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

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

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

2.8 Investment Property

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

2.9 Borrowing Costs

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

2.10 Impairment of Non-Financial Assets

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

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

2.11 Investments in Joint Arrangements

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

Effective June 18, 1999, Hydro, Churchill Falls and Hydro-Québec entered into a shareholders' agreement which provided, among other matters, that certain of the strategic operating, financing and investing policies of Churchill Falls be subject to approval jointly by Hydro and Hydro-Québec representatives on the Board of Directors of Churchill Falls. Although Hydro retains its 65.8% ownership interest, the agreement changed the nature of the relationship between Hydro and Hydro-Québec, with respect to Churchill Falls, from that of majority and minority shareholders, respectively, to that of joint operators. This investment is accounted for using the proportionate consolidation method.

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

2.12 Employee Future Benefits

(i) 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.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

2.12 Employee Future Benefits (cont'd.)

(ii) Other Benefits

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

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

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

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

2.13 Provisions

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

2.14 Decommissioning, Restoration and Environmental Liabilities

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

2.15 Revenue Recognition

Electricity Sales

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

2.15 Revenue Recognition (cont'd.)

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

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

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

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

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

2.19 Financial Instruments

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

<u>Classification of Financial Instruments</u>

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

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

(i) Effective Interest Method

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

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

<u>Financial Assets</u>

(ii) Financial Assets at FVTPL

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

A financial asset is classified as held for trading if:

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

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

2.19 Financial Instruments (cont'd)

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

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with Nalcor's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

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

(iii) Held-to-Maturity Investments

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

(iv) AFS Financial Assets

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

(v) Loans and Receivables

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

Financial Liabilities and Equity Instruments

(vi) Classification as Debt or Equity

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

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

2.19 Financial Instruments (cont'd)

(vii) Financial Liabilities

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

2.20 Derecognition of Financial Instruments

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

2.21 Impairment of Financial Assets

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

Evidence of impairment could include:

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

3.1 Use of Estimates

(i) Property, Plant and Equipment

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

(ii) Oil and Natural Gas Reserves

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

(iii) Decommissioning Liabilities

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

(iv) Employee Benefits

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

(v) Revenue

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

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

3.2 Use of Judgments

(i) Property, Plant and Equipment

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

4. PROPERTY, PLANT AND EQUIPMENT

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

5. REGULATORY ASSETS AND LIABILITIES

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

5.1 Regulatory Adjustments Recorded in the Consolidated Statement of Income

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

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

6. OTHER LONG-TERM ASSETS

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

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

7. LONG-TERM INVESTMENTS

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

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

8. DEBT

8.1 Short-term Borrowings

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

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

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

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

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

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

8. DEBT (cont'd.)

8.2 Long-term Debt

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

***Sinking funds have also been established for these issues.

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

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

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

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

8. DEBT (cont'd.)

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

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

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

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

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

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

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

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

9. CLASS B LIMITED PARTNERSHIP UNITS

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

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

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

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

10. DEFERRED CREDITS

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

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

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

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

11. DEFERRED CONTRIBUTIONS

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

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

12. DECOMMISSIONING LIABILITIES

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

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

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

13. EMPLOYEE FUTURE BENEFITS

13.1 Pension Plan

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

13.2 Other Benefits

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

13. EMPLOYEE FUTURE BENEFITS (cont'd.)

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

14. OPERATING COSTS

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

15. NET FINANCE INCOME AND EXPENSE

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

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

16.1 Fair Value

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

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

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

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

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

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

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

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

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

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

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

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

17. RELATED PARTY TRANSACTIONS

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

Related Party	Relationship
The Province	100.0% shareholder of Nalcor Energy
Churchill Falls	Jointly controlled subsidiary of Hydro
Twin Falls	Joint venture of Churchill Falls
The Churchill Falls (Labrador) Corporation Trust	Created by the Province with Churchill Falls as the beneficiary
LIL LP	Partnership in which Nalcor holds 75 Class A Partnership Units
PUB	Agency of the Province

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

18. COMMITMENTS AND CONTINGENCIES

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

18. COMMITMENTS AND CONTINGENCIES (cont'd.)

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

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

19. SUPPLEMENTARY CASH FLOW INFORMATION

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

20. SEGMENT INFORMATION

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

(millions of Canadian dollars)	Hydro Regulated	Churchill Falls	Oil and Gas	Energy Marketing	Corporate and Other Activities	Phase 1 Lower Churchill Project	Bull Arm	Inter-Segment	Total
	For the nine months ended September 30, 2014								
Revenue									
Energy sales	400.8	48.2	55.7	64.1	0.1	-	-	(3.0)	565.9
Other revenue	1.6	0.7	6.4	-	0.1	-	13.2	2.0	24.0
	402.4	48.9	62.1	64.1	0.2	-	13.2	(1.0)	589.9
Expenses									
Fuels	(203.6)	-	-	-	-	-	-	-	(203.6)
Power purchased	(49.3)	-	-	(6.1)	-	-	-	3.0	(52.4)
Operating costs	(102.3)	(30.7)	(16.7)	(20.6)	(10.3)	(0.2)	(0.7)	-	(181.5)
Depreciation and depletion	(41.0)	(10.1)	(18.6)	-	(0.4)	-	-	-	(70.1)
Net finance income and expense	(58.0)	1.0	-	(0.1)	(1.0)	-	(0.3)	-	(58.4)
Other income and expense	(0.8)	(1.8)	1.4	(2.7)	0.1	-	-	-	(3.8)
Share in profit of joint venture	-	0.3	-	-	-	-	-	-	0.3
Preferred dividends	-	2.0	-	-	-	-	-	(2.0)	-
(Loss) profit before regulatory adjustments	(52.6)	9.6	28.2	34.6	(11.4)	(0.2)	12.2	-	20.4
Regulatory adjustments	25.4	-	-	-	-	-	-	-	25.4
(Loss) profit for the period	(27.2)	9.6	28.2	34.6	(11.4)	(0.2)	12.2	-	45.8
Capital expenditures*	142.9	23.9	186.5	0.7	0.9	998.2	-	-	1,353.1
Total assets	2,011.6	488.1	708.0	7.3	281.3	6,687.7	3.7	-	10,187.7

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

20. SEGMENT INFORMATION (cont'd.)

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

20. SEGMENT INFORMATION (cont'd.)

(millions of Canadian dollars)	Hydro Regulated	Churchill Falls	Oil and Gas	Energy Marketing	Corporate and Other Activities	Phase 1 Lower Churchill Project	Bull Arm	Inter-Segment	Total
	For the three months ended September 30, 2014								
Revenue									
Energy sales	79.1	8.2	11.1	17.9	0.1	-	-	(1.0)	115.4
Other revenue	(0.3)	0.2	3.6	-	(0.1)	-	4.4	0.5	8.3
	78.8	8.4	14.7	17.9	-	-	4.4	(0.5)	123.7
Expenses									
Fuels	(32.4)	-	-	-	-	-	-	-	(32.4)
Power purchased	(11.7)	-	-	(2.6)	-	-	-	1.0	(13.3)
Operating costs	(36.9)	(9.9)	(5.9)	(7.5)	(3.5)	-	(0.4)	-	(64.1)
Depreciation and depletion	(12.8)	(3.4)	(4.5)	-	(0.2)	-	-	-	(20.9)
Net finance income and expense	(17.2)	0.3	0.4	0.4	(0.6)	-	(0.1)	-	(16.8)
Other income and expense	(1.4)	(1.2)	1.4	(0.1)	-	-	-	-	(1.3)
Share in profit of joint venture	-	0.1	-	-	-	-	-	-	0.1
Preferred dividends	-	0.5	-	-	-	-	-	(0.5)	-
(Loss) profit before regulatory adjustments	(33.6)	(5.2)	6.1	8.1	(4.3)	-	3.9	-	(25.0)
Regulatory adjustments	23.1	-	-	-	-	-	-	-	23.1
(Loss) profit for the period	(10.5)	(5.2)	6.1	8.1	(4.3)	-	3.9	-	(1.9)
Capital expenditures*	59.7	8.7	73.2	0.2	(1.2)	465.8	-	-	606.4
Total assets	2,011.6	488.1	708.0	7.3	281.3	6,687.7	3.7	-	10,187.7

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

20. SEGMENT INFORMATION (cont'd.)

(millions of Canadian dollars)	Hydro Regulated	Churchill Falls	Oil and Gas	Energy Marketing	Corporate and Other Activities	Phase 1 Lower Churchill Project	Bull Arm	Inter-Segment	Total
				For the three months ended September 30, 2013					
Revenue									
Energy sales	74.8	11.2	16.8	19.7	0.1	-	-	(1.0)	121.6
Other revenue	0.7	0.3	2.0	-	0.1	-	4.2	0.7	8.0
	75.5	11.5	18.8	19.7	0.2	-	4.2	(0.3)	129.6
Expenses									
Fuels	(4.7)	-	-	-	-	-	-	-	(4.7)
Power purchased	(13.3)	-	-	(2.9)	0.2	-	-	1.0	(15.0)
Operating costs	(27.9)	(11.3)	(5.8)	(6.2)	(2.8)	-	(0.3)	-	(54.3)
Depreciation and depletion	(12.9)	(3.0)	(4.0)	-	(0.2)	-	-	-	(20.1)
Exploration and evaluation	-	-	(2.1)	-	-	-	-	-	(2.1)
Net finance income and expense	(18.2)	0.3	(0.2)	(0.4)	0.3	-	(0.1)	-	(18.3)
Other income and expense	2.7	(0.4)	(0.8)	0.8	-	-	0.2	-	2.5
Preferred dividends	-	0.7	-	-	-	-	-	(0.7)	-
Profit (loss) before regulatory adjustments	1.2	(2.2)	5.9	11.0	(2.3)	-	4.0	-	17.6
Regulatory adjustments	3.0	-	-	-	-	-	-	-	3.0
Profit (loss) for the period	4.2	(2.2)	5.9	11.0	(2.3)	-	4.0	-	20.6
Capital expenditures	24.2	12.4	58.8	-	(1.2)	234.2	-	-	328.4
Total assets	1,921.9	479.6	477.6	2.6	916.6	295.3	3.6	-	4,097.2

21. EXPLANATION OF TRANSITION TO IFRS

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

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

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

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

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

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

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

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

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

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

21.1 Reconciliation of Equity

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

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

21.1 Reconciliation of Equity (cont'd.)

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

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

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

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

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

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

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

21.4 Notes to the Reconciliation

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

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

(b) Property, Plant and Equipment

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

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

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

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

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

21.4 Notes to the Reconciliation (cont'd.)

(c) Investment Property

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

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

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

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

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

(e) Depletion

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

(f) Contributions in Aid of Construction

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

(g) Decommissioning Liabilities

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

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

21.4 Notes to the Reconciliation (cont'd.)

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

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

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

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

22. SUBSEQUENT EVENTS

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

Subsequent to September 30, 2014, Nalcor entered into new commitments totaling $286.0 million, related to the Muskrat Falls Project.

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

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

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

22. SUBSEQUENT EVENTS (cont'd.)

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

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

23. COMPARATIVE FIGURES

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

Management's Discussion & Analysis

For the three and nine months ended September 30, 2014

Table of Contents

Management's Discussion & Analysis

For the three and nine months ended September 30, 2014

SECTION 1: CORPORATE OVERVIEW

Nalcor Energy (Nalcor or the Company) is a Crown corporation established in 2007 under a special act of the Legislature of the Province of Newfoundland and Labrador (the Province). Nalcor'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. Nalcor's legal structure as at September 30, 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 & Gas)	Wholly owned subsidiary
Nalcor Energy – Bull Arm Fabrication Inc. (Bull Arm)	Wholly owned subsidiary
Nalcor Energy – Energy Marketing (Energy Marketing)	Wholly owned subsidiary
Muskrat Falls Corporation (Muskrat Falls)	Wholly owned subsidiary
Labrador Transmission Corporation (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% 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% owned subsidiary of Hydro (inactive)
Churchill Falls (Labrador) Corporation Limited (Churchill Falls)	65.8% owned joint operation of Hydro
Twin Falls Power Corporation Limited (Twin Falls)	33.3% owned joint venture of Churchill Falls

Nalcor 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 employees, contractors and the public.

Nalcor has segregated its business into seven reporting segments. These reporting segments allow senior management to evaluate the operational performance and assess the overall contribution of each segment to Nalcor's long-term objectives. The designation of segments has been based on a combination of regulatory status and management accountability. The following summary provides a brief overview of the nature of the operations included in each of the Company's reportable segments:

1. **Hydro Regulated** generates, transmits, and distributes electricity to customers within the Province.
2. **Churchill Falls** owns and operates the Churchill Falls Generating Station, one of the largest power generation plants in the world.
3. **Oil & Gas** holds and manages both onshore and offshore oil and gas interests in the Province.
4. **Energy Marketing** markets and trades the Province's surplus energy in markets across Canada and the United States.
5. **Phase 1 Lower Churchill Project** includes construction of the Muskrat Falls hydroelectric plant,

associated transmission lines in the Province, and the Maritime Link between the island of Newfoundland and Nova Scotia.

6. **Bull Arm** consists of an industrial fabrication site which is leased for major construction projects.
7. **Corporate and other activities** encompasses corporate support functions, business development activities and certain development projects yet to be sanctioned including Phase 2 of the Lower Churchill Project (Gull Island or Phase 2 Lower Churchill Project).

Nalcor maintains appropriate systems of internal control, policies and procedures that provide management with reasonable assurance that assets are safeguarded and that its financial information is reliable. The following discussion and analysis is the responsibility of management and is as at November 28, 2014. The Board of Directors carries out its responsibility for review of this disclosure principally through its Audit Committee, comprised exclusively of independent directors. The Audit Committee has reviewed and approved this Management's Discussion and Analysis (MD&A).

This MD&A should be read in conjunction with the unaudited condensed consolidated interim financial statements of Nalcor for the three and nine months ended September 30, 2014, Nalcor's audited consolidated financial statements and the MD&A for the year ended December 31, 2013.

Basis of Presentation

Unless otherwise noted, all financial information has been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Nalcor adopted IFRS as of January 1, 2014, with a date of transition effective January 1, 2013. Prior to January 1, 2014, Nalcor prepared its financial statements in accordance with Canadian generally accepted accounting principles (GAAP). Comparative balances presented in this MD&A and Nalcor's consolidated financial statements have been restated to be in accordance with IFRS.

All financial information is reported in Canadian dollars, unless otherwise noted.

Non-GAAP Financial Measures

Certain financial measures in this MD&A are not prescribed by IFRS as contained within Part I of the Chartered Professional Accountants of Canada Handbook. These non-GAAP financial measures are defined in Section 6 -Accounting Policies and Critical Accounting Estimates.

Forward Looking Information

Certain statements in this MD&A are forward-looking statements, based on Nalcor's current expectations, estimates, projections and assumptions, subject to risks and uncertainties. Statements containing words such as "could", "expect", "may", "anticipate", "believe", "intend", "estimate", "plan" and similar expressions constitute forward-looking statements. By their nature, forward-looking statements require Management to make assumptions and are subject to important unknown risks and uncertainties, which may cause actual results in future periods to differ materially from forecasted results. While Management considers these assumptions to be reasonable and appropriate based on information currently available, there is a risk that they may not be accurate. Nalcor assumes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or any other reason.

Management's Discussion & Analysis

For the three and nine months ended September 30, 2014

SECTION 2: SIGNIFICANT ITEMS AND RECENT DEVELOPMENTS

SIGNIFICANT ITEMS

Key Profit Drivers

The key profit drivers vary by each of Nalcor's seven business segments as there is a combination of regulated operations, operations with long-term and medium-term supply contracts (mostly denominated in CAD, but some in USD), and operations in markets where revenues are driven entirely by commodity prices (electricity and oil) and the prevailing USD/CAD exchange rate. In addition, in the case of the Oil & Gas segment, cash flow and results of operations are significantly influenced by oil production levels in the offshore developments in which Nalcor holds equity interests. As a result, it is necessary to consider the underlying key profit drivers in each business segment and the performance of each business segment to understand Nalcor's consolidated performance. While the regulated business segment should have the most year-over-year stability in earnings, it is currently experiencing significant volatility due to timelines required to obtain regulatory decisions and one-time costs incurred with a supply outage in January 2014. Business segments that rely on pricing in the commodities markets have generally done well in 2014, as electricity export prices are up over 2013 and oil prices (despite the anticipated decrease in Q4 2014) are generally consistent with 2013. These segments have also benefited from a strengthening US dollar, which has partially offset the impact of lower oil prices year-to-date.

The financial performance of several of Nalcor's business segments are impacted by seasonality. Specifically, electricity sales in Hydro Regulated and Churchill Falls are lowest during the summer months. As a result, these business segments typically have lower earnings in Q3. On the other hand, Energy Marketing has the highest level of energy available to sell in export markets during the summer months and the least available to sell in winter months. In addition, electricity prices in the export markets tend to be peak in winter and summer periods, but can vary by year depending on temperatures, the specific market and other factors in the export market.

Statement of Financial Position

Nalcor's total assets at the end of Q3 2014 were $10.2 billion, an increase of $6.1 billion from Q3 2013, and an increase of $0.7 billion from December 2013. The composition of the Company's assets at the end of Q3 2014 included property, plant and equipment of $5.0 billion (2013 - $3.7 billion), long term investments and restricted cash from the proceeds of the Lower Churchill Project financing of $4.4 billion (2013 - $5.0 billion) and other assets totaling $0.8 billion (2013 - $0.8 billion). The change in assets during 2014 has primarily been the result of capital expenditures related to the Lower Churchill Project. From a liabilities and equity perspective, long-term debt has increased by $121.2 million, primarily reflecting the $200.0 million long-term bond issue completed by Hydro in September 2014, primarily offset by the retirement of $124.6 million in debentures in June 2014. Increases in other components of liabilities include higher trade payables as a result of increased capital expenditures and Maritime Link costs incurred by a subsidiary of Emera Inc. that are included in Nalcor's consolidated financial balance sheet as deferred credits. Equity has increased by $179.5 million, primarily reflecting the receipt of equity contributions of $121.4 million from our Shareholder and year-to-date earnings of $45.8 million. Further details on changes in the balance sheet are included in Section 3 – Consolidated Financial Highlights.

Management's Discussion & Analysis

For the three and nine months ended September 30, 2014

Capital

Year-to-date capital expenditures of $1.4 billion are higher than the same period in 2013 by $707.7 million. The largest portion of the increase relates to an increase in Lower Churchill Project capital expenditures ($555.8 million) however, 2014 capital expenditures are also higher than the prior year in other business segments. Capital expenditures in Hydro Regulated are up by $83.7 million, Oil & Gas are up by $63.4 million, and other parts of the business are up by $4.8 million in total. Additional details on Nalcor's capital expenditures are provided in Section 5 – Liquidity and Capital Resources.

