NEWFOUNDLAND AND LABRADOR HYDRO - A NALCOR ENERGY COMPANY

Consolidated Financial Statements

December 31, 2010

newfoundland labrador
hydro
a nalcor energy company

newfoundland labrador
hydro
a nalcor energy company

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April 29, 2011

Honourable Shawn Skinner
Minister of Natural Resources

Minister's Office (Headquarters)
7th Floor, Natural Resources Building
50 Elizabeth Avenue
P.O. Box 8700
St. John's, NL A1B 4J6

Dear Minister Skinner:

Pursuant to Section 33 of the Hydro Corporation Act, 2007, please find attached the audited Consolidated Financial Statements of Newfoundland and Labrador Hydro (Hydro) for the year ended December 31, 2010.

A detailed account of Hydro's activities during the year ended December 31, 2010 is included in the Nalcor Energy 2010 Business and Financial Report.

Sincerely,

Ed Martin
President and CEO

NEWFOUNDLAND AND LABRADOR HYDRO
CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010

BOARD OF DIRECTORS

JOHN OTTENHEIMER Q.C. (Chair)
Corporate Director

ED MARTIN
President and Chief Executive Officer
Nalcor Energy

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Bennett Restaurants Ltd.

TOM CLIFT
Associate Dean, Academic Programs
Memorial University - Faculty of Business

KEN MARSHALL
President
Rogers Cable - Atlantic Region

GERALD SHORTALL
Chartered Accountant
Corporate Director

HEAD OFFICE
Newfoundland and Labrador Hydro
Hydro Place. 500 Columbus Drive
P.O. Box 12400. St. John's, NL
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OFFICERS

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Nalcor Energy

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Vice President
Lower Churchill Project

WAYNE CHAMBERLAIN
General Counsel and Corporate Secretary
Nalcor Energy

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Vice President Regulated Operations
Newfoundland and Labrador Hydro

ANDY MACNEILL
Vice President
Churchill Falls

JOHN MACISAAC
Vice President Project Execution and Technical Services
Newfoundland and Labrador Hydro

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Vice President Human Resources and
Organizational Effectiveness
Nalcor Energy

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Vice President Finance and Chief Financial Officer
Nalcor Energy

PETER HICKMAN
Assistant Corporate Secretary
Nalcor Energy

MARK BRADBURY
Corporate Treasurer and Chief Risk Officer
Nalcor Energy

S. KENT LEGGE
Corporate Controller
Nalcor Energy

Deloitte.

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Independent Auditors' Report

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

We have audited the accompanying consolidated financial statements of Newfoundland and Labrador Hydro, which comprise the consolidated balance sheet as at December 31, 2010, and the consolidated statements of income and retained earnings, comprehensive income and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Newfoundland and Labrador Hydro as at December 31, 2010, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
April 1, 2011

NEWFOUNDLAND AND LABRADOR HYDRO
CONSOLIDATED BALANCE SHEET

As at December 31 (millions of dollars)	**2010**	2009
ASSETS		
Current assets		
Cash and cash equivalents	**52.7**	12.7
Short-term investments	**11.9**	37.3
Accounts receivable	**81.3**	86.2
Current portion of regulatory assets (Note 4)	**3.8**	4.8
Inventory	**62.9**	59.5
Prepaid expenses	**3.1**	2.2
Derivative assets	**2.0**	5.7
	217.7	208.4
Property, plant and equipment (Note 3)	**1,722.3**	1,703.1
Sinking funds	**208.4**	179.6
Regulatory assets (Note 4)	**65.9**	69.3
Long-term receivables (Note 5)	**25.7**	24.7
Derivative assets	**-**	1.3
Reserve fund (Note 18(c))	**39.3**	34.8
	2,279.3	2,221.2
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	**123.2**	83.9
Accrued interest	**28.7**	28.7
Current portion of long-term debt (Note 7)	**8.2**	37.5
Current portion of regulatory liabilities (Note 4)	**118.9**	89.8
Deferred capital contribution	**0.1**	0.2
Derivative liabilities	**0.3**	-
	279.4	240.1
Long-term debt (Note 7)	**1,136.7**	1,141.6
Regulatory liabilities (Note 4)	**40.9**	32.8
Asset retirement obligations (Note 9)	**11.4**	-
Employee future benefits (Note 10)	**57.7**	52.4
Long-term payable (Note 8)	**4.6**	4.3
Long-term related party note payable (Note 19)	**25.3**	23.9
	1,556.0	1,495.1
SHAREHOLDER'S EQUITY		
Share capital (Note 11)	**22.5**	22.5
Contributed capital (Notes 2 and 11)	**116.0**	115.4
	138.5	137.9
Accumulated other comprehensive income (Note 12)	**27.3**	22.0
Retained earnings	**557.5**	566.2
	584.8	588.2
	723.3	726.1
Commitments and contingencies (Note 18)		
Subsequent event (Note 21)		
	2,279.3	2,221.2

See accompanying notes

On behalf of the Board:

ED MARTIN

GERRY SHORTALL

NEWFOUNDLAND AND LABRADOR HYDRO
CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

For the year ended December 31 (millions of dollars)	**2010**	2009
Revenue		
Energy sales	**572.2**	561.6
Interest and finance income (Note 15)	**17.8**	17.8
Other revenue	**6.1**	3.8
	596.1	583.2
Expenses		
Fuels	**140.4**	155.2
Power purchased	**44.4**	47.1
Operations and administration	**163.6**	158.5
Interest and finance charges (Note 15)	**105.0**	102.2
Amortization	**56.4**	54.5
Other gains and losses	**2.6**	(0.7)
	512.4	516.8
Net income	**83.7**	66.4
Retained earnings, beginning of year (Note 2)	**566.2**	544.3
Dividends	**92.4**	44.5
Retained earnings, end of year	**557.5**	566.2

See accompanying notes

NEWFOUNDLAND AND LABRADOR HYDRO
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31 (millions of dollars)	**2010**	2009
Net income	**83.7**	66.4
Other comprehensive income		
Change in fair value of available for sale financial instruments	**20.6**	9.8
Change in fair value of derivatives designated as cash flow hedges	**1.1**	9.2
Amounts recognized in net income	**(16.4)**	(13.5)
Comprehensive income	**89.0**	71.9

