

1 Q. Re: Net Salvage: If an item of plant is retired and an outside part (*sic*) provides  
2 \$1,000 associated with such retirement and no replacement activity occurs, how is  
3 the \$1,000 accounted for (e.g., added to gross salvage amount, reduction to the  
4 cost of removal, or other method). Further, please provide all justification for  
5 whatever policy is utilized by the Company. In addition, identify when the Company  
6 first implemented such policy.

7

8

9 A. If an item of plant is retired and an outside party provides \$1,000 associated with  
10 such retirement and no replacement activity occurs, the \$1,000 would be recorded  
11 as gross salvage (proceeds) against the disposed asset. Hydro records a gain or loss  
12 on the disposal of the asset, calculated as the difference between the net disposal  
13 proceeds and the carrying amount of the asset at the time of the disposal. This  
14 policy has been in place since the inception of the Company. This treatment is  
15 consistent with IAS 16 – Property, Plant and Equipment, Paragraph 71 which states:

16

17 *“The gain or loss arising from the derecognition of an item of property,*  
18 *plant and equipment shall be determined as the difference between the*  
19 *net disposal proceeds, if any, and the carrying amount of the item.”*