YTD 2014 Profit

Nalcor incurred a $45.8 million profit year-to-date compared to a net profit of $76.5 million in the same period in 2013, a year-over-year decrease of $30.7 million. As noted below, the majority of this year-over-year decrease occurred in Q3 2014. On a year-to-date basis, Hydro Regulated's 2014 profit is $37.6 million below that of 2013 primarily due to delays in obtaining regulatory approval of the 2014 general rate adjustment and interim rates approvals (the electricity rates in effect for 2014 were determined based on 2007 cost levels, with the exception of changes in the costs of fuel consumed at the Holyrood Thermal Generating Station (HTGS) for which rates have been adjusted annually), increased costs incurred in connection with managing the Supply Outage events and Inquiry which are not yet approved for recovery, and increased investment costs in connection with preparation for winter readiness on the Hydro Regulated system. Hydro currently has applications before the Board of Commissioners of Public Utilities (PUB) that if successful would provide additional earnings in 2014 of $55.6 million. While Hydro believes that the requests to the PUB for earnings relief of $55.6 million are solid and justified, there remains regulatory risk until the PUB rules on Hydro's applications. Hydro does not control the timing of the PUB ruling on these applications, but has requested a decision by year-end in order to provide clarity in year-end financial reporting.

Churchill Falls is $7.1 million below 2013 due to reduced demand from Hydro Quebec, resulting in decreased energy sales. The reductions in profit for Hydro Regulated and Churchill Falls have been partially offset by higher net profit in Oil & Gas ($7.5 million) resulting from increased oil production, Energy Marketing ($8.3 million) due to higher electricity prices in export markets, and Bull Arm ($0.5 million). Further detail on Nalcor's segment performance year-to-date is discussed in Section 4 – Segmented Results and Analysis.

Q3 2014 Loss

Nalcor incurred a $1.9 million loss in the quarter compared to a profit of $20.6 million in the same period in 2013, a year-over-year decrease of $22.5 million. The largest portion of this decrease is the result of a $14.7 million decrease in Hydro Regulated's profit from Q3 2013 to Q3 2014, primarily due to delays in obtaining regulatory approval of the 2014 general rate adjustment and interim rates approvals, increased costs incurred in connection with managing the Supply Outage Inquiry which are not yet approved for recovery, and increased investment costs in connection with preparation for winter readiness on the Hydro Regulated system. Also contributing to the Q3 2013 to Q3 2014 reduction in consolidated profit was a $3.0 million increase in loss in Churchill Falls due to reduced demand from Hydro Quebec, resulting in decreased energy sales, and a $2.9 million decrease in profit in Energy Marketing due to lower electricity prices in export markets. In addition there was lower oil production during this quarter compared to Q3 2013, as well as a $2.0 million increase in costs associated with Corporate and other Activities. A detailed discussion of the performance of each of Nalcor's segments is contained in Section 4 - Segmented Results and Analysis.

Management's Discussion & Analysis

For the three and nine months ended September 30, 2014

RECENT DEVELOPMENTS

HYDRO REGULATED

Hydro Regulated had significant regulatory activity occurring in 2014, mainly related to obtaining new rates for 2014 and 2015, approval of major capital projects, and other important regulatory activities.

<u>General Rate Application</u>

A general rate application (GRA) was filed with the Board of Commissioners of Public Utilities (PUB) on July 30, 2013 for a general rate increase effective January 1, 2014 based on a 2013 test year. Hydro Regulated's last general rate application was filed in 2006. Approval of the application will enable Hydro to recover its costs and provide an opportunity for it to attain a reasonable return on rate base as required by Section 80 of the Public Utilities Act. On November 18, 2013, Hydro applied to the PUB for approval of a deferral and recovery mechanism that would provide earnings relief to Hydro in 2014 until a regulatory decision could be obtained on the GRA. On December 13, 2013, in Order P.U. 40(2013), the PUB denied Hydro's request for 2014 interim rates. Hydro filed an application on February 11, 2014 to clarify and revise certain aspects of the November 18, 2013 application. On April 25, 2014, in Order P.U. 13(2014), the PUB denied Hydro's amended application.

On May 12, 2014, Hydro filed an application with the PUB seeking interim earnings relief in 2014 by using the Rate Stabilization Plan (RSP). On September 17, 2014, in Order P.U. 39(2014), the PUB denied Hydro's application.

As a result of Hydro not obtaining regulatory approval to date for earnings relief in 2014, Hydro Regulated incurred a loss of $27.2 million as at September 30, 2014. The process to review and reach a regulatory decision on Hydro's original GRA filing of July 30, 2013 has now extended 16 months and consequently, the cost level supporting the rate request which was based on 2013 costs has become outdated and the rates requested for 2014 will not be sufficient to cover Hydro's future cost levels. As a result, on November 10, 2014, Hydro filed an amended GRA based on a 2014 and 2015 test year. The amended GRA filing requests new rates effective February 1, 2015 for most customers in conjunction with a proposed mechanism to provide interim earnings relief as of January 1, 2015 until a final regulatory decision has been obtained. The amended GRA includes proposals for the phase-in of rates for industrial customers and for $45.9 million of interim earnings relief in 2014. As part of the amended GRA filing, Hydro is also asking the PUB for a decision on the 2014 interim earnings relief and the 2015 interim rates by the end of 2014.

Hydro's current applications before the PUB, if successful, would provide additional earnings in 2014 of $55.6 million. While Hydro believes that the requests to the PUB for earnings relief of $55.6 million are solid and justified, there remains regulatory risk until the PUB rules on Hydro's applications. Hydro does not control the timing of the PUB ruling on these applications, but has requested a decision by year-end in order to provide clarity in year-end financial reporting.

<u>Capital Projects</u>

Hydro Regulated is committed to investing in capital projects to ensure the continued safe and reliable operation of the Province's electrical system. It plans to invest $253.9 million in 2014 as it continues to execute on the long-term asset management plan to maintain and upgrade facilities in response to growing customer demand and aging infrastructure.

Management's Discussion & Analysis
For the three and nine months ended September 30, 2014

Hydro has a number of regulatory applications submitted to the PUB seeking approval of capital projects and related recovery in rate base. Significant projects awaiting approval are detailed below:

- On April 10, 2014, Hydro filed an application with the PUB to obtain approval for the construction of a combustion turbine to be located adjacent to the existing HTGS. The cost of the 123MW combustion turbine is approximately $119.0 million and approval to construct the combustion turbine was obtained from the PUB in May 2014, but the order did not address recovery of the cost in rate base. Construction of the combustion turbine is significantly advanced. A further review process is being undertaken by the PUB in connection with the approval of costs of the combustion turbine in the rate base.

- On April 30, 2014, Hydro filed an application with the PUB for approval to construct a new $291.7 million transmission line from the Bay D'Espoir terminal station to the Western Avalon terminal station. The regulatory process to review this application is in progress, but a decision from the PUB has not yet been rendered.

- On October 6, 2014, Hydro filed an amended application with the PUB for approval of its $77.1 million 2015 Capital Budget. The PUB has not yet rendered a decision.

In addition to the applications for approval detailed above, Hydro filed supplemental and unforeseen capital applications in 2014 with the PUB. Hydro filed applications totaling $18.4 million, of which $7.7 million has been approved by the PUB and $10.5 million has been approved with further regulatory process required to approve cost recovery.

<u>Other Regulatory Activity</u>
Approximately $162.0 million in fuel cost savings has accumulated in the RSP since 2007. The fuel savings resulted from reduced thermal generation due to the shut-down of a portion of the pulp and paper industry in the Province since Hydro's last GRA in 2006. In April 2013, the Provincial government issued directives to the PUB and Hydro on the allocation of the RSP balance as follows: (1) $49.0 million allocated to the benefit of industrial customers, and (2) the balance of $113.0 million allocated to the benefit of Newfoundland Power customers. On October 31, 2013, Hydro filed an application with the PUB regarding the refund of the RSP balance of $113.0 million to Newfoundland Power customers. The PUB ruled the $113.0 million RSP surplus should be refunded to all customers, including those on the Labrador Interconnected grid. The Consumer Advocate and Hydro have appealed this decision to the Supreme Court of Newfoundland and Labrador on the basis that customers on the Labrador Interconnected grid did not contribute to RSP. The court of appeal hearing on the RSP payout is scheduled to occur in February 2015.

A regulatory decision on Hydro's request for the recovery of Holyrood black-start lease costs incurred in 2013 and 2014 remains outstanding, subject to further regulatory review. Also, in Order P.U. 27(2014) the PUB did not approve the inclusion in rate base of $2.3 million in capital costs related to two diesel plants in Labrador. Hydro is re-applying for the approval of $1.4 million of these capital costs.

On July 8, 2014, Hydro filed an application with the PUB to obtain approval for a proposed $200.0 million bond issue. The application was approved in August 2014 and on September 15, 2014 Hydro issued new long-term debt through the sale of $200.0 million Series AF debentures to its underwriting syndicate. The debentures mature on December 31, 2045 and pay a coupon rate of 3.6% semi-annually. The proceeds

Management's Discussion & Analysis
For the three and nine months ended September 30, 2014

from the debt were used to pay down short- term borrowings with the remainder being used to fund the capital plan as noted above.

In early 2014, Hydro experienced interruptions in the electricity supply resulting in additional capacity related supply costs of approximately $9.7 million. In October 2014, Hydro filed an application with the PUB to obtain approval for a deferral and recovery of $9.7 million of additional fuel and power purchase costs incurred early in 2014 and Hydro has asked the PUB for a decision by the end of 2014.

<u>Supply Outage Inquiry</u>
In the first quarter of 2014, there were periods when Hydro experienced a shortage in the generation supply and was unable to meet the supply requirements on Hydro's Island Interconnected System. Both Hydro and the PUB commenced an inquiry process into the Island Interconnected system supply issues and power interruptions. On March 24th, 2014, Hydro filed its report on the supply issues and related power interruptions. The PUB has hired an independent consultant, Liberty Consulting Group (Liberty), who filed an interim report on April 24, 2014. The PUB issued an interim report on May 15, 2014. It is anticipated that Liberty will issue a further report in December 2014 and the PUB will issue a further report on the matter in 2015. Hydro will continue to work closely with the PUB and Liberty regarding the implementation of recommendations and improvements to provide reliable electricity service to the people of Newfoundland and Labrador.

CHURCHILL FALLS

On July 24, 2014, Churchill Falls received judgment from the Québec Superior Court on the motion filed by Churchill Falls in February 2010 regarding the disparities of the 1969 Power Contract between Churchill Falls and Hydro-Québec. The Court ruled against Churchill Falls and the ruling requires Churchill Falls to pay court costs of $1.4 million to Hydro-Québec.

On August 26, 2014, Churchill Falls filed an Inscription in Appeal with the Québec Court of Appeal regarding the judgment of the Québec Superior Court.

The arrangements under which Churchill Falls supplies the 225 MW Twinco Block to Twin Falls expire on December 31, 2014. As a result, a new power purchase agreement (PPA) between Churchill Falls and Hydro for the sale of 225MW of power produced by the Churchill Falls Generating Station has been presented and ratified by the Churchill Falls and Hydro Boards of Directors. The PPA, which will be effective January 1, 2015, is agreed upon in principle and the final agreement will be finalized by Churchill Falls and Hydro in advance of year-end.

A 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) expires on December 31, 2014. Twin Falls has entered into discussions with Churchill Falls and NLH 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 results of an environmental site assessment conducted at the Twin Falls Generating Station indicated concentrations of contaminants in the soil and waters adjacent to the powerhouse. The regulator's position is that remediation is not required, but that further monitoring be carried out. 2013 sampling indicated that concentrations of total petroleum hydrocarbons and polychlorinated biphenyls (PCB) in sediment and PCBs in fish have generally remained stable, or decreased, since 2010. Environmental assessments related to other Twin Falls' assets are ongoing. The condensed consolidated interim financial statements for the three and nine months ended September 30, 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.

OIL AND GAS

In August 2014, Nalcor signed a multi-client license agreement with Electromagnetic Geoservices ASA for regional 3D electromagnetic (EM) survey data over frontier areas of Newfoundland's offshore. The EM survey will initially target the Flemish Pass Basin, where recent major oil discoveries have been made, including Statoil's Bay du Nord discovery. The survey will collect 4,000 square kilometers of EM data that will be calibrated to the recent discoveries and will image key prospects in nearby areas. Integrated data delivery will be available to the global industry in early 2015, prior to the close of the scheduled license round in the fall of 2015.

On October 31, 2014, Nalcor entered into a series of fixed price swaps to mitigate its exposure to oil prices in 2015. These swap contracts, which have a notional value of $22.6 million USD, provide for an average fixed price of $87.44 USD on 26% of budgeted 2015 production. Because oil sales are denominated in US dollars, the impact of sustained price pressure in 2015 would be offset by a projected stronger US dollar. Subsequent to September 30, 2014, global oil prices have continued to weaken due to further imbalances between supply and demand. Current price forecasts suggest that, barring any new supply disruption, this downward pressure will continue for the balance of 2014 and could continue into 2015. This creates significant uncertainty over the future prices Nalcor will receive for its products in the short-term.

Year-to-date, the impact of oil prices on Nalcor's results has been partially mitigated by a stronger US dollar. The impact of further pressure on oil prices for the balance of 2014 is mitigated by fixed price swaps Nalcor entered in to in December 2013. These outstanding swap contracts, which have a notional value of $7.1 million USD, provide an average fixed price of $105.00 USD on 29% of remaining forecasted production for 2014.

ENERGY MARKETING

Since April 2009, Nalcor has been marketing surplus recall energy from Churchill Falls to markets outside of the Province through a contract with Emera Energy Inc. (EEI). Since 2011, Nalcor has been building the necessary procedures, systems and expertise to bring this activity in-house. In early 2014, Nalcor formed a wholly-owned subsidiary, Energy Marketing to manage Nalcor's participation in extra-provincial energy markets. Nalcor is on target to conclude the contract with EEI and to complete the transition of export activities from Hydro to Energy Marketing by April 1, 2015.

LOWER CHURCHILL PROJECT

On June 26, 2014, Nalcor provided an updated capital cost forecast for the Muskrat Falls Generation Facility, Labrador Transmission Assets and Labrador-Island Link components of Phase 1 Lower Churchill Project (Lower Churchill Project). Market cost pressures, combined with strategic investments to enhance system reliability, operation and productivity throughout construction, resulted in an updated capital cost forecast for the Lower Churchill Project of $6.990 billion as compared to the $6.20 billion estimate at sanction in December 2012.

Management's Discussion & Analysis

For the three and nine months ended September 30, 2014

The Lower Churchill Project has made significant construction progress throughout 2014 and major milestones include the following:

Muskrat Falls Generation Facility

- Mobilization of Astaldi, the main contractor responsible for constructing the intake, powerhouse, spillway, and transition dams. Progress has been made by Astaldi in the areas of integrated cover system erection, concrete placement, foundation preparation, installation, formwork and rebar placement.
- Progress on the manufacturing of the turbines and generators by Andritz Hydro Canada, with the first delivery of turbine components shipped from China during Q3 2014.

Labrador-Island Link

- Construction of the 350kV HVdc Labrador-Island Transmission Line was awarded to Valard Construction.
- HVdc right-of-way (ROW) clearing and installation of grillage foundations underway and on schedule.
- Completion on schedule of the sixth and final bore hole required for the 35 km crossing of the submarine cable across the Strait of Belle Isle (SOBI) from Forteau Point, Labrador to Shoal Cove, Newfoundland.
- Manufacturing of the SOBI submarine cable in Japan, with the first cable completed and the second well advanced.
- Completion of the earthworks program at Soldier's Pond, which will be the home for the island's converter station, switchyard and synchronous condenser facility.

Labrador Transmission Assets

- Substantial progress on the clearing for the HVac ROW for the transmission line between Muskrat Falls and Churchill Falls.
- Mobilization of Valard Construction, the contractor for HVac transmission line construction. Transmission construction and tower erection is proceeding on schedule.
- Completion of the earthworks program at the Churchill Falls switchyard location.

Management's Discussion & Analysis

For the three and nine months ended September 30, 2014

SECTION 3: CONSOLIDATED FINANCIAL HIGHLIGHTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME HIGHLIGHTS

	Three months ended			Nine months ended		
For the period ended September 30 (millions of dollars)	**2014**	2013	Variance	**2014**	2013	Variance
Revenue	**$123.7**	$129.6	$(5.9)	**$589.9**	$570.7	$19.2
Fuels	**(32.4)**	(4.7)	(27.7)	**(203.6)**	(123.6)	(80.0)
Power purchased	**(13.3)**	(15.0)	1.7	**(52.4)**	(46.8)	(5.6)
Operating costs	**(64.1)**	(54.3)	(9.8)	**(181.5)**	(159.8)	(21.7)
Depreciation and depletion	**(20.9)**	(20.1)	(0.8)	**(70.1)**	(66.0)	(4.1)
Exploration and evaluation	**-**	(2.1)	2.1	**-**	(2.8)	2.8
Net finance income and expense	**(16.8)**	(18.3)	1.5	**(58.4)**	(54.9)	(3.5)
Other income and expense	**(1.3)**	2.5	(3.8)	**(3.8)**	3.0	(6.8)
Share of profit of joint venture	**0.1**	-	0.1	**0.3**	0.3	-
(Loss) profit before regulatory adjustments	**(25.0)**	17.6	(42.6)	**20.4**	120.1	(99.7)
Regulatory adjustments	**23.1**	3.0	20.1	**25.4**	(43.6)	69.0
(Loss) profit for the period	**(1.9)**	20.6	(22.5)	**45.8**	76.5	(30.7)

Revenue

The increase in revenue year-to-date was significantly driven by an increase in the average electricity market price related to Energy Marketing, an increase in revenue from seismic data sales and higher oil production during the first half of 2014. The decrease in revenue for the quarter was as a result of reduced oil production driven by lower volumes and a lower realized oil price.

Fuels

The increase year-to-date was due to higher volume of fuel consumed largely resulting from an increase in customer demand, higher fuel prices, and the January power supply interruption. Hydro has filed an application with the PUB for the recovery of $3.6 million of these costs which related to the 2014 outage. The increase in fuel costs for the quarter was primarily due to a higher price per barrel and an increase in the volume of barrels consumed at Hydro's HTGS.

Power purchased

The increase in power purchased year-to-date was primarily due to additional power purchased by Hydro Regulated from non-utility generators in the first quarter of 2014. Hydro has filed an application with the PUB for the recovery of $6.1 million of these costs which related to the 2014 outage. The decrease in power purchased for the quarter was mainly a result of reduced production from non-utility generators due to planned equipment maintenance, reduced purchases from the Exploits generating station and lower production from wind in 2014.

Operating costs

The increase in operating costs for the quarter and year-to-date are due to additional work required for winter readiness, increase in equipment lease costs to provide black-start capability for HTGS, costs related to increased regulatory activity, and inflationary increases.

Management's Discussion & Analysis

For the three and nine months ended September 30, 2014

Depreciation and depletion

The increase in depreciation and depletion for the quarter and year-to-date was primarily due to increased levels of investment in property, plant and equipment for Hydro Regulated, Churchill Falls and Oil & Gas, and increased levels of production resulting in higher depletion expense for Oil and Gas' petroleum and natural gas properties.

Exploration and evaluation

The decrease in exploration and evaluation for the quarter and year-to-date was due to a determination in 2014 that such costs are eligible for prospective capitalization under IFRS 6.