See accompanying notes

NEWFOUNDLAND AND LABRADOR HYDRO
CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31 (millions of dollars)	**2010**	2009
Cash provided by (used in)		
Operating activities		
Net income	**83.7**	66.4
Adjusted for items not involving a cash flow		
Amortization	**56.4**	54.5
Accretion of long-term debt	**0.4**	0.4
Loss on disposal of property, plant and equipment	**0.7**	1.3
Unrealized loss (gain) on derivative instruments	**0.3**	(0.8)
	141.5	121.8
Changes in non-cash working capital balances (Note 16)	**86.8**	85.7
	228.3	207.5
Financing activities		
Decrease in promissory notes	**-**	(163.0)
Long-term debt retired	**(29.3)**	(0.9)
Dividends paid to Nalcor	**(92.4)**	(44.5)
Contributed capital	**0.6**	100.0
(Increase) decrease in long-term receivables	**(1.0)**	2.0
Increase in long-term payable	**0.3**	3.6
Increase in long-term related party note payable	**1.4**	23.9
Decrease in deferred capital contribution	**(0.1)**	(2.0)
	(120.5)	(80.9)
Investing activities		
Additions to property, plant and equipment	**(65.4)**	(57.8)
Increase in sinking fund	**(23.4)**	(22.0)
Decrease (increase) in short-term investments	**25.4**	(22.8)
Increase in reserve fund	**(4.9)**	(11.0)
Proceeds on disposal of property, plant and equipment	**0.5**	1.3
	(67.8)	(112.3)
Net increase in cash	**40.0**	14.3
Cash position, beginning of year	**12.7**	(1.6)
Cash position, end of year	**52.7**	12.7
Cash position is represented by		
Cash (bank indebtedness)	**52.5**	(4.3)
Cash equivalents	**0.2**	17.0
	52.7	12.7

Supplementary cash flow information (Note 16)

See accompanying notes

1. DESCRIPTION OF BUSINESS

Newfoundland and Labrador Hydro ("Hydro"), is incorporated under a special act of the Legislature of the Province of Newfoundland and Labrador ("Province") as a Crown corporation and its principal activity is the development, generation and sale of electricity.

Hydro holds interests in the following subsidiaries and jointly controlled companies:

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

The Consolidated Financial Statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

Gull Island Power Corporation ("GIPCo") was transferred to Nalcor Energy ("Nalcor"), Hydro's parent company, effective December 2009. The carrying value of Hydro's investment in GIPCo was nil and was transferred to Nalcor at cost. As it was a related party transaction, the transfer has been accounted for using the continuity of interests method and the comparative figures, specifically beginning retained earnings and contributed capital, have been restated to reflect the transfer as GIPCo is no longer a subsidiary of Hydro.

Principles of Consolidation

The Consolidated Financial Statements include the financial statements of Hydro and its subsidiary, LCDC (51% owned). Intercompany transactions and balances have been eliminated upon consolidation.

Effective June 18, 1999, Hydro, Churchill Falls and Hydro-Québec entered into a shareholders' agreement which provided, among other matters, that certain of the strategic operating, financing and investing policies of Churchill Falls be subject to approval jointly by representatives of Hydro and Hydro-Québec on the Board of Directors of Churchill Falls. Although Hydro 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 venturers. 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 33.33% 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 by the proportionate consolidation method.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

Use of Estimates
Preparation of these Consolidated Financial Statements requires the use of estimates and assumptions that affect the amounts reported and disclosed in these statements and related notes. Key areas where management has made complex or subjective judgements include the fair value and recoverability of assets, the reported amounts of revenue and expenses, litigation, environmental and asset retirement obligations, amortization, property, plant, and equipment and other employee future benefits. Actual results may differ from these estimates, including changes as a result of future decisions made by the Newfoundland and Labrador Board of Commissioners of Public Utilities ("PUB"), and these differences could be material.

Rates and Regulations (Excluding Sales by Subsidiaries)
Hydro's revenues from its electrical sales to most customers within the Province are subject to rate regulation by the PUB. Hydro's borrowing and capital expenditure programs are also subject to review and approval by the PUB. Rates are set through periodic general rate applications utilizing a cost of service ("COS") methodology. The allowed rate of return on rate base is 7.4% (2009 - 7.4%). Hydro applies certain accounting policies that differ from enterprises that do not operate in a rate regulated environment. Generally these policies result in the deferral and amortization of costs or credits which will be recovered or refunded in future rates. In the absence of rate regulation these amounts would be included in the determination of net income in the year the amounts are incurred. The effects of rate regulation on the Consolidated Financial Statements are more fully disclosed in Note 4.

Cash and Cash Equivalents and Short-term Investments
Cash and cash equivalents and short-term investments consist primarily of Canadian treasury bills and Banker's Acceptances ("BA"). 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. The short-term investments bear interest rates of 0.85% to 1.35% (2009 – 0.26% to 1.57%) per annum. Cash and cash equivalents and short-term investments are measured at fair value.

Inventory
Inventory is recorded at the lower of average cost and net realizable value.

Property, Plant and Equipment
Property, plant and equipment is recorded at cost, which comprises materials, labour, contracted services, other costs directly related to construction and an allocation of certain overhead costs. Expenditures for additions and betterments are capitalized and normal expenditures for maintenance and repairs are charged to operations. The cost of property, plant and equipment under construction is transferred to property, plant and equipment in service when construction is completed and facilities are commissioned, at which point amortization commences.

Contributions in aid of construction are funds received from customers and governments toward the incurred cost of property, plant and equipment, or the fair value of assets contributed. Contributions are recorded as a reduction to property, plant and equipment and the net property, plant and equipment is amortized.

<u>Hydro</u>
Construction in progress includes the costs incurred in engineering and construction of new generation, transmission and distribution facilities. Interest is charged to construction in progress at rates equivalent to Hydro's weighted average cost of capital.

Gains and losses on the disposal of property, plant and equipment are recognized in income as incurred.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

Property, Plant and Equipment (cont'd.)