Net finance income and expense

Net finance income and expense includes interest income and expense, foreign exchange gains and losses, and accretion expense on long-term debt and long-term liabilities, less interest capitalized during construction. The decrease in net finance expense for the quarter was due to decreased interest expense as a result of a $124.6 million debt retirement that occurred on June 15, 2014. The increase in net finance expense year-to-date was primarily due to an increase in the balance of debt outstanding through the first quarter of 2014.

Other income and expense

The change in other income and expense in the quarter and year-to-date is due to losses on disposal of fixed assets in the third quarter of 2014 compared to gains recognized on disposals in the third quarter of 2013.

Regulatory adjustments

Regulatory adjustments consist of Hydro Regulated deferrals of current year expenditures and amortization and recovery of previously deferred costs as approved by the PUB. The increase in regulatory adjustments for the quarter and year-to-date consisted primarily of an increase in fuel costs that were deferred as a result of the operation of the RSP, combined with a decrease in RSP amortization.

Management's Discussion & Analysis

For the three and nine months ended September 30, 2014

CONSOLIDATED STATEMENT OF FINANCIAL POSITION HIGHLIGHTS

Significant changes in the consolidated statement of financial position between September 30, 2014 and December 31, 2013 include:

(millions of dollars)	Increase (Decrease)	Explanation
ASSETS		
Cash and cash equivalents	(25.5)	See Section 5 - Liquidity and Capital Resources Section.
Restricted cash	500.0	Increased due to an increase in cash balances held in accounts administered by a collateral agent related to the Lower Churchill Project. The balance of these accounts varies on a monthly basis as structured deposit notes mature and cash is drawn down to fund construction costs.
Trade and other receivables	(61.7)	Decreased primarily due to reduced kilowatt usage as a result of seasonal decrease in billings and timing of Guaranteed Winter Availability Contract (GWAC) billings.
Inventory	27.8	Increased primarily due to increased purchases and price per barrel of Bunker C fuel.
Prepaid expenses	3.8	Increased due to the timing of expenditures related to the Hebron project.
Property, plant and equipment (including exploration and evaluation assets)	1,282.1	Increased primarily due to capital expenditures of $1,353.1 million less depreciation and depletion.
Other long-term assets (including current portion)	49.5	Increased as a result of long-term advances to a supplier relating to the construction of the Muskrat Falls hydroelectric plant, an increase in sinking funds, and offset by a small decrease in reserve fund and long-term prepaid expenses.
Long-term investments	(1,116.3)	Decreased due to maturities of structured deposit notes during 2014. The structured deposit notes are comprised of the proceeds of the Lower Churchill Project 2013 bond financing.
Regulatory deferrals	3.3	Increase due to the deferral of $3.0 million of lease costs and $1.3 million of energy conservation costs, partially offset by foreign exchange additions and amortization.
LIABILITIES AND EQUITY		
Short-term borrowings	(41.0)	Decreased due to repayment of promissory notes in Hydro.
Trade and other payables	294.8	Increased due to advancing progress in construction costs relating to the Lower Churchill Project.
Debt (current and long-term)	121.2	Increased due to the issuance of a $200.0 million debenture in Hydro, offset by the retirement of sinking funds.
Class B limited partnership units	4.7	Increased due to accrued interest during 2014.
Deferred credits (current and long-term)	120.3	Increased primarily due to deferred energy sales related to the Maritime Link.
Deferred contributions (current and long-term)	0.4	Increased due to contributions in aid of construction in Hydro.

Management's Discussion & Analysis
For the three and nine months ended September 30, 2014

(millions of dollars)	Increase (Decrease)	Explanation
Decommissioning liabilities (current and long-term)	1.2	Increased due to accretion during 2014.
Employee future benefits	5.9	Increased due to current service and interest cost increases.
Shareholder contributions	121.4	Increased as a result of equity contributions from the Province to fund offshore developments in Oil and Gas.
Accumulated other comprehensive loss	12.3	Increased as a result of favorable mark-to-market variances in Hydro sinking funds.
Retained earnings	45.8	Increased due to profit earned in 2014.

Management's Discussion & Analysis

For the three and nine months ended September 30, 2014

SECTION 4: SEGMENTED RESULTS AND ANALYSIS

The following presents an overview of the Company's profit (loss) for the three and nine months ended September 30, 2014, by business segment, in comparison to the three and nine months ended September 30, 2013. This discussion should be read in conjunction with Note 20 of the unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2014:

	Three months ended			Nine months ended		
For the period ended September 30 (millions of dollars)	**2014**	2013	Variance	**2014**	2013	Variance
Hydro Regulated	**$(10.5)**	$4.2	(14.7)	**$(27.2)**	$10.4	(37.6)
Churchill Falls	**(5.2)**	(2.2)	(3.0)	**9.6**	16.7	(7.1)
Oil and Gas	**6.1**	5.9	0.2	**28.2**	20.7	7.5
Energy Marketing	**8.1**	11.0	(2.9)	**34.6**	26.3	8.3
Bull Arm	**3.9**	4.0	(0.1)	**12.2**	11.7	0.5
Phase 1 Lower Churchill Project	**-**	-	-	**(0.2)**	-	(0.2)
Corporate and Other Activities	**(4.3)**	(2.3)	(2.0)	**(11.4)**	(9.3)	(2.1)
(Loss) profit for the period	**(1.9)**	20.6	(22.5)	**45.8**	76.5	(30.7)

HYDRO REGULATED

The operations of Hydro Regulated are influenced by many external factors including regulation, performance of the domestic economy, weather patterns and fuel costs. The demand for electricity is met through a combination of hydroelectric generation, thermal generation and power purchases including wind generation. Hydro Regulated uses the RSP, as directed by the PUB, both as a means to smooth rate impacts for island electricity consumers and to protect Hydro Regulated's net profit from variations in the HTGS fuel costs and is reflected with regulatory adjustments. Fuel costs fluctuate as a result of variations in electricity sales, fuel prices and hydraulic production.

The electricity rates in effect for 2014 were determined based on 2007 cost levels, with the exception of changes in the costs of fuel consumed at the HTGS for which rates have been adjusted annually. Losses incurred in the quarter and year-to-date have primarily been a result of the timelines required to obtain interim earnings relief through the regulatory process, increased fuel costs due to higher consumption and prices, increased purchased power costs related to the Supply Outage in early 2014, higher regulatory costs as a result of the level of regulatory activity in 2014, lower fuel conversion rate at the HTGS, and increased costs related to maintenance.

Management's Discussion & Analysis

For the three and nine months ended September 30, 2014

Financial Highlights

	Three months ended			Nine months ended		
For the period ended September 30 (millions of dollars)	**2014**	2013	Variance	**2014**	2013	Variance
Revenue	**$78.8**	$75.5	3.3	**$402.4**	$397.0	5.4
Fuels	**(32.4)**	(4.7)	(27.7)	**(203.6)**	(123.6)	(80.0)
Power purchased	**(11.7)**	(13.3)	1.6	**(49.3)**	(43.9)	(5.4)
Operating costs	**(36.9)**	(27.9)	(9.0)	**(102.3)**	(85.3)	(17.0)
Depreciation	**(12.8)**	(12.9)	0.1	**(41.0)**	(38.3)	(2.7)
Net finance income and expense	**(17.2)**	(18.2)	1.0	**(58.0)**	(55.6)	(2.4)
Other income and expense	**(1.4)**	2.7	(4.1)	**(0.8)**	3.7	(4.5)
(Loss) profit before regulatory adjustments	**(33.6)**	1.2	(34.8)	**(52.6)**	54.0	(106.6)
Regulatory adjustments	**23.1**	3.0	20.1	**25.4**	(43.6)	69.0
(Loss) profit for the period	**(10.5)**	4.2	(14.7)	**(27.2)**	10.4	(37.6)

Revenue

The increase in revenue for the quarter as well as year-to-date was primarily due to an increase in load related to Newfoundland Power and Vale, offset by RSP adjustments and a decrease in rural revenue.

Fuels

The increase in fuel costs for the third quarter of 2014 over the same period in 2013 was primarily due to increased fuel consumption at Holyrood, owing to higher plant production requirements (by 139 GWh) in addition to a higher price per barrel. There was a requirement to operate a Holyrood unit throughout the summer months of 2014 in order to reliably support the transmission into the Avalon Peninsula. The increase in requirements from the prior year is primarily due to utility (Newfoundland Power) and industrial (Vale) load growth. The increase in fuel costs year-to-date was due to increased production at Holyrood (by 357 GWh) over the same period in 2013. This is due to the higher summer requirements on the Avalon in addition to the higher demand experienced on the overall System during the winter and early spring of 2014. Another contributor to the higher costs was a lower fuel conversion rate which resulted in increased fuel consumption. The net impact of higher fuel cost is primarily offset through the RSP (see discussion of regulatory adjustments below).

The following tables summarize fuel consumed and average price:

	Three months ended		Nine months ended	
For the period ended September 30	**2014**	2013	**2014**	2013
No. 6 fuel consumption:				
Millions of barrels	**0.2**	-	**1.6**	1.0
Average price (CAD/BBL)	**$111.26**	$108.06	**$112.48**	$107.62
Diesel fuel consumption:				
Millions of liters	**3.6**	3.5	**12.7**	11.5
Average price (CAD/liter)	**$1.17**	$1.09	**$1.16**	$1.09

Management's Discussion & Analysis
For the three and nine months ended September 30, 2014

Fuel costs are summarized below:

	Three months ended		Nine months ended	
For the period ended September 30 (millions of dollars)	**2014**	2013	**2014**	2013
No. 6 fuel and other	**$28.3**	$0.9	**$188.8**	$111.0
Diesel	**4.1**	3.8	**14.8**	12.6
Total fuel costs	**$32.4**	$4.7	**$203.6**	$123.6

Generation mix is summarized below:

	Three months ended			Nine months ended		
For the period ended September 30 (GWh)	**2014**	2013	Variance	**2014**	2013	Variance
Generation						
Hydraulic generation[1]	**787.1**	865.0	(77.9)	**3,406.3**	3,394.5	11.8
Holyrood generation	**139.3**	0.2	139.1	**960.3**	602.9	357.4
Standby generation	**(2.0)**	(2.0)	-	**2.9**	(0.5)	3.4
Purchases[2]	**205.0**	241.0	(36.0)	**740.6**	762.8	(22.2)
Total	**1,129.4**	1,104.2	25.2	**5,110.1**	4,759.7	350.4

[1] Includes Hydro generation only.
[2] Purchases include generation from Exploits, wind and other non-utility generators.

Electricity Sales are summarized below:

	Three months ended			Nine months ended		
For the period ended September 30 (GWh)	**2014**	2013	Variance	**2014**	2013	Variance
Sales						
Newfoundland Power	**919.0**	887.0	32.0	**4,322.9**	3,990.2	332.7
Hydro rural	**84.5**	88.8	(4.3)	**342.8**	335.6	7.2
Industrials	**87.8**	79.2	8.6	**271.6**	259.0	12.6
Transmission Losses	**38.1**	49.2	(11.1)	**172.8**	174.9	(2.1)
Total	**1,129.4**	1,104.2	25.2	**5,110.1**	4,759.7	350.4

Power purchased

The decrease in power purchased for the quarter was mainly a result of reduced production from non-utility generators due to planned equipment maintenance, reduced Exploits River flow and lower production from wind in 2014. The increase in power purchased year-to-date is a result of additional power purchased from non-utility generators to meet the Province's unplanned electricity shortage experienced in January 2014.

Management's Discussion & Analysis

For the three and nine months ended September 30, 2014

Operating costs

The increase in operating costs for the quarter and year-to-date was due to costs incurred in connection with additional work performed for winter readiness, increased equipment lease costs to provide black-start capability for HTGS, increased costs related to regulatory activity and inflationary increases.

Net finance income and expense

The decrease in net finance expense for the quarter was due to decreased interest expense as a result of the $124.6 million debt retirement that occurred on June 15, 2014. The increase in net finance expense year-to-date was primarily due to an increase in foreign exchange loss associated with Bunker C fuel purchases, partially offset by debt retirement as previously discussed.

Other income and expense

The change in other income and expense for the quarter and year-to-date was driven by additional insurance proceeds received in 2013 related to Holyrood Unit 1 repairs in comparison to 2014 which has no significant insurance proceeds.

Regulatory adjustments

The increase in regulatory adjustments for the quarter and year-to-date consisted primarily of an increase in fuel costs that were deferred as a result of the operation of the RSP, combined with a decrease in RSP amortization.

CHURCHILL FALLS

Churchill Falls is the owner and operator of the Churchill Falls Generating Station, with a rated capacity of 5,428 MW. A power contract with Hydro-Québec dated May 12, 1969 (the Power Contract) provides for the sale of the majority of the electricity from this facility (approximately 30 terawatt hours (TWh)) until 2041.

Churchill Falls also sells 300 MW (2.6 TWh) annually (the maximum provided for under the Power Contract) to Hydro for use in Labrador and export sales (recall energy) and 225 MW (approximately 1.8 TWh) to Twin Falls to service the mining industry in Labrador West. In addition, Churchill Falls earns revenue from Hydro-Québec under a Guaranteed Winter Availability Contract (GWAC). The GWAC was signed with Hydro-Québec in 1998 and provides additional revenue for the sale of up to 682 MW of seasonal availability to Hydro-Québec during the months of November through March until the end of the Power Contract in 2041.

During the first nine months of 2014, Churchill Falls derived 65.8% of its revenue from the Power Contract (2013 -66.5%), 25.7% from the GWAC (2013 - 25.8%) and 8.5% from other revenue (2013 - 7.7%).

Management's Discussion & Analysis

For the three and nine months ended September 30, 2014

Financial Highlights

	Three months ended			Nine months ended		
For the period ended September 30 *(millions of dollars)*	**2014**	2013	Variance	**2014**	2013	Variance
Revenue	**$8.4**	$11.5	(3.1)	**$48.9**	$53.8	(4.9)
Operating costs	**(9.9)**	(11.3)	1.4	**(30.7)**	(31.2)	0.5
Depreciation	**(3.4)**	(3.0)	(0.4)	**(10.1)**	(9.4)	(0.7)
Net finance income and expense	**0.3**	0.3	-	**1.0**	1.1	(0.1)
Other income and expense	**(1.2)**	(0.4)	(0.8)	**(1.8)**	(0.4)	(1.4)
Share in profit of joint venture	**0.1**	-	0.1	**0.3**	0.3	-
Preferred dividends	**0.5**	0.7	(0.2)	**2.0**	2.5	(0.5)
(Loss) profit for the period	**(5.2)**	(2.2)	(3.0)	**9.6**	16.7	(7.1)

Revenue

The decrease in revenue for the quarter and year-to-date was primarily due to a decrease in energy deliveries to Hydro-Québec commencing May 2014. The amounts of energy delivered to Hydro-Québec were lower due to lower requirements by Hydro-Québec.

Operating costs

The decrease in operating costs for the quarter and year-to-date was due to decreased rental and royalty expense driven by reduced energy deliveries to Hydro-Québec, increased recoveries due to Churchill Falls staff house rate change, additional recoveries in Twin Falls operating projects and inflationary increases.

Depreciation

The increase in depreciation for the quarter and year-to-date was due to increased levels of investment in property, plant and equipment.

Other income and expense

The change in other income and expense for the quarter and year-to-date was largely due to more asset disposals during 2014 as compared to 2013.

OIL AND GAS

Oil and Gas is an equity partner in three developments in the Newfoundland and Labrador offshore: a 4.9 per cent working interest in the Hebron oil field, the Province's fourth offshore oil project which was sanctioned for development on December 31, 2012; a 5.0 per cent working interest in the White Rose Growth Project, which produced first oil from the North Amethyst field in May 2010; and a 10.0 per cent working interest in the Hibernia Southern Extension Project, which produced first oil in June 2011. Nalcor also has an average working interest of 99.0 per cent in onshore exploration permits in Parson's Pond on the Great Northern Peninsula. Oil and Gas is also making strategic investments in the Province's offshore through new geoscience data and delivering scientific insights to the global oil and gas industry to drive and encourage increased exploration activity and development for the Province.

Management's Discussion & Analysis

For the three and nine months ended September 30, 2014

Financial Highlights

For the period ended September 30 (millions of dollars)	Three months ended **2014**	2013	Variance	Nine months ended **2014**	2013	Variance
Revenue	**$14.7**	$18.8	(4.1)	**$62.1**	$54.7	7.4
Operating costs	**(5.9)**	(5.8)	(0.1)	**(16.7)**	(13.2)	(3.5)
Depreciation and depletion	**(4.5)**	(4.0)	(0.5)	**(18.6)**	(18.0)	(0.6)
Exploration and evaluation	-	(2.1)	2.1	-	(2.8)	2.8
Net finance income and expense	**0.4**	(0.2)	0.6	-	-	-
Other income and expense	**1.4**	(0.8)	2.2	**1.4**	-	1.4
Profit for the period	**6.1**	5.9	0.2	**28.2**	20.7	7.5

Revenue

The increase in revenue year-to-date was attributable to increased production volumes totaling 544,605 bbls (2013 - 486,604 bbls) and increased seismic sales. This increase is due to an increase in the number of production wells for both of our producing fields. Year-to-date, the realized oil price was $108.81 USD/bbl (2013 - $110.48 USD/bbl). The decrease in revenue for the quarter was a result of decreased production volumes totaling 117,741 bbls (2013 - 149,976 bbls) and a lower average realized oil price of $101.93USD/bbl (2013 - $115.18 USD/bbl). The decrease in Q3 production was the result of a delay in the completion of water injection wells required to support Hiberina Southern Extension production.

Operating costs

The increase in operating costs for the quarter and year-to-date was attributable to an increase in production, operating and processing costs, marketing and transportation costs due to increased sales, and inflationary increases.

Depreciation and depletion

The increase in depreciation and depletion for the quarter and year-to-date was a result of increased levels of investment in property, plant and equipment and increased levels of production resulting in higher depletion expense for Oil and Gas petroleum and natural gas properties.

Net finance income and expense

The change in net finance income and expense in the quarter and year-to-date was largely due to foreign exchange related to oil sales.

Exploration and evaluation

The decrease in exploration and evaluation in the quarter and year-to-date was due to the prospective capitalization of the costs incurred in the acquisition of seismic data.

Other income and expense

The change in other income and expense for the quarter and year-to-date was principally due to a net gain from the mark-to-market of the fair value of hedge instruments of the third quarter of 2014, compared to a net loss in 2013.

Management's Discussion & Analysis
For the three and nine months ended September 30, 2014

ENERGY MARKETING

The revenue and earnings in this segment are derived primarily from sales of available recall energy. This electricity is sold to markets in eastern Canada and the northern United States, as well as to the iron ore industry in Labrador.

Financial Highlights

	Three months ended			Nine months ended		
For the period ended September 30 (millions of dollars)	**2014**	2013	Variance	**2014**	2013	Variance
Revenue	**$17.9**	$19.7	(1.8)	**$64.1**	$53.0	11.1
Power purchased	**(2.6)**	(2.9)	0.3	**(6.1)**	(5.9)	(0.2)
Operating costs	**(7.5)**	(6.2)	(1.3)	**(20.6)**	(20.4)	(0.2)
Net finance income and expense	**0.4**	(0.4)	0.8	**(0.1)**	(0.2)	0.1
Other income and expense	**(0.1)**	0.8	(0.9)	**(2.7)**	(0.2)	(2.5)
Profit for the period	**8.1**	11.0	(2.9)	**34.6**	26.3	8.3

Revenue

The increase in revenue year-to-date was mainly as a result of increased export market prices in the first half of 2014. The average realized export price for the quarter was $29.97 USD/MWh (2013 - $34.72 USD/MWh) and year-to-date was $43.73 USD/MWh (2013 - $38.23 USD/MWh). During the nine months ended September 30, 2014, 90.3% of revenues were related to export sales (2013 - 90.3%) and 9.7% of revenues were derived from other sources (2013 - 9.7%). The decrease in revenue in the quarter was primarily due to a decrease in export market prices.

Power purchased

The decrease in power purchased for the quarter was due to decreased volume of market prices, partially offset by increased recall power purchases and increased market prices. The increase in power purchased year-to-date was primarily a result of increased market purchases at a higher purchase price.

Operating costs

The increase in operating costs for the quarter and year-to-date was primarily driven by costs associated with Energy Marketing's implementation plan to move energy trading operations in-house in 2015 which is projected to increase long-term value.

Net finance income and expense

The increase in net finance income and expense for the quarter is as result of foreign exchange fluctuations. Net finance income and expense year-to-date is consistent with prior year.

Other income and expense

The variation in other income and expense for the quarter and year-to-date was due to value fluctuations of future commodity hedges and foreign exchange hedges.

Management's Discussion & Analysis

For the three and nine months ended September 30, 2014

BULL ARM

Bull Arm is Atlantic Canada's largest industrial fabrication site. The site, which has unobstructed, deep water access to the Atlantic Ocean, generates revenue through leasing arrangements with large construction projects. This site is currently under lease until 2017 for the construction of the Gravity Base Structure platform and fabrication of the Living Quarters Module as well as other construction and fabrication activities related to the Hebron project.

Financial Highlights

	Three months ended			Nine months ended		
For the period ended September 30 (millions of dollars)	2014	2013	Variance	2014	2013	Variance
Revenue	$4.4	$4.2	0.2	$13.2	$12.4	0.8
Operating costs	(0.4)	(0.3)	(0.1)	(0.7)	(0.7)	-
Net finance income and expense	(0.1)	(0.1)	-	(0.3)	0.1	(0.4)
Other income and expense	-	0.2	(0.2)	-	(0.1)	0.1
Profit (loss) for the period	3.9	4.0	(0.1)	12.2	11.7	0.5

Revenue

The increase in revenue for the quarter and year-to-date was due to foreign exchange rate on USD lease revenue.

Operating costs, Net finance income and expense, and Other income and expense

Bull Arm's expenses for the quarter and year-to-date are largely consistent with the prior year.

PHASE 1 LOWER CHURCHILL PROJECT

Phase 1 Lower Churchill Project was sanctioned on December 17, 2012. The development of the Phase 1 Lower Churchill Project will provide a clean, renewable source of electricity to meet the Province's growing energy demands.

The costs included in the Phase 1 Lower Churchill Project include costs incurred by Nalcor's subsidiaries in the construction of the Muskrat Falls hydroelectric plant, the Labrador-Island Link transmission line, and the Labrador transmission assets. The construction of these project components is led by Nalcor's subsidiaries and has a current facilities capital cost estimate of $6.990 billion plus capitalized interest and financing costs. For financial reporting purposes, the costs of the Maritime Link, which is owned (for 35 years at which time ownership will transfer to Nalcor) and financed by a subsidiary of Emera Inc. is included in the Nalcor consolidated financial statements – see Note 9 and Note 10 of the condensed consolidated interim financial statements for the three and nine months ended September 30, 2014.

Management's Discussion & Analysis

For the three and nine months ended September 30, 2014

Financial Highlights

Capital expenditures increased by $231.6 million for the quarter and $555.8 million year-to-date compared to the same period in 2013. The breakdown by each component of Phase 1 Lower Project is as follows:

	Three months ended		Nine months ended		Total To Date
For the period ended September 30 (millions of dollars)	**2014**	2013	**2014**	2013	**2014**
Muskrat Falls	**$176.7**	$179.1	**$394.5**	$327.3	$1,071.5
Labrador transmission assets	**61.0**	23.2	**128.4**	37.1	250.7
Labrador Island Link	**142.8**	13.6	**259.1**	36.8	432.5
Nalcor facilities capital costs	**380.5**	215.9	**782.0**	401.2	1,754.6
Capitalized interest and financing costs	**30.3**	2.3	**91.1**	4.6	149.3
Total capital costs for Nalcor project components	**410.8**	218.2	**873.1**	405.8	1,903.9
Maritime Link	**53.4**	14.5	**120.4**	32.9	214.0
Class B limited partnership unit interest	**1.6**	1.5	**4.7**	3.7	10.0
Total capital expenditures	**465.8**	234.2	**998.2**	442.4	2,127.9

CORPORATE AND OTHER ACTIVITIES

Financial Highlights

	Three months ended			Nine months ended		
For the period ended September 30 (millions of dollars)	**2014**	2013	Variance	**2014**	2013	Variance
Revenue	**-**	$0.2	(0.2)	**$0.2**	$0.3	(0.1)
Power purchased	**-**	0.2	(0.2)	**-**	-	-
Operating costs	**(3.5)**	(2.8)	(0.7)	**(10.3)**	(9.0)	(1.3)
Depreciation	**(0.2)**	(0.2)	-	**(0.4)**	(0.3)	(0.1)
Net finance income and expense	**(0.6)**	0.3	(0.9)	**(1.0)**	(0.3)	(0.7)
Other income and expense	**-**	-	-	**0.1**	-	0.1
Loss for the period	**(4.3)**	(2.3)	(2.0)	**(11.4)**	(9.3)	(2.1)

With the exception of operating costs and net finance income and expense, corporate and other activities was largely consistent over the quarter and year-to-date with the same periods in 2013. The increase in operating costs for the quarter and year-to-date was primarily driven by increased operational maintenance costs related to non-regulated Hydro activities and inflationary increases, partially offset by decreased salaries and decreased professional fees. The unfavorable change in net finance income and expense for the quarter and year-to-date was largely due to fluctuations in foreign exchange.

Management's Discussion & Analysis

For the three and nine months ended September 30, 2014

SECTION 5: LIQUIDITY AND CAPITAL RESOURCES

SOURCES AND USES OF CASH

Cash flows relating to operating, investing and financing activities are summarized in the following table:

	Three months ended			Nine months ended		
For the period ended September 30 *(millions of dollars)*	**2014**	2013	Variance	**2014**	2013	Variance
Cash provided by (used in)						
Operating activities	**$213.7**	$161.6	52.1	**$425.5**	$364.8	60.7
Investing activities	**(155.9)**	(323.7)	167.8	**(101.7)**	(631.3)	529.6
Financing activities	**(34.6)**	96.1	(130.7)	**(349.3)**	361.8	(711.1)
Net increase (decrease) in cash	**23.2**	(66.0)	89.2	**(25.5)**	95.3	(120.8)

The net cash provided by operating activities includes net income for the period and other non-cash items and changes in working capital. The cash provided by operating activities for the quarter was $213.7 million and $425.5 million year-to-date, primarily due to changes in non-cash working capital, depreciation and depletion, and regulatory adjustments.

The net cash used in investing activities for the quarter was $155.9 million due to capital expenditures of $551.4 million on property, plant and equipment and exploration and evaluation assets, offset by a $398.7 million decrease in long-term investments. The net cash used in investing activities year-to-date was $101.7 million primarily due to capital expenditures of $1,228.0 million on property, plant and equipment and exploration and evaluation assets, a $94.7 million increase in long-term receivables, offset by a $1,116.3 million decrease in long-term investments and a $103.9 million decrease in sinking funds.

The net cash used in financing activities for the quarter was $34.6 million primarily resulting from a $160.6 million increase in restricted cash due to maturities of structured deposit notes as well as a $103.5 million decrease in short-term borrowings, offset by net proceeds of $197.1 million (from a $200.0 million Hydro bond issue) and $33.6 million increase in contributed capital. The net cash used in financing activities year-to-date is $349.3 million, primarily resulting from a $500.0 million increase in restricted cash due to maturities of structured deposit notes, a $124.6 million debt retirement, and $41.0 million decrease in short term borrowings, offset by net proceeds of $197.1 million from a long-term debt issuance and a $121.4 million increase in contributed capital.

Capital expenditures, which significantly impact the cash used in investing activities, increased by $278.0 million for the quarter and $707.7 million year-to-date. The breakdown by segment is as follows:

	Three months ended		Nine months ended	
For the period ended September 30 (millions of dollars)	**2014**	2013	**2014**	2013
Hydro Regulated	**$59.7**	$24.2	**$142.9**	$59.2
Churchill Falls[1]	**8.7**	12.4	**23.9**	20.6
Oil and Gas	**73.2**	58.8	**186.5**	123.1
Energy Marketing	**0.2**	-	**0.7**	-
Phase 1 Lower Churchill Project	**410.8**	218.2	**873.1**	405.8
Corporate and Other Activities	**(1.2)**	(1.2)	**0.9**	0.1
Total Capital Expenditures before the following	**551.4**	312.4	**1,228.0**	608.8
Class B Partnership Units – Accrued Interest	**1.6**	1.5	**4.7**	3.7
Maritime Link – Non Cash Additions	**53.4**	14.5	**120.4**	32.9
Total Capital Expenditures	**606.4**	328.4	**1,353.1**	645.4

[1]Reflects Nalcor's 65.8% ownership interest

ACCESS TO WORKING CAPITAL

Cash flow from operations and the availability of short-term funding under various unsecured demand operating facilities are considered sufficient to meet working capital requirements. Nalcor is in compliance with all covenants under credit facilities.

CAPITAL STRUCTURE

Nalcor's debt and equity and related ratios are shown in the following table:

(millions of dollars)	**September 30 2014**	December 31 2013
Current portion long-term debt	**$8.5**	$ 82.2
Long-term debt (net of sinking funds)	**6,242.8**	6,047.9
Short-term borrowings	**-**	41.0
Total debt	**6,251.3**	6,171.1
Total shareholder's equity	**2,447.5**	2,268.0
Debt to capital	**71.9%**	73.1%
Fixed rate debt as percentage of total indebtedness	**100.0%**	99.3%

The above noted ratios are non-GAAP financial measures. Refer to Section 6: Non-GAAP Financial Measures Advisory of this MD&A.

Nalcor's capital structure is key to its ability to execute its long-term strategy. In recent years, Nalcor has strengthened its balance sheet to enable it to take on debt associated with the Lower Churchill Project.

Management's Discussion & Analysis
For the three and nine months ended September 30, 2014

Nalcor's primary objectives when managing capital are to minimize its cost of capital within the confines of established risk parameters and to safeguard its ability to continue as a going concern. Nalcor's approach to capital management is performed on a consolidated basis.

On September 15, 2014, Hydro issued new long-term debt through the sale of $200.0 million Series AF debentures to its underwriting syndicate. The debentures mature on December 31, 2045 and pay a coupon rate of 3.6% semi-annually. The debt will pay down the balance of short term borrowings and fund the capital plan.

Prior to 2013, Nalcor realized a significant improvement in the debt to capital ratio as a result of strong earnings and contributed capital received from the Province. In 2013, due to new debt transactions related to the Phase 1 Lower Churchill Project, Nalcor's debt ratio increased compared to the prior year. The increase was planned and these debt increases will be supplemented by additional capital contributions to fund Lower Churchill Project expenditures as the development proceeds.

OBLIGATIONS AND COMMITMENTS

Total outstanding commitments for capital projects to be incurred in the next five years were $3.4 billion as at September 30, 2014 (December 31, 2013 - $2.4 billion), primarily related to the Phase 1 Lower Churchill Project, Oil and Gas investments, Hydro Regulated and Churchill Falls. Additional information about Nalcor's obligations and commitments can be found in Note 18 of the unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2014.

Management's Discussion & Analysis

For the three and nine months ended September 30, 2014

SECTION 6: ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES

ACCOUNTING POLICIES

Nalcor's significant accounting policies are described in Note 2 of the unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2014.

FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

Nalcor adopted IFRS as of January 1, 2014, with a date of transition effective January 1, 2013. IFRS 1 First-Time Adoption of International Financial Reporting Standards (IFRS 1) has been applied. Prior to January 1, 2014, Nalcor prepared its financial statements in accordance with GAAP. Comparative balances presented in this MD&A have been restated to be in accordance with IFRS. The impact of the transition to IFRS on Nalcor's financial statements for the period ended September 30, 2014 and the opening balance sheet at January 1, 2013 are presented in Note 21 of the unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2014.

CRITICAL ACCOUNTING ESTIMATES

Critical accounting estimates are those that require Management to make assumptions about matters that are highly uncertain at the time the estimate is made. Critical accounting estimates are also those estimates which, where a different estimate could have been used or where changes in the estimate that are reasonably likely to occur, would have a material impact on the Company's financial condition, or financial performance. Critical accounting estimates and judgments are reviewed annually by the Audit Committee of the Board of Directors. A detailed description of Nalcor's critical accounting estimates is provided in Note 3 of the unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2014 and in the Critical Accounting Estimates section of Nalcor's 2013 annual MD&A.

SECTION 7: NON-GAAP FINANCIAL MEASURES

Certain financial measures in the MD&A are not prescribed by GAAP. These non-GAAP financial measures are included because they provide MD&A users with enhanced understanding and clarity of Nalcor's operating performance, condition, leverage and liquidity. These non-GAAP financial measures do not have any standardized meaning and cannot necessarily be compared to similar measures presented by other companies. Comparative figures presented in previous sections have been restated for the effects of the IFRS conversion.

Debt to capital	Total debt (promissory notes, long-term debt including current portion less sinking funds), divided by debt plus shareholder's equity
Fixed rate debt as a percentage of total indebtedness	Long-term debt divided by total debt

SECTION 8: RISK MANAGEMENT PROCESS

Nalcor continues the implementation of an Enterprise Risk Management process focused on operational, strategic, financial and compliance risks. The implementation is supported by a Corporate Risk Management Committee and an Enterprise Risk Management Committee. The Corporate Risk Management Committee is comprised of certain members of Nalcor's Leadership Team and other senior managers. The Enterprise Risk Management Committee is comprised of senior functional and business unit representatives. The Leadership Team and Audit Committee receive regular updates on the Company's risk management processes.

Nalcor operates in various industry segments that have a variety of risk factors and uncertainties. The risks and uncertainties that could materially affect the business, financial condition and results of operations are described in Nalcor's annual MD&A for the year ended December 31, 2013.

There were no significant changes to these risks and uncertainties year-to-date. Refer to Note 18 of the unaudited condensed consolidated interim financial statements for information regarding current litigation.

SECTION 9: ABBREVIATIONS

The following table shows the abbreviations used in the MD&A and the consolidated financial statements:

Measurement:	
bbl	*Barrel*
MW	*Megawatts*
TWh	*Terawatt hours*
Currencies:	
CAD	*Canadian dollars*
USD	*United States dollars*
Corporate information:	
MD&A	*Management's Discussion & Analysis*
HTGS	*Holyrood Thermal Generating Station*
RSP	*Rate Stabilization Plan*
Financial and Business environment:	
PUB	*Newfoundland and Labrador Board of Commissioners of Public Utilities*
GRA	*General Rate Application*
GWAC	*Guaranteed Winter Availability Contract*

RESOLUTION

79TH NALCOR ENERGY BOARD OF DIRECTORS MEETING
NOVEMBER 28, 2014

APPROVAL OF 2014 Q3 FINANCIAL STATEMENTS AND MD&A

BE IT RESOLVED

THAT the Nalcor Energy Consolidated Financial Statements and Management Discussion and Analysis for the period ended September 30, 2014, as tabled and initialed by the Secretary for identification, be and they are hereby approved; and

THAT K. Marshall and G. Shortall, or any two Directors be and they are hereby authorized to sign said Financial Statements on behalf of the Board.

Consolidated Budget 2015

Nalcor Energy Board of Directors

November 28, 2014

Boundless Energy

nalcor energy

Pages 168 - 169

have been fully

redacted and

replaced with this

page.

Headlines (Cont'd.)

- [redacted]
- 2015 budgeted to be peak year for capital spend to date
  - Total Budget 2015 capex is $2,845.7M, an increase of $1,022.0M over Forecast 2014 capex of $1,823.7M;
  - LCP Phase 1 Budget 2015 project capital expenditures is budgeted to be $2.4 billion, up $1.1 billion compared to the Forecast 2014 of $1.3 billion.
- [redacted]

nalcor energy

Budget 2015 Net Income (by segment)

($ millions)

Segments	2014 Annual Budget	2014 Annual Forecast	2015 Annual Budget
[redacted]			
Phase 1 Lower Churchill Project	(0.5)	(0.5)	(0.5)
[redacted]			
Net Income	108.7	91.2	129.4

*Includes Export Sales, IOC and Menihek

Pages 172 - 178

have been fully

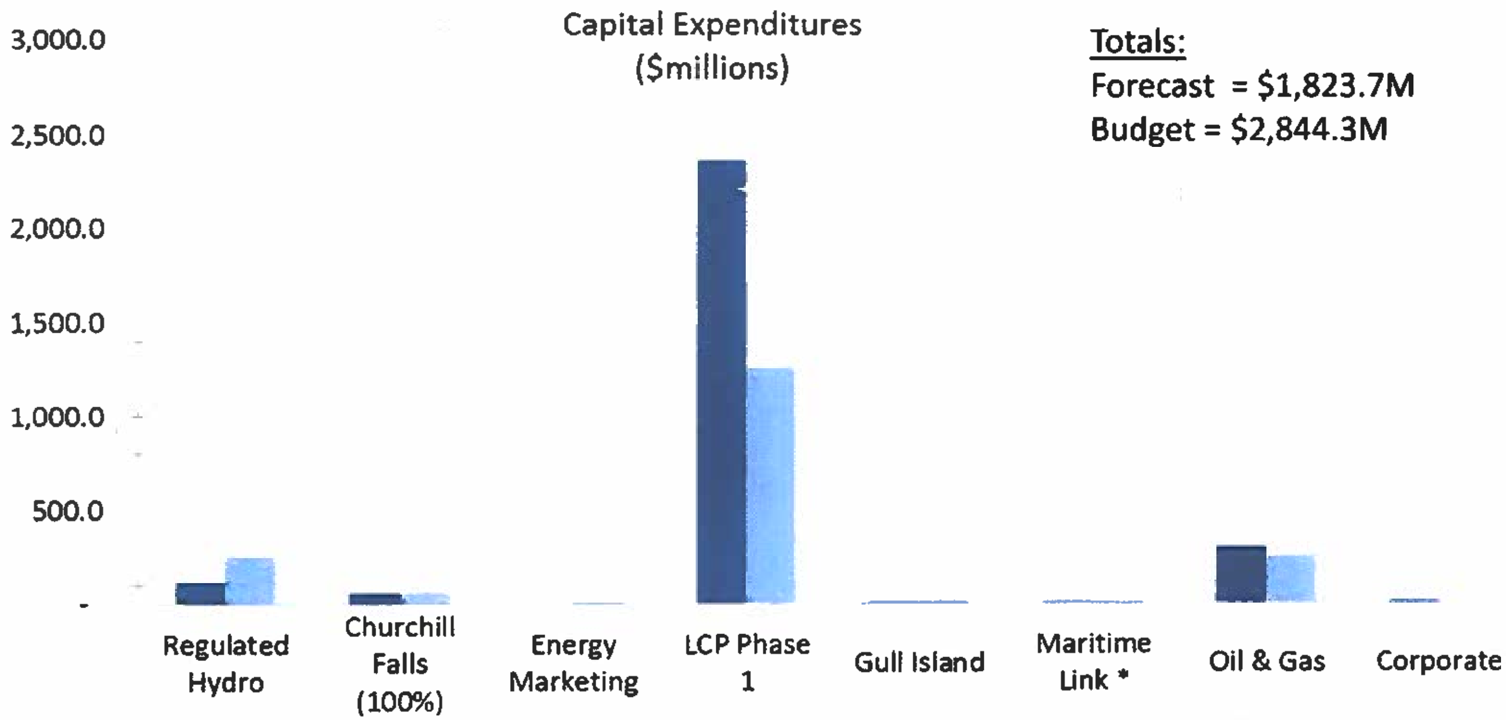
redacted and

replaced with this

page.