Amortization is calculated on hydroelectric generating plant and on transmission plant in service on the sinking fund method using interest factors ranging from 5.25% to 15.79%. Amortization on distribution system and other plant in service is calculated on the straight-line method. These methods are designed to fully amortize the cost of the facilities, after deducting contributions in aid of construction, over their estimated service lives.

Estimated service lives of the major assets are as follows:

Generation plant	
Hydroelectric	50, 75 and 100 years
Thermal	25 and 30 years
Diesel	20 years
Transmission	
Lines	40 and 50 years
Switching stations	40 years
Distribution system	30 years
Other	3 to 50 years

Hydroelectric generation plant includes the powerhouse, turbines, governors and generators, as well as water conveying and control structures, including dams, dykes, 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, dykes 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 from generating to transmission and to step down voltages for distribution.

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

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

<u>Churchill Falls</u>
Amortization is calculated on a straight-line basis over the following estimated useful lives:

Hydroelectric generation plant	67 years
Transmission and terminals	67 years
Service facilities	67 years
Other	5 to 100 years

Gains and losses on disposal of property, plant and equipment are recognized in income as incurred.

Impairment of Long-Lived Assets
Hydro reviews the carrying value of its property, plant and equipment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss corresponding to the amount by which the carrying value exceeds fair value is recognized, if applicable.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

Asset Retirement Obligations

The fair value of the future expenditures required to settle legal obligations associated with the retirement of property, plant and equipment, is recognized to the extent that they are reasonably estimable. Asset retirement obligations are recorded as a liability at fair value, with a corresponding increase to property, plant and equipment. Accretion of asset retirement obligations is included in net income through Amortization. Differences between the recorded asset retirement obligation and the actual retirement costs incurred are recorded as a gain or loss in the settlement period.

Employee Future Benefits

Employees participate in the Province's Public Service Pension Plan, a multi-employer defined benefit plan. The employer's contributions are expensed as incurred.

Hydro provides group life insurance and health care benefits on a cost-shared basis to retired employees, in addition to a severance payment upon retirement. The expected cost of providing these other employee future 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. The excess of net cumulative actuarial gains and losses over 10% of the accrued benefit obligation is amortized over the expected average remaining service life of the employee group.

Revenue Recognition

Revenue is recognized on the accrual basis, as power deliveries are made, and includes an estimate of the value of electricity consumed by customers in the year, but billed subsequent to year-end. Sales within the Province are primarily at rates approved by the 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.

A power contract with Hydro-Québec ("Power Contract"), dated May 12, 1969, provides for the sale of a significant amount of the energy from the 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 kilowatt hour ("kWh") to 2.0 mills per kWh upon renewal in 2016.

Churchill Falls receives revenues from Hydro-Québec, under a guaranteed winter availability contract ("GWAC") through 2041. The GWAC 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 (2009 - 7%).

Foreign Currency Translation

Foreign currency transactions are translated into their Canadian dollar equivalent as follows:

(a) At the transaction date, each asset, liability, revenue or expense is translated using exchange rates in effect at that date.

(b) At the date of settlement and at each balance sheet date, monetary assets and liabilities are adjusted to reflect exchange rates in effect at that date. Any resulting gain or loss is reflected in income, except gains or losses on purchases of fuel which are included in the cost of fuel inventory.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

Financial Instruments and Hedging Activities

Financial Instruments

Financial assets and financial liabilities are recognized on the balance sheet when Hydro becomes a party to the contractual provisions of the instrument and are initially measured at fair value. Subsequent measurement is based on classification. Hydro has classified each of its financial instruments into the following categories: financial assets and liabilities held for trading; loans and receivables; financial assets held to maturity; financial assets available for sale; and other financial liabilities.

Hydro has classified its financial instruments as follows:

Cash and cash equivalents	Held for trading
Short-term investments	Available for sale
Accounts receivable	Loans and receivables
Sinking funds - investments in same Hydro issue	Held to maturity
Sinking funds - other investments	Available for sale
Reserve fund	Available for sale
Derivative assets	Held for trading
Long-term receivables	Loans and receivables
Accounts payable and accrued liabilities	Other liabilities
Accrued interest	Other liabilities
Long-term debt	Other liabilities
Derivative liabilities	Held for trading
Long-term payable	Other liabilities
Long-term related party note payable	Other liabilities

Each of these financial instruments is measured at amortized cost, except for cash and cash equivalents and short-term investments, reserve fund, sinking fund – other investments, derivative assets and derivative liabilities which are measured at fair value.

Transaction costs related to financial assets and financial liabilities are included as part of the cost of the instrument, with the exception of cash and cash equivalents and short-term investments which are expensed as incurred through interest and finance charges, based upon the pricing obtained during the quotation process. Discounts and premiums on financial instruments are amortized to income over the life of the instrument.

Derivative Instruments and Hedging Activities

Derivative instruments are utilized by Hydro to manage market risk. Hydro's policy is not to utilize derivative instruments for speculative purposes. Hydro may choose to designate derivative instruments as hedges and apply hedge accounting if there is a high degree of correlation between price movements in the derivative instruments and the hedged items. Hydro formally documents all hedges and the risk management objectives at the inception of the hedge. Derivative instruments that have been designated and qualify for hedge accounting are classified as either cash flow or fair value hedges.

Hydro has designated foreign exchange forward contracts as cash flow hedges (Note 14). In a cash flow hedge relationship, the portion of gains or losses on the hedging item that is determined to be an effective hedge is recognized in Other Comprehensive Income ("OCI"), while the ineffective portion is recorded in net income. The amounts recognized in OCI are reclassified in net income when the hedged item affects net income.

Hydro had no fair value hedges in place at December 31, 2010 or 2009.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

Future Accounting Changes

In October 2009, the Accounting Standards Board (AcSB) issued a third and final Omnibus Exposure Draft confirming that publically accountable enterprises in Canada will be required to apply International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB), in full and without modification, for interim and annual financial statements beginning on or after January 1, 2011. As a result of recent changes to Part 1 of the Canadian Institute of Chartered Accountants (CICA) Handbook – Accounting, by the AcSB, certain rate-regulated entities can defer the adoption of IFRS by one year to January 1, 2012. Hydro meets the AcSB's criteria for the deferral and has chosen to adopt IFRS effective January 1, 2012.

Hydro is continuing to assess the financial reporting impacts of the adoption of IFRS; however, the impact of IFRS will depend on the IFRS standards in effect at the time of conversion on January 1, 2012 and the accounting elections made.

The IASB has deferred its work on rate-regulated activities accounting project and has not provided interim guidance for the recognition and measurement of regulatory assets and liabilities. Accordingly, Hydro continues to assess existing IFRS guidance to determine the impact of differences that will apply to accounting for rate-regulated activities upon adoption of IFRS on January 1, 2012.

3. PROPERTY, PLANT AND EQUIPMENT

	Property Plant and Equipment In Service	Contributions In Aid of Construction	Accumulated Amortization	Construction In Progress	Net Book Value
(millions of dollars)			**2010**		
Generation plant					
Hydroelectric	**1,417.1**	**22.9**	**379.0**	**3.3**	**1,018.5**
Thermal	**273.8**	**0.8**	**201.6**	**3.2**	**74.6**
Diesel	**68.0**	**5.8**	**35.3**	**2.2**	**29.1**
Transmission and distribution	**838.2**	**67.9**	**280.4**	**10.8**	**500.7**
Other	**297.8**	**24.0**	**178.2**	**3.8**	**99.4**
	2,894.9	**121.4**	**1,074.5**	**23.3**	**1,722.3**
(millions of dollars)			2009		
Generation plant					
Hydroelectric	1,410.8	22.9	365.6	1.1	1,023.4
Thermal	255.8	0.8	196.0	0.2	59.2
Diesel	64.6	5.9	33.5	2.8	28.0
Transmission and distribution	820.8	67.7	263.3	2.2	492.0
Other	284.7	23.5	166.1	5.4	100.5
	2,836.7	120.8	1,024.5	11.7	1,703.1

4. REGULATORY ASSETS AND LIABILITIES

(millions of dollars)	**2010**	2009	**Remaining Recovery Settlement Period (Years)**
Regulatory assets			
Foreign exchange losses	**66.8**	68.9	31.0
Deferred major extraordinary repairs	**2.3**	4.9	1.8
Deferred study costs	**-**	0.1	1.0
Deferred energy conservation costs	**0.6**	0.2	n/a
Total regulatory assets	**69.7**	74.1	
Less current portion	**3.8**	4.8	
	65.9	69.3	
Regulatory liabilities			
Rate stabilization plan	**159.2**	122.0	n/a
Deferred purchased power savings	**0.6**	0.6	16.5
Total regulatory liabilities	**159.8**	122.6	
Less current portion	**118.9**	89.8	
	40.9	32.8	

Regulatory assets represent future revenues associated with certain costs, incurred in current or prior periods that are expected to be recovered from customers in future periods through the rate-setting process. Regulatory liabilities represent future reductions or limitations of increases in revenues associated with amounts that are expected to be refunded to customers as a result of the rate-setting process. Amounts deferred as regulatory assets and liabilities are subject to PUB approval. The risks and uncertainties related to regulatory assets and liabilities are subject to periodic assessment. When Hydro considers that the value of these regulatory assets or liabilities is no longer likely to be recovered or repaid through future rate adjustments, the carrying amount is reflected in operations. The following is a description of each of the circumstances in which rate regulation affects the accounting for a transaction or event.

Rate Stabilization Plan

On January 1, 1986, Hydro, having received the approval of the PUB, implemented a rate stabilization plan (RSP) which primarily provides for the deferral of fuel expense variances resulting from changes in fuel prices, levels of precipitation and load. Adjustments required in retail rates to cover the amortization of the balance in the plan are implemented on July 1 of each year. Similar adjustments required in industrial rates are implemented on January 1 of each year.

Balances accumulating in the RSP, including financing charges, are to be recovered or refunded in the following year, with the exception of hydraulic variation, which will be recovered or refunded at a rate of twenty-five percent of the outstanding balance at year-end. Additionally, a fuel rider is calculated annually based on the forecast fuel price and is added to or subtracted from the rates that would otherwise be in effect.

Hydro recognizes the RSP balances as a regulatory asset or liability based on the expectation that rates will be adjusted annually to provide for the collection from, or refund to, customers in future periods. In the absence of rate regulation, Canadian GAAP would require that the cost of fuel be recognized as an operating expense in the period in which it was consumed. In 2010, $23.3 million was recognized (2009 - $42.3 million) in the RSP and $2.3 million (2009 - $18.3 million) was recovered through rates and included in energy sales, with the corresponding cost amortized in fuels expenses.

Deferred Foreign Exchange Losses

Hydro incurred foreign exchange losses related to the issuance of Swiss Franc and Japanese Yen denominated debt in 1975 and 1985, respectively, which were recognized when the debt was repaid in 1997. The PUB has accepted the inclusion of realized foreign exchange losses related to long-term debt in rates charged to customers in future periods.

4. REGULATORY ASSETS AND LIABILITIES (cont'd.)

Deferred Foreign Exchange Losses (cont'd.)
Any such loss, net of any gain, is deferred to the time of the next rate hearing for inclusion in the new rates to be set at that time. Accordingly, these losses are recognized as a regulatory asset. In the absence of rate regulation, Canadian GAAP would require that Hydro include the losses in operating costs, in each year that the related debt was outstanding, to reflect the exchange rates in effect on each reporting date.

Commencing in 2002, the PUB ordered Hydro's deferred realized foreign exchange losses be amortized over a forty-year period. This amortization, of $2.1 million (2009 - $2.2 million), is included in Interest and finance charges (Note 15).