Budget 2015 Capital Expenditures

($ millions)



	Regulated Hydro	Churchill Falls (100%)	Energy Marketing	LCP Phase 1	Gull Island	Maritime Link *	Oil & Gas	Corporate
2015 Budget	112.5	55.6	-	2,364.8	10.5	1.5	294.5	4.9
2014 Forecast	251.4	50.8	2.0	1,257.8	11.7	2.1	247.9	-

* Includes internal costs for Nalcor only (excludes Emera).

nalcor energy

Pages 180 - 204

have been fully

redacted and

replaced with this

page.

Lower Churchill Project

LCP 2015 Consolidated Budget - Snapshot

($000's CAD)	Direct Capital Costs	IDC [1] / Financing Costs	Total
LCP Phase 1			
Muskrat Falls	$ 870,480	$ 68,345	$ 938,825
Labrador Transmission Assets	$ 212,445	$ 15,795	$ 228,240
Labrador-Island Link	$ 1,128,709	$ 69,047	$ 1,197,756
Sub-Total	$ 2,211,634	$ 153,186	$ 2,364,820
Maritime Link (Nalcor Costs)	$ 1,513	$ -	$ 1,513
Total	**$ 2,213,147**	**$ 153,186**	**$ 2,366,333**

(1) IDC = Interest During Construction

LCP Highlights

- 2015 LCP Phase 1 (MF/LTA/LIL) total project capital expenditure budget of $2.4 billion compared to 2014 forecasted incurred costs of $1.3 billion
  - $2.2B in direct capital costs
  - $150M in net Interest During Construction ("IDC") and $3M in financing costs

- Major construction activities for all project components underway in 2015 with the few remaining major contract awards planned for the first quarter of the year.

- 2015 expenditures based on revised Capital Cost Authorizations for Expenditure ("AFE") and Financing Cost AFE's approved by Boards of Directors of Muskrat Falls Co., Labrador Transmission Co., and LIL General Partner Co. (on behalf of LIL Limited Partnership), in June 2014.

- Lower Churchill Management Co. is budgeting annual revenue for the Project Development and Management services it provides to the three asset holding companies (MF Co, LTA Co, and LIL LP) of $360K.

LCP Highlights (cont'd.)

- Project cost funding requirements in 2015 will be met through $345M in equity advances with the balance being drawn from debt
  - This includes $144M in contributions from Emera for LIL and excludes pre-funded equity payments of $115M to the cost overrun escrow account in December 2015 per the MF/LTA and LIL Project Finance Agreements

- In addition to the previously noted costs that will be capitalized to the project assets, the seven LCP entities are budgeting costs relating to audit fees ($256K), directors fees and expenses ($144K), and training and donations ($420K), which must be expensed in 2015 in accordance with IFRS.

- LIL Operating Co. prepaid rent of $3.9M is estimated for 2015
  - With the $8.0M reserve and associated contribution made to LIL LP at year end 2013, actual 2013 prepaid rent of $3.2M, and forecasted 2014 rent of $1.5M, an additional reserve/contribution of approximately $600K is forecasted for 2015.

LCP Highlights (cont'd.)

Component	2015 Key Construction Activities	2015 Major Contract Awards
Muskrat Falls	• Construction of Intake & Powerhouse, Spillway and Transition Dams ($383M) • Supply and Install Powerhouse and Spillway Hydro-Mechanical Equipment ($100M) • North Spur Stabilization works ($75M) • Supply and Install Turbines and Generators ($42M) • Construction of Reservoir Clearing ($41M) • Construction of North and South Dams ($27M)	• CH0008 - Construction of North Spur Stabilization Works (Q1 2015) • CH0009 - Construction of North and South Dams (Q1 2015) • CH0031 - Supply and Installation of Mechanical and Electrical Auxiliaries (Q1 2015)
Labrador Trx Assets	• Construction of 315 KV HVac Transmission Line (MF to CF) ($115M) • Construction of AC Substations ($47M)	• All major contracts awarded by end of 2014

LCP Highlights (cont'd.)

Component	2015 Key Construction Activities	2015 Major Contract Awards
Labrador Island Link	• Construction of 350 KV HVdc Transmission Line ($588M) • Supply and Install Converters and Cable Transition Compounds ($131M) • SOBI - Land and subsea cables, cable termination enclosures, and related civil works ($84M) • Soldiers Pond Synchronous Condenser ($70M)	• All major contracts awarded by end of 2014

2015 Total Project Budget Breakdown

($000's CAD)	MF	LTA	LIL	Total
Owners Team, Admin & EPCM Services	$ 36,912	$ 10,310	$ 32,385	$ 79,607
Feasibility Engineering	$ -	$ -	$ -	$ -
Environmental & Regulatory Compliance	$ 2,726	$ 15	$ 4,062	$ 6,803
Aboriginal Affairs	$ 2,724	$ 94	$ 615	$ 3,433
Procurement & Construction	$ 789,132	$ 189,662	$1,063,393	$2,042,187
Commercial & Legal	$ 1,854	$ 122	$ 64	$ 2,041
Contingency	$ 37,133	$ 12,242	$ 28,189	$ 77,564
Total Hard Costs	**$ 870,480**	**$ 212,445**	**$1,128,709**	**$2,211,634**
Financing Costs	$ 1,330	$ 292	$ 1,516	$ 3,138
Interest During Construction	$ 67,014	$ 15,503	$ 67,531	$ 150,048
Total Soft Costs	**$ 68,345**	**$ 15,795**	**$ 69,047**	**$ 153,186**
Total Project Budget	**$ 938,825**	**$ 228,240**	**$1,197,756**	**$2,364,820**

- 2015 expenditures based on revised Capital Cost Authorizations for Expenditure ("AFE") and Financing Cost AFE's approved by Boards of Directors of Muskrat Falls Co., Labrador Transmission Co., and LIL General Partner Co. (on behalf of LIL LP), in June 2014. This includes total direct capital costs of $6,990M and IDC/financing costs of $775M.

Financing Cost Budget 2015

($000's CAD)	MF	LTA	LIL	Total
Collateral & Fiscal Agent Fees	$ 77	$ 17	$ 88	$ 182
Trustee & Administrator Fees	$ 43	$ 10	$ 56	$ 109
Credit Rating Agencies	$ 176	$ 39	$ 215	$ 430
Independent Engineer	$ 609	$ 134	$ 685	$ 1,428
Legal & Financial Advisory	$ 298	$ 66	$ 336	$ 700
Administrative & Other Related Costs	$ 127	$ 28	$ 135	$ 290
Total	**$ 1,330**	**$ 292**	**$ 1,516**	**$ 3,138**

- Collateral & Fiscal Agent and Trustee & Administrator fees relating to ongoing services provided by firms including TD Bank, BNY Canada and Computershare relating to the MF/LTA and LIL Funding Trust financing structure under which $5.0 billion in debt financing was issued in December 2013;
- Legal & Financial Advisory costs relate to services provided by Faskens, PWC, McInnes Cooper, Cassels Brock and Blair Franklin for ongoing compliance support associated with the Project Finance Agreements executed in November 2013 and the Federal Loan Guarantee.

LCP Phase 2 - Gull Island

Gull Island Highlights

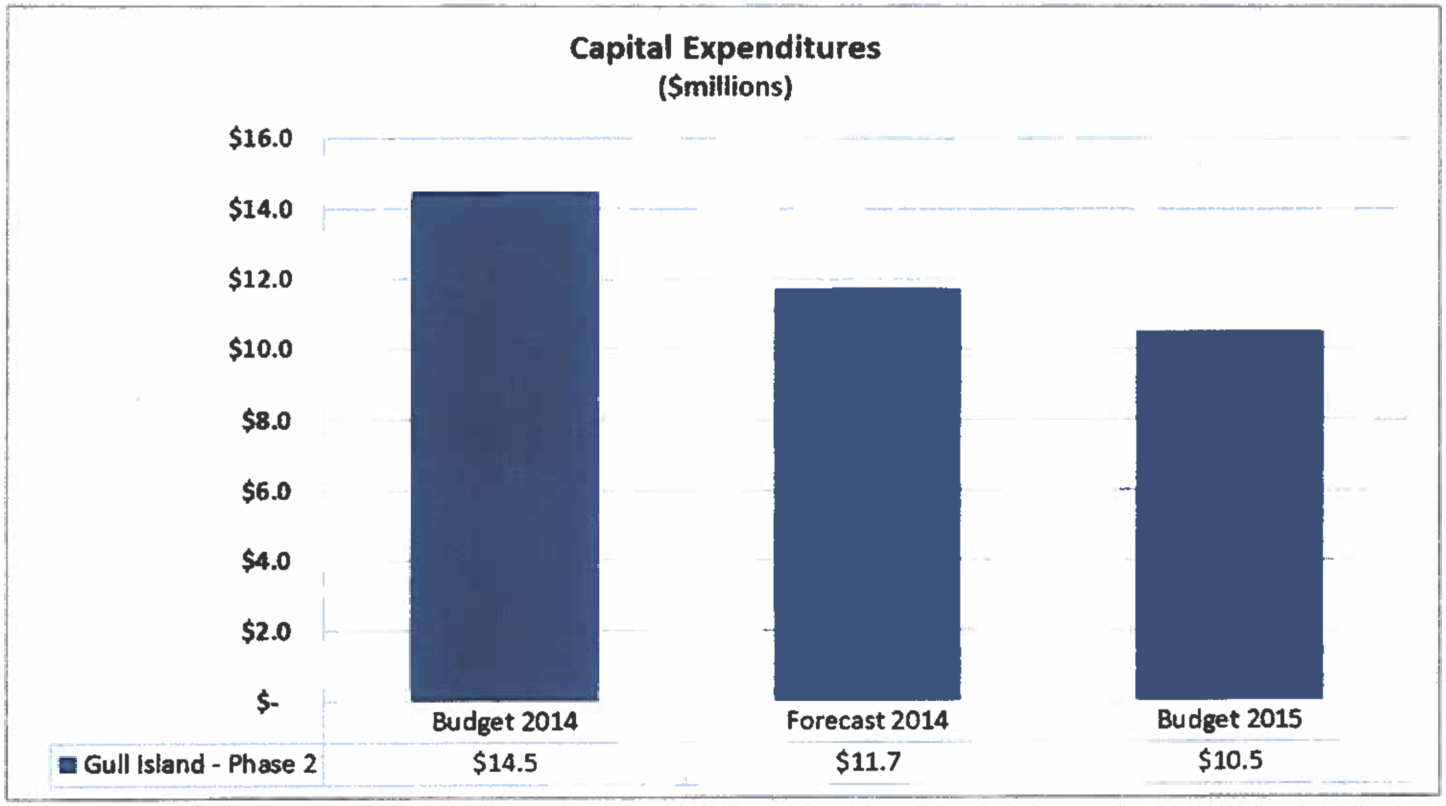
The LCP PH 2 budget is predicated on the following:

1. Work to advance the Quebec Strategy
   - Market advice
   - Engagement of Quebec strategic advisor
   - Potential transmission service request
   - Continued participation and advancement of integration issues

2. Minimum work to maintain Phase 2 readiness
   - Monitor market developments and identify opportunities
   - Market and strategic advice (Ontario & New England)
   - Environment and engineering work to achieve cost efficiencies and/or avoid major schedule delays

3. Continued proration of shared aboriginal and environmental costs with Phase 1 (70% Gull Island); this proration has been applied since 2008

Gull Island YTD Capital Expenditures



- Refundable transmission service deposits of $13.5 million were budgeted for 2014, however no payments are anticipated for the year.

Gull Island – Budget 2015 Breakdown

Category		2014 Budget	2014 Forecast	2015 Budget
Internal Costs	Salaries	841,000	761,000	860,000
	Travel and Training	210,000	135,000	175,000
	General Expenses and Other	170,000	195,000	150,000
		1,221,000	1,091,000	1,185,000
Legal Services	Canadian	1,700,000	1,600,000	1,700,000
	US	600,000	350,000	600,000
		2,300,000	1,950,000	2,300,000
Market Assessment Consultants		1,220,000	1,220,000	785,000
Technical Studies	Transmission Service Requests	1,000,000	-	1,000,000
	Engineering	450,000	-	450,000
	Other Technical Studies	300,000	200,000	200,000
		1,750,000	200,000	1,650,000
Environmental		898,000	198,000	140,000
Cost Shared (70%)	IBA Payments	4,108,000	4,108,000	3,619,788
	EA Baseline Collection	1,435,000	1,435,000	670,000
	Aboriginal Affairs - Salaries	1,354,000	1,354,000	-
	Aboriginal Affairs - Legal and Other Costs	193,000	193,000	190,610
		7,090,000	7,090,000	4,480,398
Total		$ 14,479,000	$ 11,749,000	$ 10,540,398

Refundable Deposits - TX Service Requests	$ 13,500,000	$ 13,500,000	$ 14,000,000

Maritime Link (Nalcor Costs)

Maritime Link Highlights

- Emera achieved ML DG3 and Financial Close in April 2014 and the amended Nalcor-Emera Agreements were subsequently executed on July 31, 2014, which was defined as the Cost Sharing End Date ("CSED").

- With achievement of the CSED, Emera has assumed all costs associated with ML development with the exception of Nalcor costs associated with its involvement in accordance with the provisions of the ML-JDA and other ML Agreements.

- The 2015 Maritime Link budget is required, primarily, for cash planning purposes.

- The 2015 Maritime Link budget includes Nalcor's internal costs, and all costs associated with involvement under the ML Agreements.

2015 Maritime Link Budget (Nalcor costs)

($000's CAD)	Amount
Internal Labour	
Engineering	$ 400
Finance and Commercial	$ 235
Project Management	$ 200
	$ 835
External Services	
Commercial	$ 300
Due Diligence	$ 100
Tax	$ 40
	$ 440
General Expenses	$ 50
Travel Expenses	$ 50
Contingency (10%)	$ 138
Total	**$ 1,513**

Other LCP Subsidiaries

O&M Budget 2015

(CAD)	Audit Fees	Directors Fees & Exp	Management Fee	Prepaid rent
LCMC	$ 21,935	$ 10,500	$ 360,000	$ -
LIL Holdco	$ 11,235	$ 31,000	$ -	$ -
LIL Opco	$ 11,235	$ 26,000	$ -	$ 3,900,000

Pages 222 - 229

have been fully

redacted and

replaced with this

page.

Financing Plan

2015 Consolidated Financing Plan – Highlights

- [redacted]
- LCP and OilCo funding needs to be addressed through Provincial equity - Budget 2015 includes a total equity contribution of [redacted] million from the Province (before LCP contingency of $150 million) to fund:
  - [redacted]
  - Contributions of $350 million to MFLTA and LIL, which includes the December 2015 Cost Overrun Reserve Escrow Account ("COREA") payment of $115 million – assumes no Emera participation in LIL cost overruns, with Nalcor contributing $51 million of its internally generated cash to offset requirement from Province.

Page 232 has been fully redacted and replaced with this page.

Provincial Equity Requirements: 2015 - 2016

	Nalcor Energy 2015 Fiscal Year	Province's 2015/16 Fiscal Year
Equity contributions to OilCo [1]	$ [redacted]	$ [redacted]
Equity contributions to MFLTA	223	310
Equity contributions to LIL	12	12
COREA payments [2]	115	115
Internally generated cash - corporate [3]	[redacted]	[redacted]
Base equity requirement	$	$
2015 funding contingency [4]	150	150
Total equity requirement	$ [redacted]	$ [redacted]

[redacted]

[2] - Assumes Emera does not participate in funding of cost overruns. The $115 million is to be funded through Muskrat Falls Co ($27 million), Labrador Transco ($28 million) and the Newfoundland and Labrador Island Link subsidiary companies ($60 million).

[3] - Represents dividends received from NEM, BAF and CF, net of corporate OPEX

[4] - Funding contingency has been identified to mitigate against potential changes in the timing of cash flows and potential cost variations on aggregate planned expenditures.

Provincial Equity: Cumulative Investment

Shareholder Fiscal Year	Investment in Oil and Gas	Investment in LCP	Investment in NL Hydro	Total annual Investment	Cumulative Investment
2008 - 2009	$ [redacted]	$ 30	$ [redacted]	[redacted]	[redacted]
2009 - 2010	[redacted]	3	[redacted]	[redacted]	[redacted]
2010 - 2011	[redacted]	-	[redacted]	[redacted]	[redacted]
2011 - 2012	[redacted]	-	[redacted]	[redacted]	[redacted]
2012 - 2013	[redacted]	215	[redacted]	[redacted]	[redacted]
2013 - 2014	[redacted]	386	[redacted]	[redacted]	[redacted]
2014 - 2015 [1]	[redacted]	115	[redacted]	[redacted]	[redacted]
2015 - 2016 [2]	[redacted]	382	[redacted]	[redacted]	[redacted]
Totals [3]	**$ [redacted]**	**$ 1,131**	**$ [redacted]**	[redacted]	[redacted]

[1] – Represents forecasted equity requirements as of September 30, 2014. The $115 million for LCP reflects COREA payment, which is due in December of 2015. This will be included in the December 2015 equity request.

[2] – The $382 million relating to LCP includes MFLTA ($310 million), LTA ($12 million) and the COREA payment ($115 million), net of internally generated corporate cash ($55 million).

[3] – To date, LCP and Oil and Gas have been funded by a combination of internally generated cash and equity from the Province. Amounts above only reflect the equity contributions made to Nalcor by the Province.

nalcor energy

RESOLUTION

79TH NALCOR ENERGY BOARD OF DIRECTORS MEETING
NOVEMBER 28, 2014

APPROVAL OF 2015
OPERATING AND CAPITAL BUDGETS AND FINANCING PLAN

BE IT RESOLVED

THAT the Nalcor Energy Operating and Capital Budgets for 2015 and the Financing Plan for 2015, as tabled and initialed by the Secretary for identification, be and they are hereby approved.

2015 Financial Risk Management Strategy

Nalcor Energy Board of Directors

November 28, 2014

Boundless Energy

nalcor energy

Confidential and commercially sensitive

Outline

1. Purpose
2. Executive Summary
3. Year to Date ("YTD") Performance of 2014 Hedging Programs
4. Summary of Financial Risk Exposures by Line of Business ("LOB") for 2015
5. Recommended Corporate Financial Risk Tolerance for 2015
6. Detailed Review and Recommendation by LOB:
   i. Nalcor Energy – Oil & Gas ("OilCo")
   ii. Nalcor Energy Marketing ("EM" or "Energy Marketing")
   iii. Nalcor Energy – Bull Arm Fabrication ("BAF")
   iv. Nalcor Energy – Lower Churchill Project ("LCP")
7. Summary and Next Steps
8. Appendices:
   - APPENDIX A – Foreign Exchange Risk – Commentary on USD/CAD

Purpose

- To review the YTD performance of the 2014 hedging programs, which were approved in December of 2013

- Present an updated assessment of financial risk exposures facing each LOB for 2015
  - Analysis considers foreign exchange risk, commodity price risk, interest rate risk, liquidity risk and counterparty risk

- Propose strategies for risk treatment in instances where either risk mitigation or transfer is warranted
  - For each LOB, risk mitigation strategies formulated in the context of the market outlook, the overall risk profile, including an assessment of risk capacity, and the Company's Financial Risk Management Policy Statement which has been approved by the Board of Directors

nalcor energy

Pages 239 - 247

have been fully

redacted and

replaced with this

page.

Summary of Inherent Financial Risk Exposures for 2015 Cont'd

Line of Business (LOB)	Foreign Exchange Rate	Interest Rate	Commodity Price	Liquidity Risk	Credit/Counterparty Risk
NLH	[redacted]				
Churchill Falls					
Lower Churchill Project	CAPEX denominated in various currencies, including USD, EURO and KRONER	No material exposure identified (*interest rate on project debt fixed at blended rate of 3.8% at financial close*)	As a result of fluctuations in commodity prices (fuel, oil, copper, steel, etc.), contracts based on variable pricing formulas linked to commodity prices come in under/over budget	No material exposure identified (*liquidity was addressed as part of the financing strategy through creation of a working capital reserve*)	As a result of financial difficulty, a major contractor defaults and cannot complete its scope of work, resulting in cost overruns and/or schedule delays
Bull Arm Fabrication	[redacted]				

nalcor energy

Pages 249 - 258

have been fully

redacted and

replaced with this

page.

2015 Financial Risk Management Strategy:

NALCOR ENERGY – LOWER CHURCHILL PROJECT

LCP - Key Messages

- No significant change to the LCP financial risk profile for 2015

- With the Muskrat Falls project financing structure in place, which provides access to fixed rate debt and reserves for working capital, interest rate risk and liquidity risk remain insignificant

- In terms of addressing remaining financial risks in 2015:
  - FX risks and commodity price risks emanating from contracts with variable input costs/foreign currencies will continue to be dealt with through the LCP Contracting Strategy – if the contractor is better positioned to address these risks, then to the extent possible the risks will be pushed off to the contractor

  - Ensuring that major contractors have the financial capacity to complete the contracts remains a priority – to that end, counterparty credit risk will continue to be addressed through the LCP Contractor Creditworthiness Verification Procedures, **which apply to all contract packages > $10M**

nalcor energy

2015 Financial Risk Management Strategy:

SUMMARY AND NEXT STEPS

Financial Risk Management: Summary of 2015 Recommended Strategies

Line of Business	Foreign Exchange Rate	Interest Rate	Commodity Price	Liquidity Risk	Credit Risk
Nalcor Energy Corporate	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Oil & Gas	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Energy Marketing	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
NLH Regulated Operations	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Churchill Falls	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Lower Churchill Project	**MITIGATE** – being addressed through LCP Contracting Strategy	**ACCEPT** – risks deemed minimal	**MITIGATE** – being addressed through LCP Contracting Strategy	**ACCEPT** – risks addressed via Project Financing structure	**MITIGATE** - Continue to participate in evaluation of LCP related contractors/ continue ongoing monitoring of existing contractors
Bull Arm Fabrication	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

Page 263 has been fully redacted and replaced with this page.

2015 Financial Risk Management Strategy:

APPENDIX A: FOREIGN EXCHANGE RISK – COMMENTARY ON USD/CAD

Pages 265 - 275

have been fully

redacted and

replaced with this

page.

MF/LTA & LIL Project Finance Agreements

Proposed Amendments – Board of Directors Briefing

Nalcor Energy Board of Directors

November 28, 2014

Boundless Energy

nalcor energy
LOWER CHURCHILL PROJECT

November 2014

Purpose

- To provide the Board of Directors with a status update on proposed amendments to the MF/LTA and LIL Project Finance Agreements ("PFA") executed on November 29, 2013

Background

- With implementation of PFA requirements following Financial Close (primarily the monthly Funding Request process that has facilitated debt draws) the need for amendments was identified and the Government of Canada was consulted
- The principle amendments fall under the following categories:
  - Definitional clarifications
  - LIL LP tax related matters
  - Working capital reserve account ("WCRA") replenishment
- Review of draft amended PFA's well advanced with the Canada and the Collateral Agent (TD Bank)
  - NL representatives have also been engaged in the review process and discussions on Government approval requirements ongoing
  - Once "final" comments from all parties settled, amended PFA's will go through Nalcor Corporate Due Diligence process prior to execution
- The proposed PFA amendments do not change the substantial rights or obligations of the Nalcor LCP borrowing subsidiaries, NL or Canada

Amendments – Definitional Clarifications

- The definitions of "Aggregate Eligible Account Balances", "Funding Requirements" and "Eligible Project Costs" are being amended to better align the monthly Funding Request process under the MF/LTA and LIL PFA's and associated Master Definitions Agreements ("MDA") with the cash management procedures of the Project

- The definition of "Debt Rateable Share" in the LIL PFA has been modified to adequately compensate for the effects of Allowance for Funds Used During Construction ("AFUDC") on the Debt-Equity Ratio ("DER"). These changes do not apply in the MF/LTA financing. Other changes have also been made to the definition of "Debt Rateable Share" in order to more accurately reflect the necessary calculations.

- The definitions of "Project Budget" and "Project Schedule" have been modified, and definitions for "Initial Project Budget" and "Initial Project Schedule" have been added. This is needed to reflect the changes that have been made to the project budget since Financial Close with approval of revised AFE's in June 2014, and to capture potential modifications to the project budget and schedule in the future.

Amendments – LIL LP Tax Related Matters

- The Working Capital Reserve Account of the LIL LP cannot at this time be funded with the $75M as originally anticipated. In order to allow LIL LP to otherwise access to the $75M in the event of urgent funding requirements, a revolving credit facility (within the $2.4B of aggregate debt) is being proposed.

- LIL LP must be able to prepay interest to the Intermediary Trust, and subsequent interest payments must be reduced by such interest prepayments.

- The annual Cost Overrun Escrow Account payment (which is pre-funded with equity from Nalcor/NL) must be held at the LIL Holdco level until the LIL debt facility is fully exhausted and LIL GPCo makes an equity cash call at that time. The LIL PFA originally contemplated these funds being held in a Cost Overrun Escrow Account at the LIL LP level.
  - Exactly how this change will be incorporated into the LIL PFA/MDA and Nalcor Equity Funding Agreement ("NEFA") schedule found in the NL Development Agreement currently under review by legal counsel

- **All of the above changes are being made to comply with tax shelter rules associated with Emera's participation in the LIL LP. None of them apply to the MF/LTA financing.**

Amendments – WCRA Replenishment

- In order to fix a mismatch that was identified subsequent to Financial Close between the date of repayment of amounts drawn on the $75M Structured Deposit Note and the date of repayment of WCRA (proposed LIL revolving credit facility) advances made under the PFA's, the debt drawdown date has been changed from the first business day of the month following delivery of a Funding Request to the last business day of the month during which a Funding Request was delivered.

Next Steps

- Management will re-engage with the Board once drafts of amended PFA's considered "final" and timing of NL approvals confirmed to seek formal authorization to execute - currently expect this could be December or early January

2014 Nalcor Plan Performance Report

Nalcor Energy Board of Directors

November 28, 2014

Boundless Energy

nalcor energy

GOAL	HYDRO	CHURCHILL FALLS	LOWER CHURCHILL	OIL & GAS	BULL ARM FABRICATION	ENERGY MARKETING	OTHER ENERGY ACTIVITIES
1. SAFETY	Lead/lag ratio 600:1			All Injury Frequency (AIF)≤1.00		Lost Time Injury Frequency (LTIF) ≤ 0.20	
	Work Protection Code: Complete planned audits of WPC compliance in electricity operations[1].				Complete electricity grounding and bonding standard and training package for plants and stations		
2. ENVIRONMENT	Complete ≥ 95% of environmental leadership targets[2]						
3. BUSINESS EXCELLENCE							
Finance	Cash from Operations ≥ $227.1M ($198.6M)		Capital Expenditures $ 406.4M ($559.4M)			Operating Expenditures ≤ $211.3 M ($224.8M)	
	Net Income ≥ $108.4 M ($82.9M)						
Project Execution	Complete 2014 phase of project execution excellence implementation plan[3]						
Integration	Finalize electricity ready for operations multi-year strategy and complete 2014 activities						
Operations	Asset management: Complete 2014 phase of asset management plan[4]						
	[redacted]		MRF/LIL (Phase 1) •Complete planned 2014 scope within approved cost and schedule •Project forecast final cost and schedule on track	[redacted]			
Growth	[redacted]		Gull Island (Phase 2) Complete planned 2014 activities outlined in Phase 2 work plan[16]	[redacted]			
4. PEOPLE	Complete external best employer benchmarking survey – achieve 80% participation						
	Complete 95% of EES action plan items						
5. COMMUNITY	Complete 90% of planned 2014 activities outlined in Nalcor Reputation Management Plan[13]						
	Complete 90% of planned 2014 activities outlined in multi-year Shareholder Relations Strategy[14]						
	Complete 90% of2014 annual engagement plan activities to support Board Relations Strategy[15]						

Metric	HYDRO	CHURCHILL FALLS	LOWER CHURCHILL (Phase 2)	OIL & GAS	BULL ARM FABRICATION	ENERGY MARKETING
Cash from Operations	[redacted]	[redacted]	N/A	[redacted]	[redacted]	[redacted]
Capital Expenditures	[redacted]	[redacted]	$28.0M	[redacted]	[redacted]	[redacted]
Additional Approved Capital Expenditures	[redacted]	[redacted]	N/A	[redacted]	[redacted]	[redacted]
Operating Expenditures	[redacted]	[redacted]	N/A	[redacted]	[redacted]	[redacted]
Net Income	[redacted]	[redacted]	N/A	[redacted]	[redacted]	[redacted]

- Targets for metrics relevant to a particular line of business
- LCP financial targets based on total project cost, not annual budget

* Amounts in grey boxes represent annual forecast.

** Capital expenditure value shown is Board approved with known carry overs. It does not include supplemental capital, unbudgeted carryovers from 2013 or large additional projects such as the new Holyrood CT, the Bay d'Espoir-Western Avalon Line or new line to Labrador West.

Pages 286 - 334

have been fully

redacted and

replaced with this

page.

Lower Churchill

Nalcor Energy Board of Directors

November 28, 2014

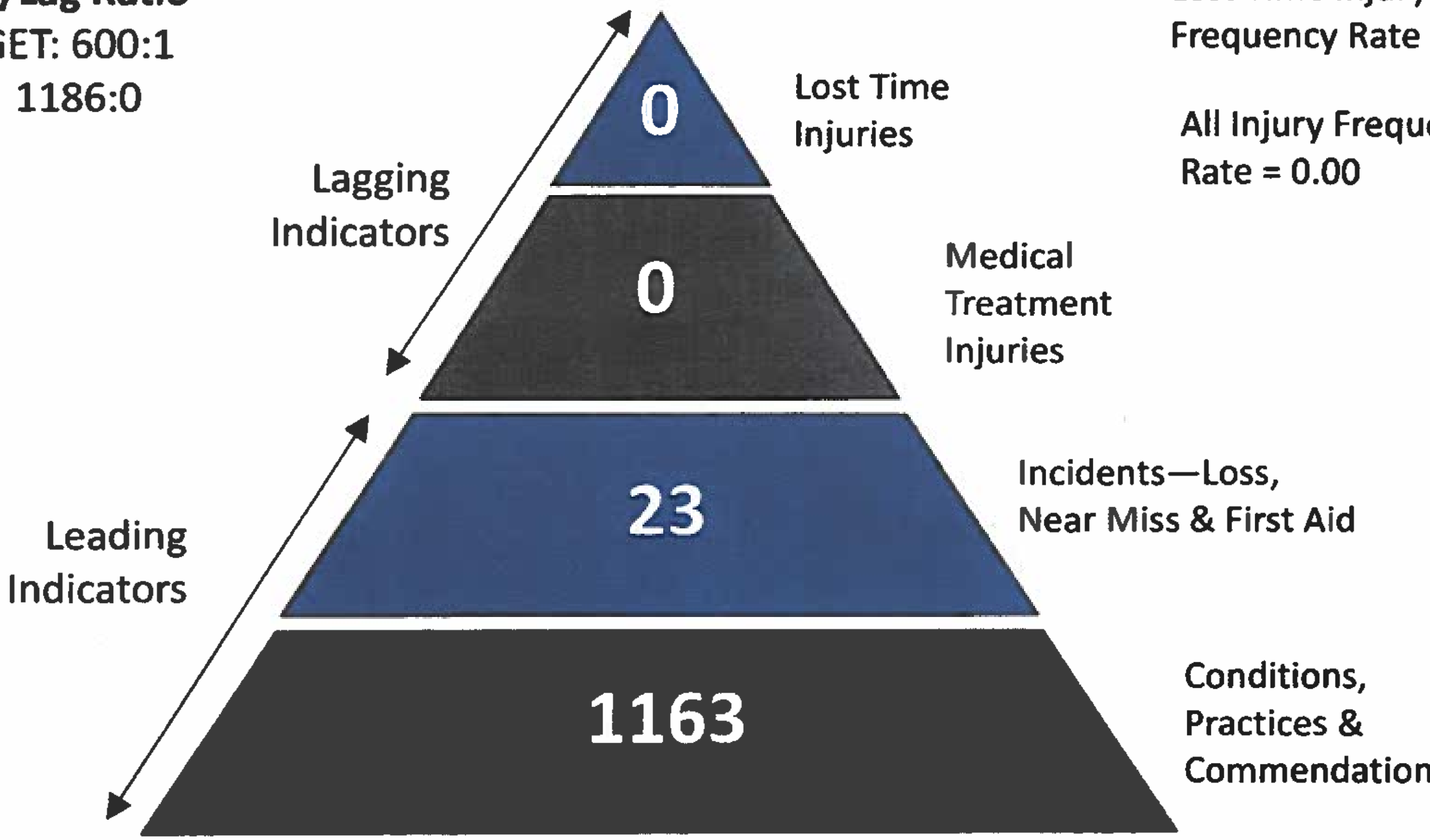
Boundless Energy

nalcor energy
LOWER CHURCHILL PROJECT

Key Performance Measures

Safety Performance October 31, 2014

Lead/Lag Ratio
TARGET: 600:1
YTD: 1186:0



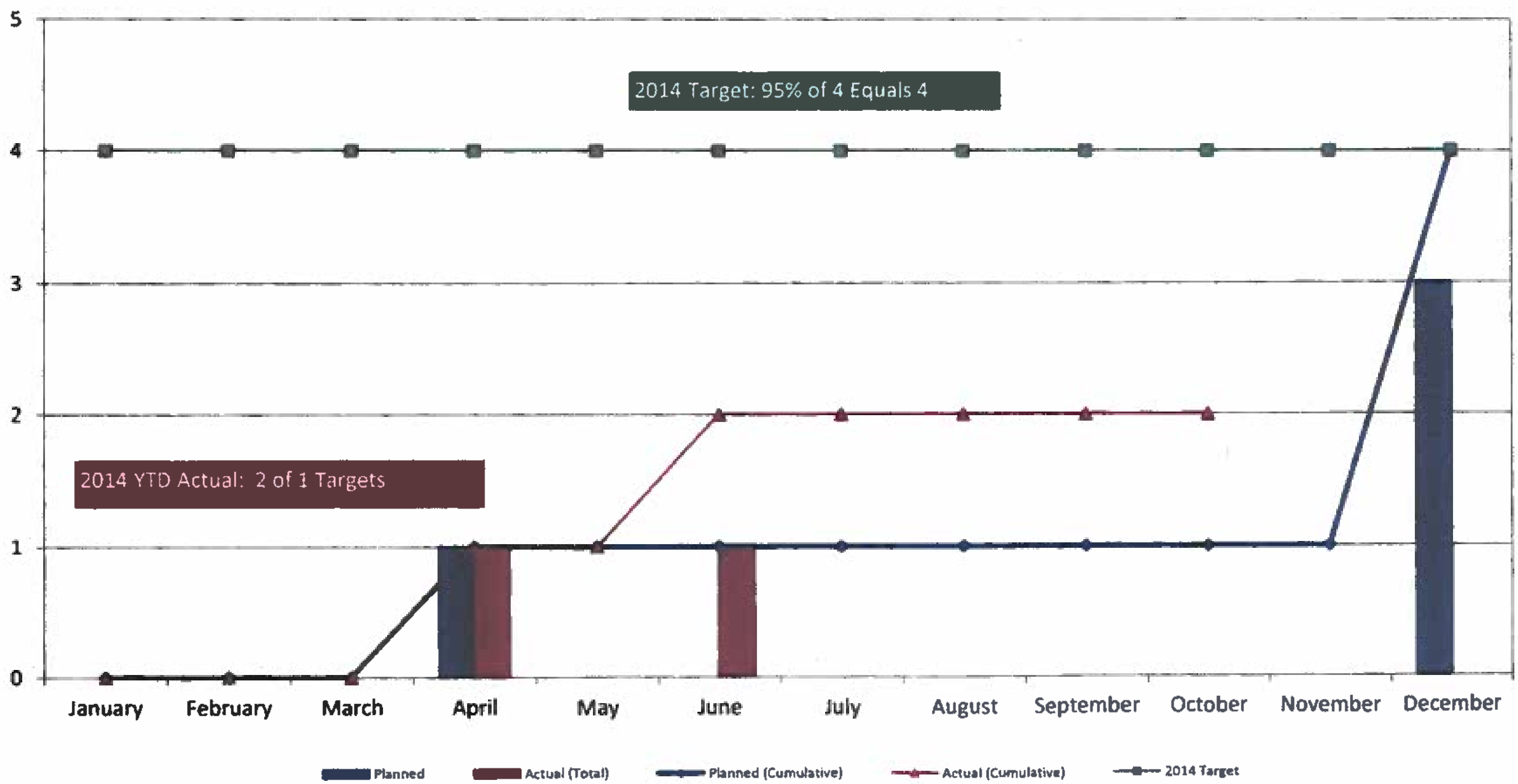
Lost Time Injury Frequency Rate = 0.00

All Injury Frequency Rate = 0.00

nalcor energy

Environment

Lower Churchill Project Targets
2014 Actual Compared to Planned



nalcor energy

2014 Lower Churchill Plan Highlights

GOAL	LOWER CHURCHILL PROJECT (Phase 1)		
1. SAFETY	Lead/Lag Ratio 600:0	All Injury Frequency (AIF) = 0	Lost Time Injury Frequency (LTIR) = 0
2. ENVIRONMENT	Completion of required planning for Environmental Effects Monitoring Programs for Muskrat Falls and LIL		
	Work with Emera to ensure consistent application of regulatory process		
	Manage regulatory process		
3. BUSINESS EXCELLENCE			
Finance	Establish and maintain credible and consistent reporting structures to ensure compliance with reporting obligations		
	LCP Capital Expenditures = $1.411B		
Project Execution	Be on schedule to deliver First Power from Muskrat Falls to the Island as per the approved Master Project Schedule and Final Forecast Cost remaining within Project Sanction budget.		
	Support Emera with ML Schedule		
Integration	Manage interfaces between project, Nalcor Corporate and Emera		
	Develop operations organization design. Support development of electricity RFO strategy and complete 2014 activities		
4. PEOPLE	Continued implementation of enhanced organizational effectiveness programs.		
	Execute Labour Acquisition Plan, Gender Equity and Diversity Plan, & IBA. Communicate results.		
5. COMMUNITY	Execute 2014 activities outlined in communications and community relations plan[1]		