Deferred Major Extraordinary Repairs
In its report dated April 13, 1992, the PUB recommended that Hydro adopt a policy of deferring and amortizing the costs of major extraordinary repairs in excess of $0.5 million, subject to PUB approval on a case-by-case basis. In 2005, Hydro started an asbestos abatement program at the Holyrood Thermal Generating Station ("HTGS"). This program was carried out over a three-year period. Pursuant to Order No. P.U. 2 (2005), the PUB approved the deferral and amortization of these costs as a major extraordinary repair. Accordingly, the costs incurred in each year of the program were recognized as a regulatory asset to be amortized over the subsequent five-year period. In 2006, Hydro incurred $2.3 million in expenses to repair a boiler tube failure at the HTGS. Pursuant to Order No. P.U. 44 (2006), the PUB approved the deferral and amortization of these costs as a major extraordinary repair. Accordingly, these costs are being amortized over a five-year period. In the absence of rate regulation, Canadian GAAP would require that Hydro expense the cost of the asbestos abatement program and the boiler tube repairs in the year incurred. In 2010, $2.6 million (2009 - $2.7 million) of amortization was recognized in Operations and administration expense.

Deferred Study Costs
Pursuant to Order No. P.U. 14 (2004), the PUB directed Hydro to conduct an independent study of the treatment of Newfoundland Power's generation in Hydro's COS, and an independent marginal cost study, and to accumulate these costs in a deferral account to be dealt with at the next general rate application. Pursuant to Order No. P.U. 8 (2007), Hydro received approval for recovery of these costs over a three-year period commencing in 2007. Accordingly, these costs have been recognized as a regulatory asset. In the absence of rate regulation, Canadian GAAP would require that Hydro include the cost of these studies in operating costs in the year incurred. In 2010, $0.1 million (2009 - $0.1 million) was recognized in Operations and administration expense.

Deferred Energy Conservation Costs
Pursuant to Order No. P.U. 14 (2009), Hydro received approval to defer costs associated with an electrical conservation program for residential, industrial, and commercial sectors and , accordingly, these costs have been recognized as a regulatory asset. In the absence of rate regulation, Canadian GAAP would require that Hydro include this program as operating costs in the year incurred. In 2010, $0.4 million (2009 – $0.2 million) was deferred.

Deferred Purchased Power Savings
In 1997, Hydro interconnected communities in the area of L'Anse au Clair to Red Bay to the Hydro-Québec system. In its report dated July 12, 1996, the PUB recommended that Hydro defer and amortize the benefits of a reduced initial purchased power rate over a 30-year period. These savings in the amount of $0.6 million (2009 - $0.6 million) are recognized as a regulatory liability. In the absence of rate regulation, Canadian GAAP would require that Hydro include the actual cost of purchased power in operating costs in the year incurred.

Property, Plant and Equipment
The PUB permits an allowance for funds used during construction ("AFUDC"), based on Hydro's weighted average cost of capital, to be included in the cost of capital assets and amortized over future periods as part of the total cost of the related asset. In 2010, Hydro's AFUDC of 7.6% (2009 - 7.6%) is higher than its cost of debt of 7.2% (2009 – 7.2%) and the amount capitalized is higher and interest expense is lower by $0.1 million (2009 - $0.1 million) than that which would be permitted under Canadian GAAP in the absence of rate regulation.

4. REGULATORY ASSETS AND LIABILITIES (cont'd.)

Property, Plant and Equipment (cont'd.)
Hydro amortizes its hydroelectric generating assets and transmission assets using the sinking fund method, as approved by the PUB. In the absence of rate regulation, these assets would likely be amortized using the straight-line method. During 2010, Hydro engaged an independent consultant to conduct an amortization study. The scope of this study included a review of Hydro's amortization methods as well as a statistical analysis of service life estimates and calculation of appropriate amortization rates and annual and accrued amortization balances as at December 31, 2009. Based on the results of this study, management currently estimates that switching from the use of sinking fund rather than straight-line amortization for hydroelectric and transmission assets, as well as changing from unit based amortization to a group based method on a remaining life basis would result in an immaterial change in the annual amortization expense.

5. LONG-TERM RECEIVABLES

Included in long-term receivables are two refundable deposits in the amount of $24.1 million (2009 - $23.9 million), associated with an application for transmission service into Québec, bearing interest at one-year Guaranteed Income Certificate ("GIC") rates, a $0.1 million (2009 – nil) deposit associated with an application for transmission service in New Brunswick, bearing interest at the Prime Rate, and two refundable deposits in the amount of $1.2 million (2009 – nil) associated with an application for transmission service into Nova Scotia, bearing interest at the Prime Rate less 1%. The remaining portion of $0.3 million (2009 – $0.8 million) is the 2004-2008 AEB receivable from Hydro-Québec bearing interest at 7.0%.

6. JOINT VENTURE

The following amounts included in the Consolidated Financial Statements represent Hydro's proportionate share of Churchill Falls' assets and liabilities at December 31, 2010, and its proportionate interest in Churchill Falls' operations for the year then ended.

(millions of dollars)	**2010**	2009
Current assets	**39.2**	45.7
Long-term assets	**375.8**	374.5
Current liabilities	**15.6**	38.8
Long-term liabilities	**14.0**	12.7
Revenues	**74.1**	58.8
Expenses	**50.8**	48.4
Net income	**23.3**	10.4
Cash provided by (used in)	**48.3**	15.3
Operating activities	**(27.9)**	3.5
Financing activities	**(0.4)**	(17.4)
Investing activities		

Income tax expense in the amount of $0.2 million (2009 - $0.2 million) related to a jointly controlled subsidiary, Twin Falls has been included in expenses.

7. LONG-TERM DEBT

	2010			2009		
(millions of dollars)	**Hydro**	**Churchill Falls**	**Total**	Hydro	Churchill Falls	Total
Long-term debt	**1,144.9**	**-**	**1,144.9**	1,149.8	29.3	1,179.1
Less current portion	**8.2**	**-**	**8.2**	8.2	29.3	37.5
	1,136.7	**-**	**1,136.7**	1,141.6	-	1,141.6

Details of long-term debt are as follows:

Hydro

(millions of dollars)	**Face Value**	**Coupon Rate%**	**Year of Issue**	**Year of Maturity**	**2010**	2009
V *	125.0	10.50	1989	2014	**124.6**	124.5
X *	150.0	10.25	1992	2017	**149.3**	149.2
Y *	300.0	8.40	1996	2026	**293.3**	293.1
AB *	300.0	6.65	2001	2031	**306.7**	306.8
AD *	125.0	5.70	2003	2033	**123.6**	123.6
AE	225.0	4.30	2006	2016	**223.8**	223.7
Total debentures	1,225.0				**1,221.3**	1,220.9
Less: sinking fund investments in own debentures					**76.4**	71.1
					1,144.9	1,149.8
Less: payments due within one year					**8.2**	8.2
					1,136.7	1,141.6

* Sinking funds have been established for these issues.