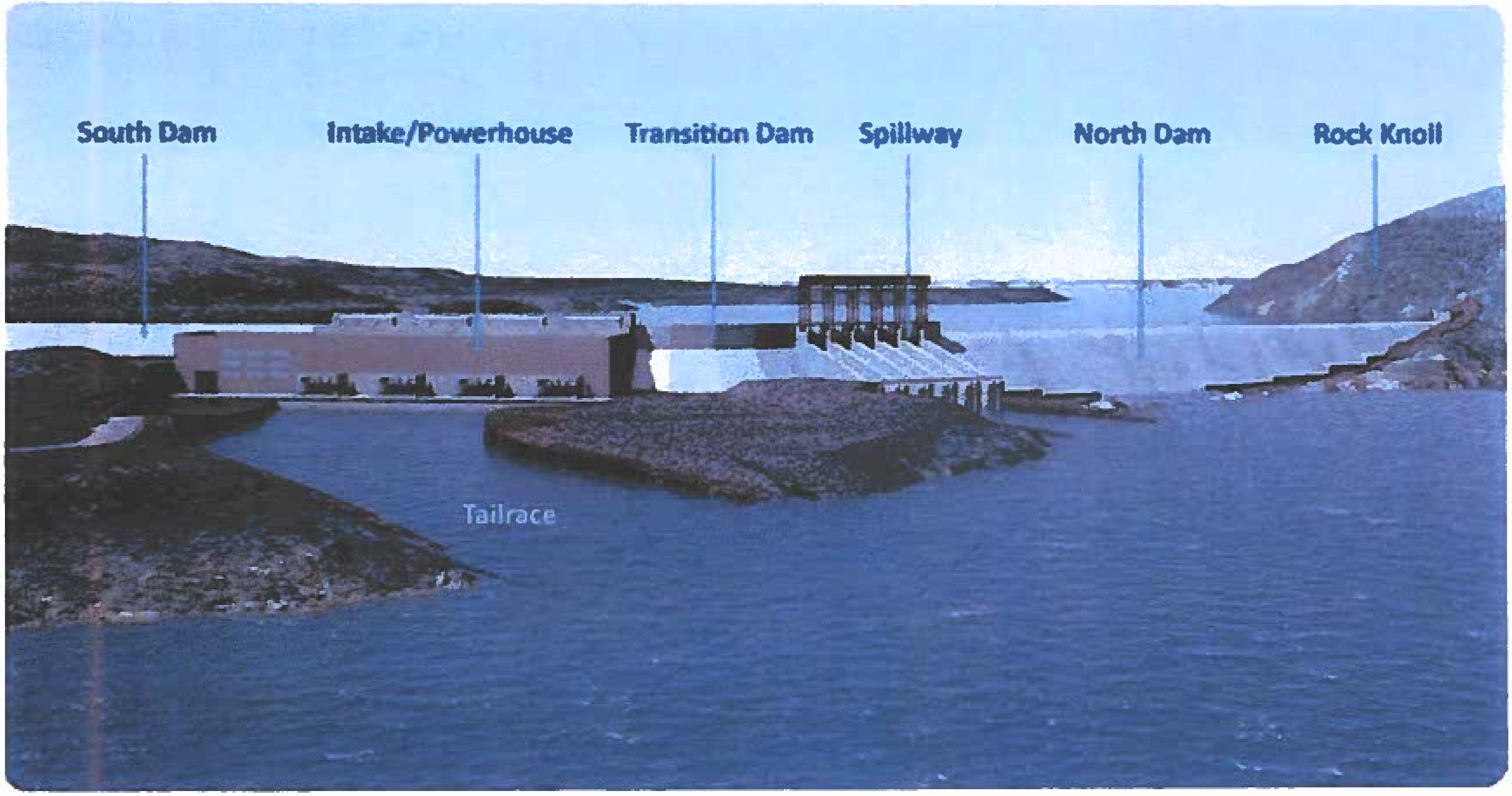
Significant Events/Future Risks and Opportunities

Phase 1 – MF, LIL, ML

Project Execution

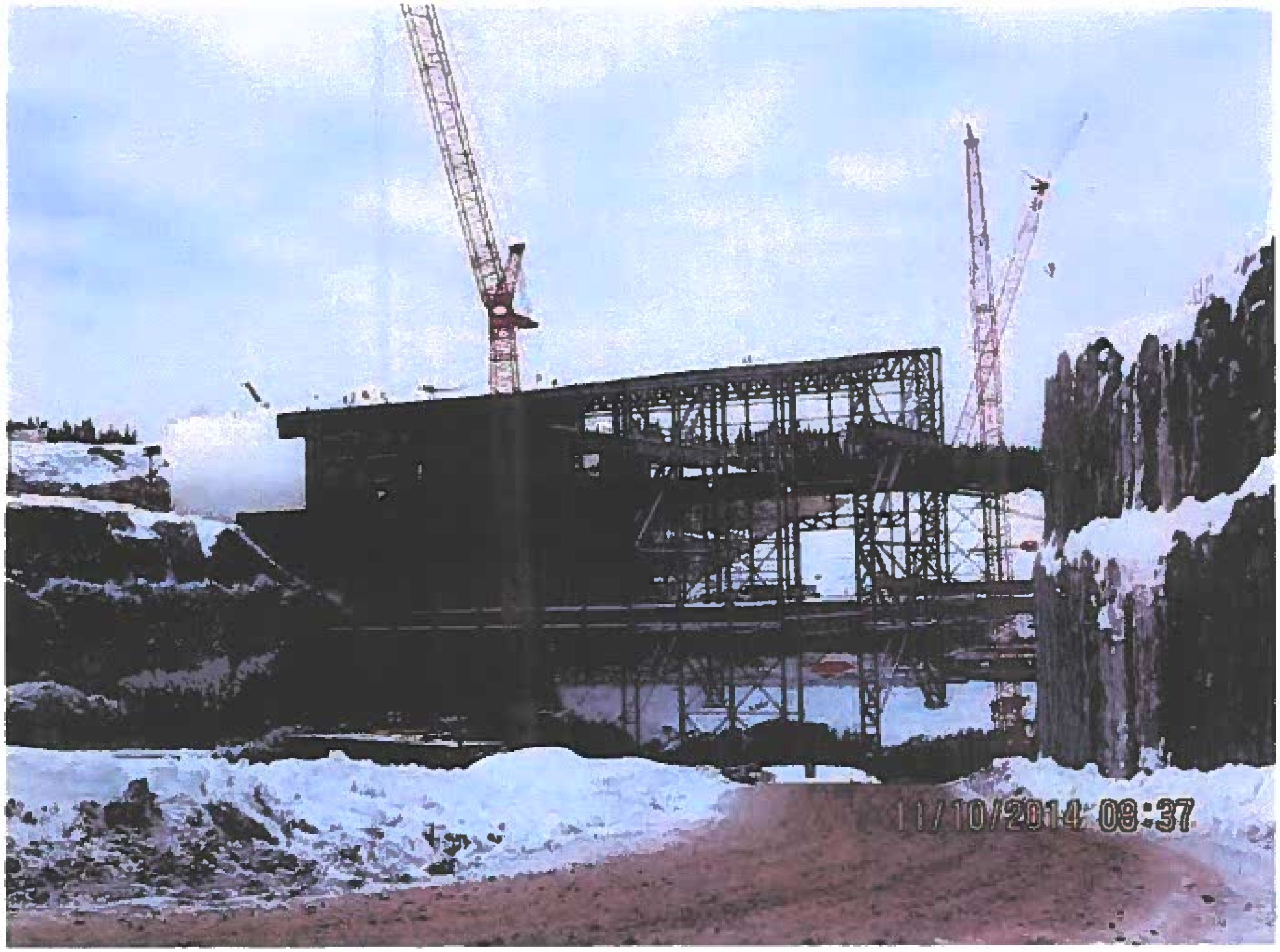
- Total project workforce = 3,448 (85% NL residents)
- Construction continuing at Muskrat Falls site
  - Completed concrete work on Spillway base slab, continued rebar installation and concrete work on piers to support installation of gates in 2015
  - Continued steel erection and installation of roofing/siding for Powerhouse cover system
  - Received first delivery from China of components for Turbines and Generators

Muskrat Falls Generating Facility



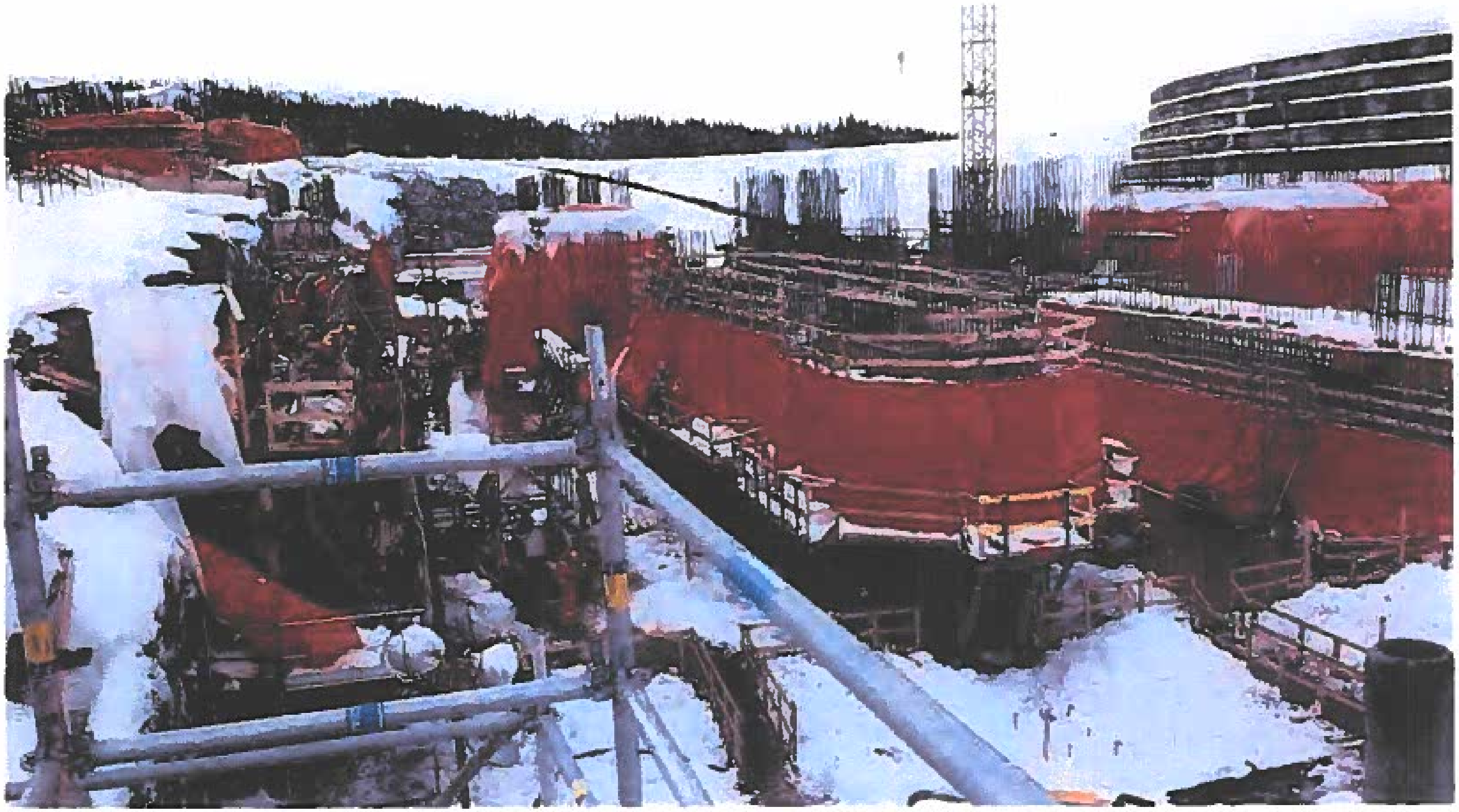
Powerhouse Cover System

Powerhouse Cover System



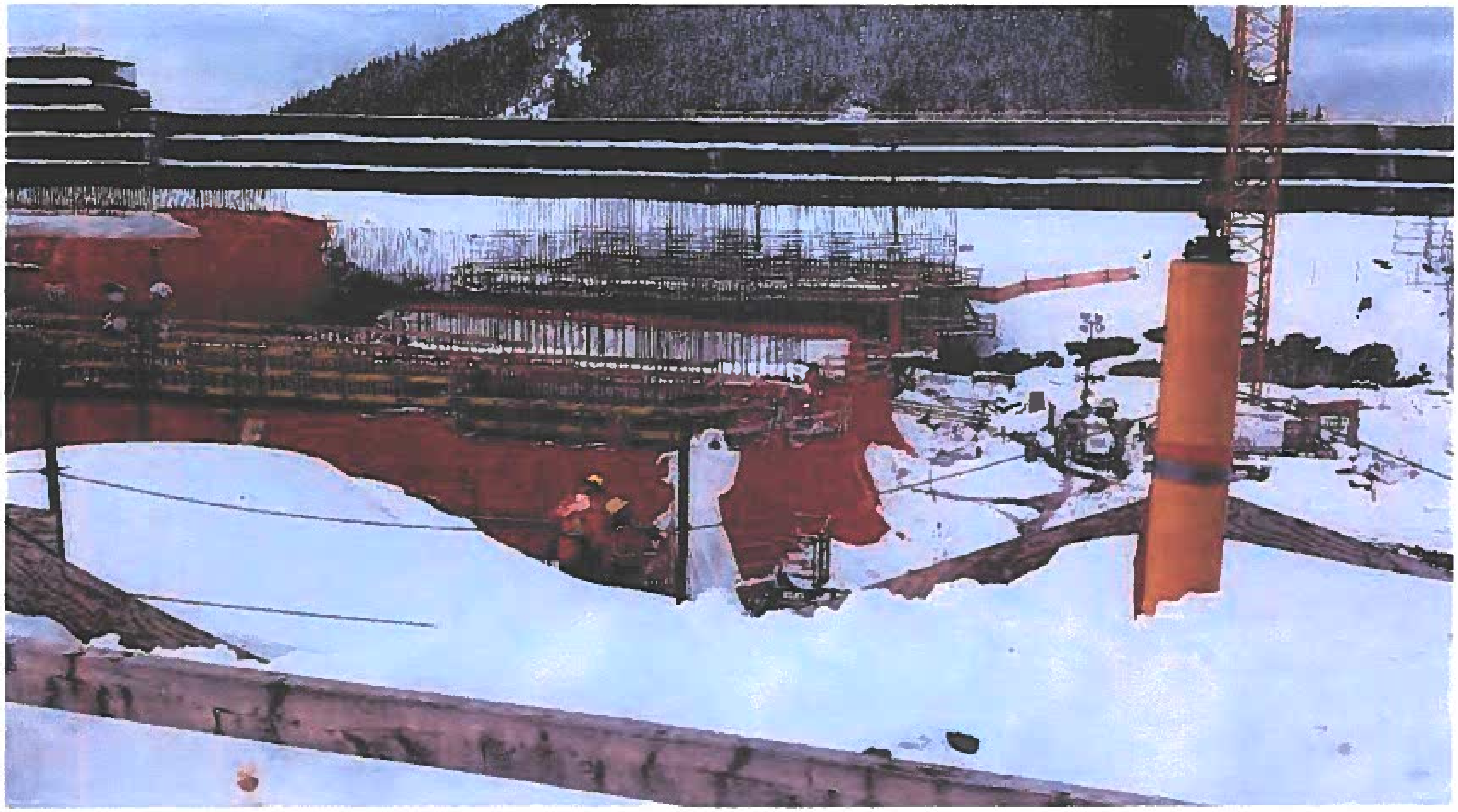
Spillway

Spillway – Piers



nalcor energy

Spillway – Piers



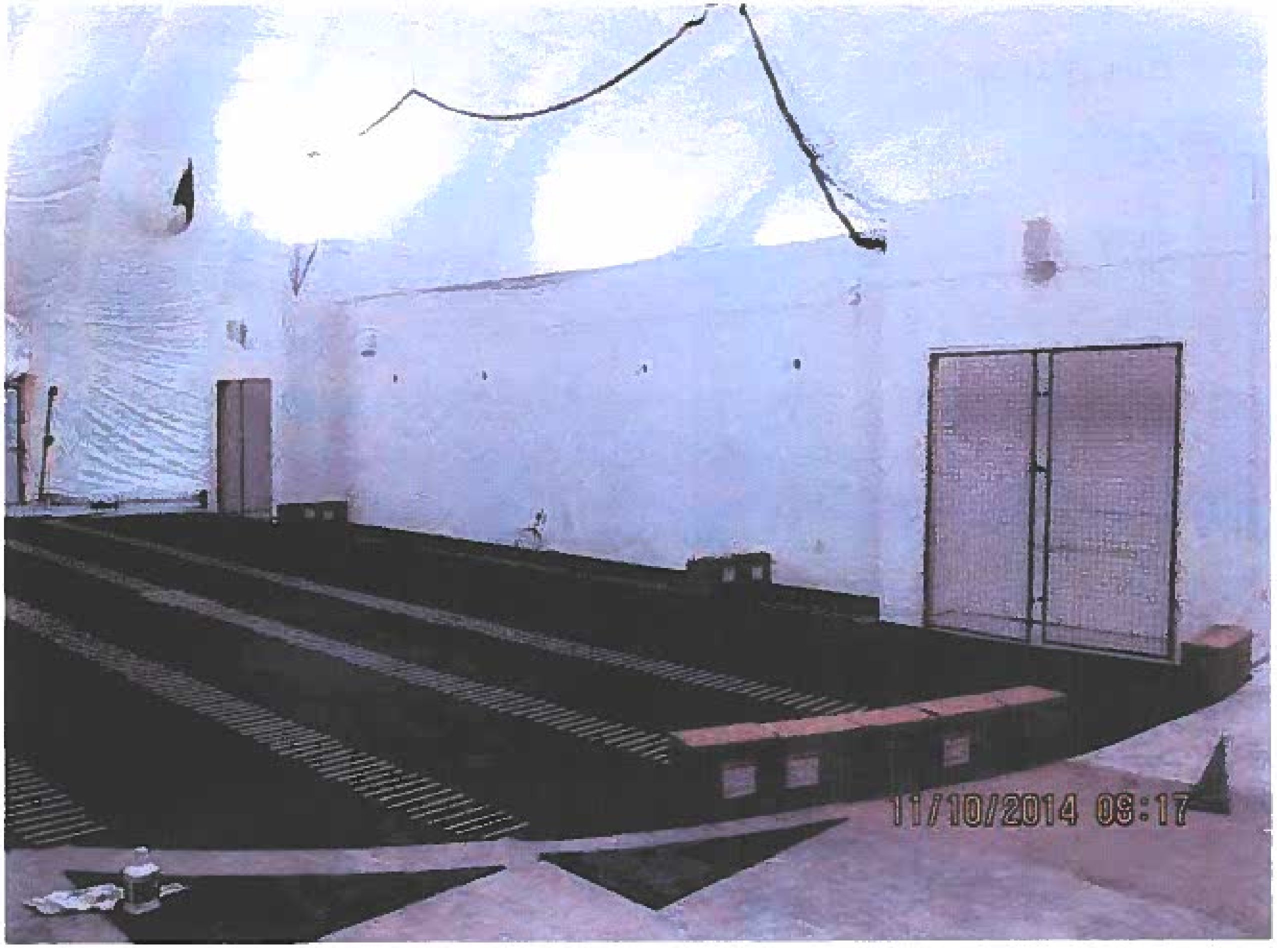
Separation Wall

Center Transition Dams

Administration Building

Sports Complex

Sports Complex



Phase 1 – MF, LIL, ML (cont'd.)