Sinking fund investments consist of bonds, debentures, promissory notes and coupons issued by, or guaranteed by, the Government of Canada or any province of Canada, and have maturity dates ranging from 2013 to 2033. Hydro debentures, which are intended to be held to maturity, are deducted from long-term debt while all other sinking fund investments are shown separately on the balance sheet as assets. Annual contributions to the various sinking funds are in accordance with the bond indenture terms, and are structured to ensure the availability of adequate funds at the time of expected bond redemption. Effective yields range from 3.86% to 9.86% (2009 - 4.50% to 9.86%).

Promissory notes, debentures and long-term loans 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 one percent annually on the total debt (net of sinking funds) guaranteed by the Province, outstanding as of the preceding December 31. For the years ended December 31, 2010 and 2009, the guarantee fee was waived by the Province.

Hydro uses promissory notes to fulfill its short-term funding requirements. As at December 31, 2010 there were no promissory notes outstanding (2009 – nil).

Hydro maintains a $50.0 million Canadian or US equivalent unsecured operating credit facility with its banker and at year-end there were no amounts drawn on the facility (2009 – 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. At year-end, Hydro had 24 letters of credit outstanding (Note 18(g)) reducing the availability of the credit facility by $18.9 million (2009 - $7.5 million).

7. LONG-TERM DEBT (cont'd.)

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

(millions of dollars)	2011	2012	2013	2014	2015
Sinking fund requirement	8.2	8.2	8.2	8.2	8.2
Long-term debt repayment	-	-	-	125.0	-
	8.2	8.2	8.2	133.2	8.2

Churchill Falls

(millions of dollars)	**2010**	2009
Bank of Nova Scotia Credit Agreement		
4.4% due December 15, 2010		
Outstanding	**-**	29.3
Due within one year	**-**	29.3
Total long-term debt	**-**	-

On December 15, 2010, Churchill Falls repaid the Bank of Nova Scotia Credit Agreement in full.

Operating Credit Facility
Churchill Falls maintains a $10.0 million Canadian unsecured operating credit facility with its banker and at year-end, there were no amounts drawn on the facility (2009 - 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 provides coverage for overdrafts on Churchill Falls' bank accounts, with interest calculated at the Prime Rate. At year-end, Churchill Falls had two letters of credit outstanding (Note 18(g)) reducing the availability of the credit facility by $1.0 million (2009 - $1.0 million).

Churchill Falls had an additional letter of credit outstanding with another Schedule 1 Chartered Bank in the amount of $1.0 million (2009 - $1.0 million). This letter of credit did not reduce the availability of the credit facility at year end.

8. LONG-TERM PAYABLE

The long-term payable to Hydro-Québec as at December 31, 2010 represents the accumulation of differences between energy delivered monthly and the AEB energy billed monthly, which will be tracked during the four-year period from September 1, 2008 to August 31, 2012. Currently, the full amount of $4.6 million (2009 – $4.3 million) is long-term. The final amount will be determined on August 31, 2012 and will be paid or collected monthly beginning September 2012 and ending August 2016.

9. ASSET RETIREMENT OBLIGATIONS

During the year ended December 31, 2010, Hydro recognized a liability associated with the retirement of portions of the HTGS. The reconciliation of the beginning and ending carrying amount of asset retirement obligations is as follows:

(millions of dollars)	**2010**	2009
Asset retirement obligations, beginning of year	**-**	-
Liabilities incurred	**11.4**	-
Liabilities settled	**-**	-
Accretion	**-**	-
Asset retirement obligations, end of year	**11.4**	-

The total undiscounted estimated cash flows required to settle the obligations at December 31, 2010 is $20.5 million (2009 – nil). Payments to settle the liability are expected to occur between 2021 and 2029. The fair value of the asset retirement obligations was determined using the present value of future cash flows discounted at the Hydro's credit-adjusted risk-free rate of 4.1%.

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

10. EMPLOYEE FUTURE BENEFITS

Pension Plan
Employees participate in the Province's Public Service Pension Plan, a multi-employer defined benefit plan. The employer's contributions of $4.9 million (2009 - $4.6 million) are expensed as incurred.

Other Benefits
Hydro provides group life insurance and healthcare benefits on a cost-shared basis to retired employees, and in certain cases, their surviving spouses, in addition to a severance payment upon retirement. In 2010, cash payments to beneficiaries for its unfunded other employee future benefits was $2.3 million (2009 - $2.7 million). An actuarial valuation was performed as at December 31, 2009 and extrapolated to December 31, 2010. The next actuarial valuation will be performed as at December 31, 2012.

10. EMPLOYEE FUTURE BENEFITS (cont'd.)

Other Benefits (cont'd.)

(millions of dollars)	**2010**	2009
Accrued benefit obligation		
Balance at beginning of year	**69.6**	51.1
Transfer to Nalcor Energy	**-**	(0.5)
Current service cost	**2.2**	1.4
Interest cost	**4.6**	3.8
Actuarial loss	**9.2**	16.5
Benefits paid	**(2.3)**	(2.7)
Balance at end of year	**83.3**	69.6
Plan deficit	**83.3**	69.6
Unamortized actuarial loss	**(25.4)**	(17.0)
Unamortized past-service cost	**(0.2)**	(0.2)
Accrued benefit liability at end of year	**57.7**	52.4

(millions of dollars)	**2010**	2009
Component of benefit cost		
Current service cost	**2.2**	1.4
Interest cost	**4.6**	3.8
Actuarial loss	**9.2**	16.5
	16.0	21.7
Difference between actuarial loss and amount recognized	**(8.4)**	(16.5)
Benefit expense	**7.6**	5.2

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

	2010	2009
Discount rate – benefit cost	**6.50%**	7.50%
Discount rate – accrued benefit obligation	**5.75%**	6.50%
Rate of compensation increase	**3.50%**	3.50%

Assumed healthcare trend rates:

	2010	2009
Initial health care expense trend rate	**7.50%**	7.50%
Cost trend decline to	**5.00%**	5.00%
Year that rate reaches the rate it is assumed to remain at	**2016**	2016

10. EMPLOYEE FUTURE BENEFITS (cont'd.)

Other Benefits (cont'd.)

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

Increase	**2010**	2009
Current service and interest cost	**1.2**	0.8
Accrued benefit obligation	**14.2**	10.7

Decrease	**2010**	2009
Current service and interest cost	**(0.9)**	(0.6)
Accrued benefit obligation	**(11.1)**	(8.4)

11. SHAREHOLDER'S EQUITY

Share Capital

(millions of dollars)	**2010**	2009
Common shares of par value $1 each		
Authorized: 25,000,000		
Issued and outstanding 22,503,942	**22.5**	22.5

Contributed Capital

(millions of dollars)	**2010**	2009
Total contributed capital	**116.0**	115.4

On February 3, 2010, the Province established the Churchill Falls (Labrador) Corporation Trust ("the Trust") with Churchill Falls as the beneficiary. The purpose of this trust is to fund the external costs and expenses incurred in relation to the motion filed by Churchill Falls seeking a modification to the pricing terms of the 1969 Power Contract. During 2010 the Trust contributed capital of $0.6 million.

Under the continuity of interests method of accounting, the 2009 comparative has been restated to reflect the transfer of GIPCo to Nalcor, resulting in a decrease of $96.4 million in contributed capital.

There were no contributions by Nalcor during 2010 (2009 - $100.0 million).

12. ACCUMULATED OTHER COMPREHENSIVE INCOME

(millions of dollars)	**2010**	2009
Balance, beginning of year	**22.0**	16.5
Change in fair value of available for sale financial instruments	**20.6**	9.8
Change in fair value of derivatives designated as cash flow hedges	**1.1**	9.2
Amount recognized in net income	**(16.4)**	(13.5)
Balance, end of year	**27.3**	22.0

13. CAPITAL MANAGEMENT

Hydro

Hydro's principal business requires ongoing access to capital in order to maintain the continued delivery of safe and reliable service to its customers. Therefore, Hydro's primary objective when managing capital is to ensure ready access to capital at a reasonable cost.

The capital managed by Hydro is comprised of debt (long-term debentures, promissory notes, bank credit facilities and bank indebtedness) and equity (share capital, contributed capital, accumulated other comprehensive income and retained earnings).

A summary of the capital structure is outlined below:

(millions of dollars)	**2010**		2009	
Debt				
Long-term debt	**1,136.7**		1,141.6	
Current portion of long-term debt	**8.2**		37.5	
Sinking funds	**(208.4)**		(179.6)	
	936.5	**56.4%**	999.5	57.9%
Equity				
Share capital	**22.5**		22.5	
Contributed capital	**116.0**		115.4	
Accumulated other comprehensive income	**27.3**		22.0	
Retained earnings	**557.5**		566.2	
	723.3	**43.6%**	726.1	42.1%
Total debt and equity	**1,659.8**	**100.0%**	1,725.6	100.0%

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

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

Per legislation, the total of the short-term loans issued by Hydro and outstanding at any time, shall not exceed a limit as fixed by the Lieutenant-Governor in Council. Short-term loans are those loans issued with a term not exceeding two years. The current limit is set at $300 million. The balance outstanding as at December 31, 2010 was Nil (2009 - Nil). Issuance of long-term and short-term debt by Hydro is further restricted by Bill C-24, an amendment to the Newfoundland and Labrador Hydro Act of 1975. The Bill effectively limits Hydro's total borrowings, which includes both long and short-term debt, to $1.6 billion at any point in time.

Churchill Falls

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

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

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair Value

The estimated fair values of financial instruments as at December 31, 2010 and 2009 are based on relevant market prices and information available at the time. Fair value estimates are based on valuation techniques which are significantly affected by the assumptions used including the amount and timing of future cash flows and discount rates reflecting various degrees of risk. As such, the fair value estimates below are not necessarily indicative of the amounts that Hydro might receive or incur in actual market transactions.

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

	Carrying Value	**Fair Value**	Carrying Value	Fair Value
(millions of dollars)	**2010**		2009	
Financial assets				
Cash and cash equivalents	**52.7**	**52.7**	12.7	12.7
Short-term investments	**11.9**	**11.9**	37.3	37.3
Accounts receivable	**81.3**	**81.3**	86.2	86.2
Sinking funds – investments in same Hydro issue	**76.4**	**93.6**	71.1	85.2
Sinking funds – other investments	**208.4**	**208.4**	179.6	179.6
Long-term receivable [1]	**25.7**	**n/a**	24.7	n/a
Derivative assets (including current portion)	**2.0**	**2.0**	7.0	7.0
Reserve fund	**39.3**	**39.3**	34.8	34.8
Financial liabilities				
Accounts payable and accrued liabilities	**123.2**	**123.2**	83.9	83.9
Accrued interest	**28.7**	**28.7**	28.7	28.7
Long-term debt including amount due within one year (before sinking funds)	**1,221.3**	**1,589.7**	1,250.2	1,471.0
Derivative liabilities	**0.3**	**0.3**	-	-
Long-term payable	**4.6**	**4.7**	4.3	4.4
Long-term related party note payable [1]	**25.3**	**n/a**	23.9	n/a

The fair value of cash and cash equivalents, short-term investments, accounts receivable, accounts payable and accrued liabilities, accrued interest and due to related parties approximates their carrying values due to their short-term maturity.

[1] The fair value of the long-term receivable and long-term related party note payable is subject to uncertainty regarding the timing of future cash flows and as such, the fair value of the long-term receivable cannot be determined at December 31, 2010 and 2009.

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).

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

Fair Value (cont'd.)