- HVac transmission (MF – CF) construction continuing
    - HVac ROW clearing complete
    - Assembly of towers (332 complete)
    - Installation of foundations (249 complete)
    - Installation of anchors (271 complete)
    - Erection of towers (15)
- HVdc construction (LITL) continuing
    - HVdc Right of Way clearing/road access continuing in Labrador, will commence clearing on the Island Nov/Dec
    - Commenced foundation installation (16 complete)

Phase 1 – MF, LIL, ML (cont'd.)

- HVdc construction continuing
  - Materials for Island transmission construction continuing to arrive in Argentia
- SOBI Marine Crossing
  - Safely completed 2014 HDD drilling program on schedule and under budget
  - Forteau rock crushing program essentially complete
  - Continuing subsea cable manufacturing
- Formally awarded contracts for Synch Condensers and Switch Yards to Alstom

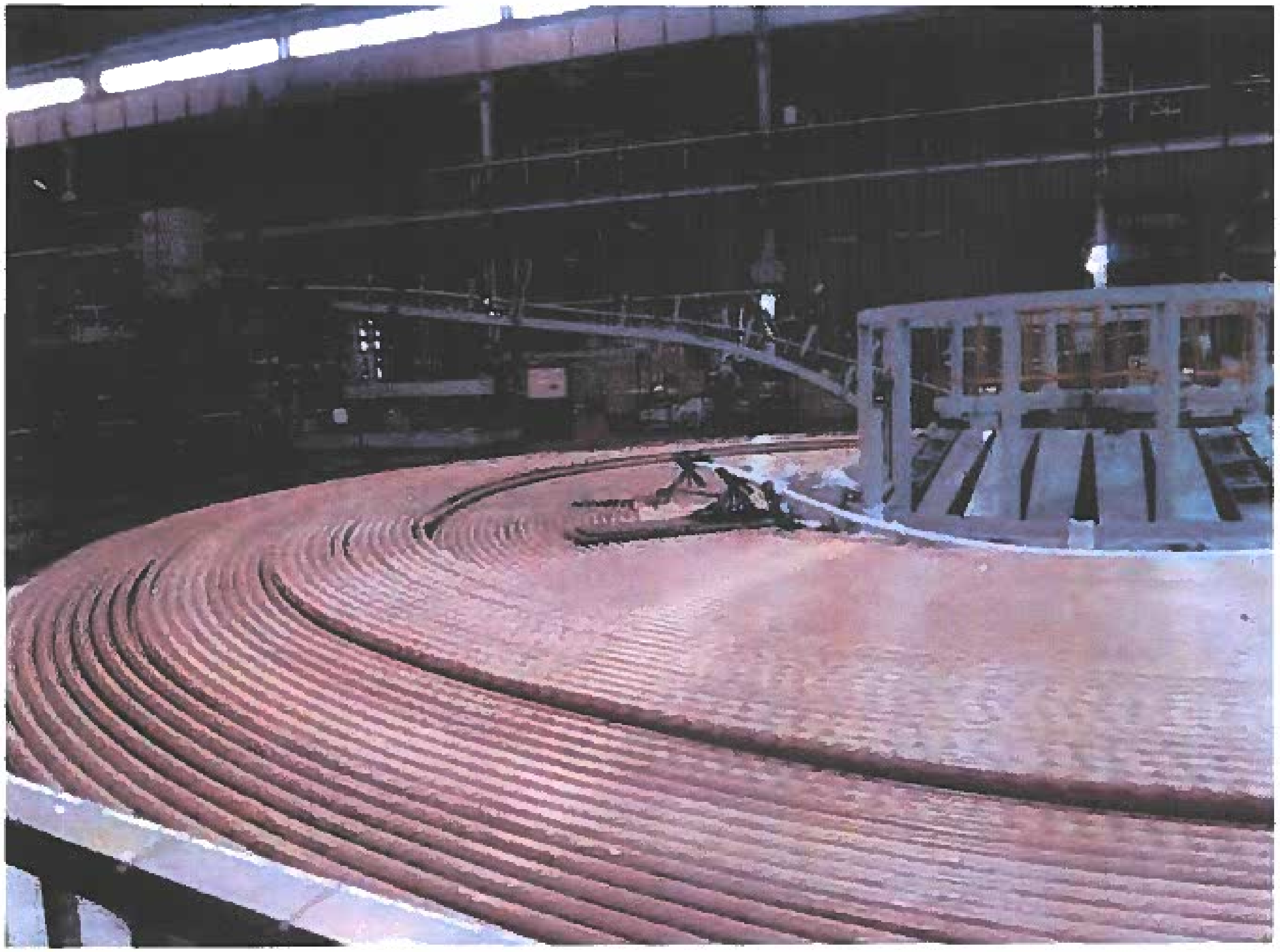
LITL – Tower Foundation Installation

LITL – Tower Foundation Installation

LITL – Tower Foundation Installation

LITL – Access Road Construction

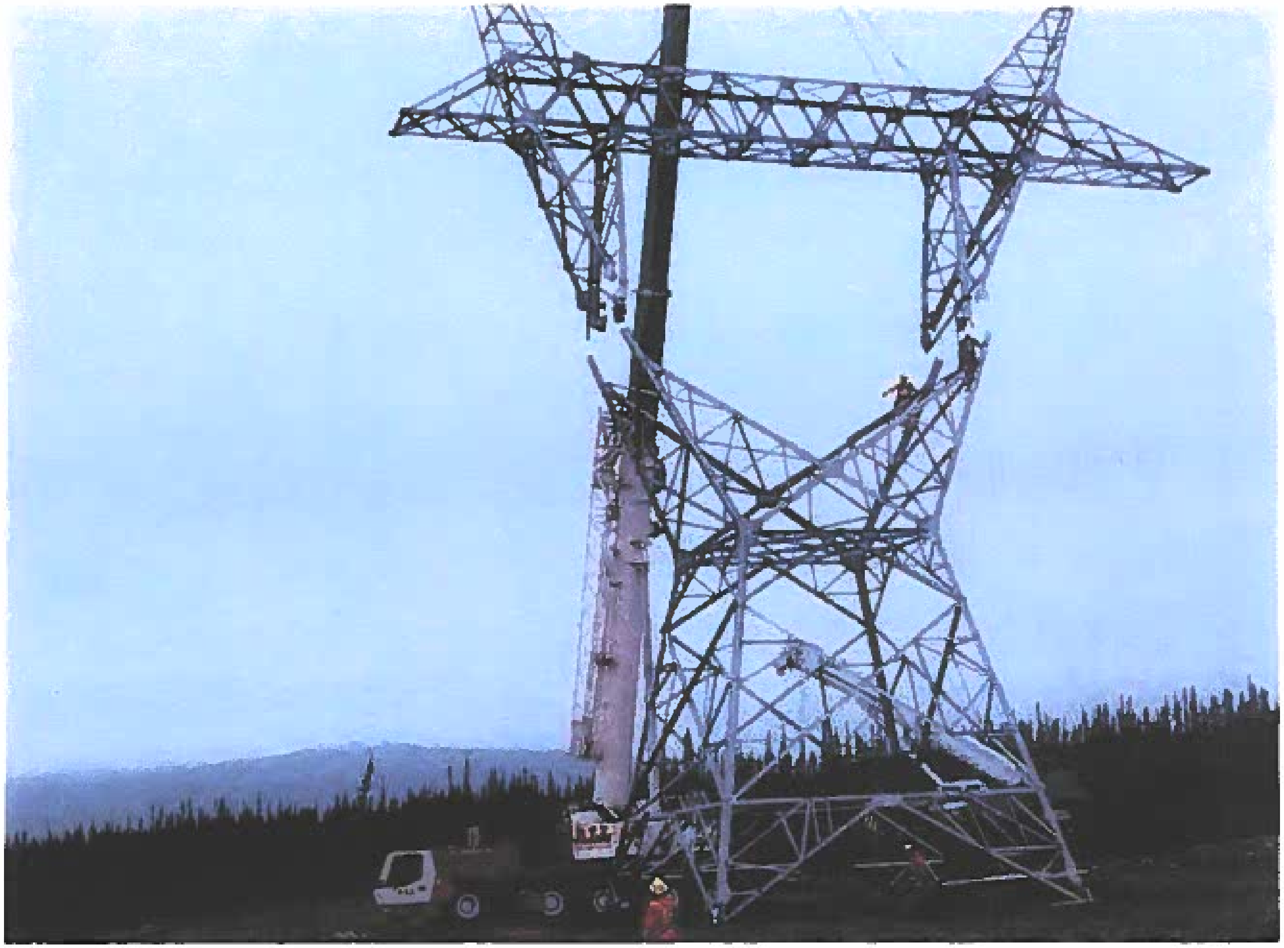
SOBI Transmission Cable Manufacturing



Soldiers Pond

LTA ROW

LTA - Tower Erection



LTA - Tower Erection

Phase 1 – MF, LIL, ML (cont'd.)

Environmental

- All Project activities remain in compliance with Government Regulations and project specific permit stipulations
- Environmental oversight, and daily reporting, continues at all Generation and Transmission construction fronts. Additional local staff have been hired to support new HVdc work fronts on the south coast of Labrador

Phase 1 – MF, LIL, ML (cont'd.)

Environmental

- Regular monthly meetings are being held with the Province to review permit compliance
- The human health risk assessment has been initiated with surveys being conducted with local residents in the Lake Melville area

Phase 1 – MF, LIL, ML (cont'd.)

Financing

- Financing
  - Second interest payment for MF/LTA and LIL bonds due in December
  - Proposed amendments to Project Finance Agreements ("PFA") under review with Canada and the Collateral Agent with execution currently expected Dec/Jan
  - First pre-funded equity cost overrun payment per terms of PFA due in December

Sharing our ideas in an open and supportive manner to achieve excellence.

Teamwork

Open Communication

Fostering an environment where information moves freely in a timely manner.

Honesty and Trust

Being sincere in everything we say and do.

Relentless commitment to protecting ourselves, our colleagues, and our community.

Safety

Respect and Dignity

Appreciating the individuality of others by our words and actions.

Leadership

Empowering individuals to help, guide and inspire others.

Holding ourselves responsible for our actions and performance.

Accountability

Pages 368 - 380

have been fully

redacted and

replaced with this

page.

RESOLUTION

79th NALCOR ENERGY BOARD OF DIRECTORS MEETING
NOVEMBER 28, 2014

RATIFICATION OF EMAIL APPROVAL – APPOINTMENT TO COMPENSATION COMMITTEE

BE IT RESOLVED

THAT the email approval of the Board of Directors of the appointment of Gerry Shortall to the Compensation Committee of the Board of Directors, be and it is hereby ratified.

RESOLUTION

79th NALCOR ENERGY BOARD OF DIRECTORS MEETING
NOVEMBER 28, 2014

RATIFICATION OF EMAIL APPROVAL – ELECTION OF L. ABBASS TO SUBSIDIARY BOARDS

BE IT RESOLVED

THAT the email approval of the Board of Directors of the election of Leo Abbass as a member of the Boards of Directors of Labrador-Island Link Operating Corporation and Nalcor Energy-Bull Arm Fabrication Inc., be and it is hereby ratified.

NALCOR BOARD MEETINGS
ANNUAL GENERAL MEETINGS (AGM)
AGENDA ITEMS

DATE	LOCATION	COMPANY	MEETING TYPE	AGENDA ITEMS
		1ST QUARTER - (January – March)		
JANUARY		ALL		Send out Interests Form to All Directors
MARCH	Level 6 Board Room	NALCOR	BOARD	Audit (year end) - Approval of Consolidated Financial Statements & MD&A - Review Audit Results Report Financial Report - Financial Summary (Year End) - Compliance Certificate President's Report - Year End Performance Report - 5 Year Corporate Plan Business Unit Reports (year end) Appointment of Proxy for AGM (GIPCO) Code of Business Conduct & Ethics Report (previous year)
		2ND QUARTER (April – June)		
APRIL	Level 6 Board Room	NALCOR	BOARD	President's Report - Corporate Performance Review Business Unit Reports Financial Report - Financial Summary - Compliance Certificate
May	Level 6 Board Room	NALCOR	BOARD	Approval of Q1 Statements and MD&A
JUNE		NALCOR	AGM	Corporate Overview Financial Overview Q&A
JUNE	Level 6 Board Room	NALCOR	BOARD	President's Report - Corporate Performance Review Business Unit Reports Finance Report - Financial Summary - Compliance Certificate Approval of Annual Transparency and Accountability Performance Report Approval of Shareholder Resolutions (O&G, BA & GIPCO)
		3RD QUARTER (July – September)		
AUGUST	Level 6 Board Room	NALCOR	BOARD	Approval of Q2 Statements and MD&A

NALCOR BOARD MEETINGS
ANNUAL GENERAL MEETINGS (AGM)
AGENDA ITEMS

DATE	LOCATION	COMPANY	MEETING TYPE	AGENDA ITEMS
SEPT.	Level 6 Board Room	NALCOR	BOARD	President's Report - Corporate Performance Review Business Unit Reports Financial Report - Financial Summary - Compliance Certificate
4TH QUARTER (October – December)				
NOV.	Level 6 Board Room	NALCOR	BOARD NLH Mtg. first before Nalcor Mtg	President's Report - Corporate Performance Review - Corporate Plan (Upcoming year) Board Committee Reports Business Unit Reports Financial Report - Financial Summary - Approval of Q3 Statements and MD&A - Financing Plan (for upcoming year) - Approval of Financial Risk Management Strategy (for upcoming year) - Approval of Operating and Capital Budget (for upcoming year) - Compliance Certificate Meeting Schedule (for upcoming year) Review Performance of Board and Mandate

NALCOR ENERGY

BOARD OF DIRECTORS

2015 MEETING SCHEDULE

Friday, March 13, 2015

Friday, April 24, 2015

Friday, May 22, 2015 (approval of Q1 Statements)

Friday, June 26, 2015

Friday, August 21, 2015 (approval of Q2 Statements)

September 25, 2015

Friday, November 27, 2015

Fw: Board Meeting with Innu
Brian Crawley to: Peter Hickman 11/27/2014 03:04 PM

Peter... one other thought... It is not uncommon for the Innu Nation board to sometimes invite the chiefs from the two communities as well as a few others, so I would anticipate a group larger than 14.
Brian

Brian Crawley
LCP-Corporate Integration Manager
PROJECT DELIVERY TEAM
Lower Churchill Project
t. 709 737-1499 c. 709 725-9145
e. BrianCrawley@lowerchurchillproject.ca
w. muskratfalls.nalcorenergy.com

----- Forwarded by Brian Crawley/NLHydro on 11/27/2014 03:03 PM -----

From:	Brian Crawley/NLHydro
To:	Peter Hickman/NLHydro@NLHydro,
Cc:	Gilbert Bennett/NLHydro@NLHydro, Paul Harrington/NLHydro@NLHydro
Date:	11/27/2014 02:19 PM
Subject:	Re: Board Meeting with Innu

Hi Peter - The Board for the Innu Nation is comprised of twelve representatives from the two communities plus the Grand Chief and Deputy Grand Chief. What might be easiest would be to have Nalcor's board invite the Innu Nation board to join them for a tour of the Muskrat Falls site some time next year - say April or May - when construction and employment numbers will be back at peak levels. This would include a lunch that would be served in the site cafeteria where there can be a fair bit of interaction with some of the Innu workers who are employed with the catering contractor. We did something similar - with snacks instead of lunch - for their board in September when the new Grand Chief was elected and it was very well received. Nalcor now has four Innu workers on staff and one on contract who could attend this tour, as they did the last one, and help translate. We could do a joint briefing in the same building as the cafeteria to keep it simple in which Ed or Gilbert can provide an overview of the kinds of things we are doing to satisfy our IBA commitments, most of which are well beyond what we are obliged to do. Ed has done this with the Grand Chief on a number of occasions but I do not believe we have ever met with the full board. The Grand Chief may also use the opportunity to share some thoughts or raise concerns, which would be appropriate.

If there's an interest in pursuing this, we can do a number of things that will be very well received by both boards, and the Innu Nation in particular. For example over the last couple of years Nalcor has awarded scholarships to a number of Innu kids who are currently pursuing a post secondary education. We could ask those kids who are still in the Province to come along as well - we can find seats for them on the project's charter which goes to Goose Bay quite regularly and probably have them back on the Island the next day.

One other consideration - Nalcor often makes contributions or donations to worthwhile or charitable causes. I don't know what the plans are for 2015, but this could also serve as a great opportunity to make an announcement for a service that is needed either in the Innu communities or in Central Labrador in general. We have discussed this internally in the past but may want to consult with the Innu Nation if there is a desire to move in this direction. You may want to talk to Dawn before raising it with the Board.

Hope that helps. Call if you need anything specific.
Brian

Brian Crawley
LCP-Corporate Integration Manager
PROJECT DELIVERY TEAM
Lower Churchill Project
t. 709 737-1499 c. 709 725-9145
e. BrianCrawley@lowerchurchillproject.ca
w. muskratfalls.nalcorenergy.com

Peter Hickman   Hi Brian. I tried calling you today but you weren'...   11/26/2014 05:34:13 PM

From: Peter Hickman/NLHydro
To: Brian Crawley/NLHydro@NLHydro,
Date: 11/26/2014 05:34 PM
Subject: Board Meeting with Innu

Hi Brian. I tried calling you today but you weren't in your office and I then got tied up. I will be in committee/board meetings for most of the day tomorrow so may not get a chance to call you. can you outline in an email any details that I sure be aware of to mention to the Nalcor board with respect to the proposed meeting with the Innu Board, ie. when would be a good time, where would it be, how many bodies we talking about, etc.

Thanks,
Peter