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.

Establishing Fair Value (cont'd.)
The following table presents Hydro's fair value hierarchy for financial assets and liabilities as at December 31. There were no transfers between Level 1 and Level 2 during the year:

	Level 1	Level 2	Total
(millions of dollars)	**2010**		
Financial assets			
Cash and cash equivalents	**52.7**	**-**	**52.7**
Short-term investments	**11.9**	**-**	**11.9**
Accounts receivable	**81.3**	**-**	**81.3**
Sinking funds – investments in same Hydro issue	**-**	**93.6**	**93.6**
Sinking funds – other investments	**-**	**208.4**	**208.4**
Derivative assets	**-**	**2.0**	**2.0**
Reserve fund	**-**	**39.3**	**39.3**
Financial liabilities			
Accounts payable and accrued liabilities	**123.2**	**-**	**123.2**
Accrued interest	**28.7**	**-**	**28.7**
Long-term debt including amount due within one year (before sinking funds)	**-**	**1,589.7**	**1,589.7**
Derivative liabilities	**-**	**0.3**	**0.3**
Long-term payable	**-**	**4.7**	**4.7**
	2009		
Financial assets			
Cash and cash equivalents	12.7	-	12.7
Short-term investments	37.3	-	37.3
Accounts receivable	86.2	-	86.2
Sinking funds – investments in same Hydro issue	-	85.2	85.2
Sinking funds – other investments	-	179.6	179.6
Derivative assets	-	7.0	7.0
Reserve fund	-	34.8	34.8
Financial liabilities			
Accounts payable and accrued liabilities	83.9	-	83.9
Accrued interest	28.7	-	28.7
Long-term debt including amount due within one year	-	1,471.0	1,471.0
Derivative liabilities	-	-	-
Long-term payable	-	4.4	4.4

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

Fair Value (cont'd.)

Establishing Fair Value (cont'd.)
There were no financial assets or liabilities valued using Level 3 of the fair value hierarchy as at December 31, 2010 and 2009.

Risk Management

Exposure to credit risk, liquidity risk and market risk arises in the normal course of Hydro's business.

Credit Risk
Hydro is exposed to credit risk in the event of non-performance by counterparties to its financial instruments. The majority of the receivables are from regulated utilities which minimizes credit risk. There is risk that Hydro will not be able to collect all of its remaining accounts receivable and amounts owing under its customer finance plans. These financial instruments which arise in the normal course of business do not represent a significant concentration of credit risk as amounts are owed by a large number of customers on normal credit terms. Hydro manages this credit risk primarily by executing its credit and collection policy including the requirement for security deposits from certain customers. As at December 31, 2010 security deposits of $0.1 million (2009 - $0.1 million) are included in accounts payable and accrued liabilities.

Hydro's three largest customers account for 80.3% (2009 –78.8%) of total energy sales and 69.0% (2009 – 69.6%) of accounts receivable. These customers are comprised of rate regulated organizations or organizations with an investment grade rating.

Hydro does not have any significant amounts that are past due and uncollectable for which a provision has not been recognized at December 31, 2010.

Hydro manages its investment credit risk exposure by restricting its investments to high-quality securities such as Canada Treasury Bills, BAs drawn on Schedule 1 Canadian Chartered Banks and Term Deposits issued by Schedule 1 Canadian Chartered Banks. Additionally, the investments held within the portfolios of Churchill Falls do not exceed 10% with any one institution with the exception of the Government of Canada.

Liquidity Risk
Hydro is exposed to liquidity risk with respect to its contractual obligations and financial liabilities. This risk is managed by maintaining borrowing facilities sufficient to cover both anticipated and unexpected fluctuations within the operations and by continuously monitoring cash flows.

Short-term liquidity is provided through cash and cash equivalents on hand, funds from operations, a $300.0 million promissory note program and credit facilities.

Long-term liquidity risk is managed by the issuance of a portfolio of debentures with maturity dates ranging from 2014 to 2033. Sinking funds have been established for these issues with exception to Series AE.

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

Risk Management (cont'd.)

Liquidity Risk (cont'd.)
The following are the contractual maturities of Hydro's financial liabilities, including principal and interest, as at December 31, 2010:

(millions of dollars)	**<1 Year**	**1-3 Years**	**3-5 years**	**> 5 Years**	**Total**
Accounts payable and accrued liabilities	**123.2**	**-**	**-**	**-**	**123.2**
Accrued interest	**28.7**	**-**	**-**	**-**	**28.7**
Derivative liabilities	**0.3**	**-**	**-**	**-**	**0.3**
Long-term debt including amount due within one year	**-**	**-**	**125.0**	**1,100.0**	**1,225.0**
Long-term payable	**-**	**1.5**	**2.3**	**0.8**	**4.6**
Interest	**61.8**	**181.3**	**161.5**	**752.4**	**1,157.0**
	214.0	**182.8**	**288.8**	**1,853.2**	**2,538.8**

Market Risk
Market risk refers primarily to the risk of loss resulting from changes in interest rates, commodity prices and foreign exchange rates. Nalcor has a formal financial risk management policy that outlines the risks associated with the operations of Nalcor and its subsidiaries outlining approaches and guidelines to be followed in the management of those risks. This policy is reviewed by the Board annually or more frequently if there is a material change to Nalcor's financial risks. The Audit Committee provides oversight on behalf of the Board with the exception of any items that specifically require Board approval.

Interest Rates
Interest rate risk is managed within the corporate financing strategy whereby floating rate debt exposures and interest rate scenarios are forecast and evaluated. A diversified portfolio of fixed and floating rate debt is maintained and managed with a view to an acceptable risk profile. Key quantitative parameters for interest rate risk management includes the percentage of floating rate debt in the total debt portfolio, coupled with an examination of the weighted average term to maturity of the entire debt portfolio. By setting clear guidelines in respect to these quantitative parameters, Hydro attempts to minimize the likelihood of a material impact on net income resulting from an unexpected change in interest rates.

Hydro is exposed to interest rate risk related to the short-term debt portfolio, the sinking fund investment portfolios and reserve fund investment portfolios. Interest rate risk on the long-term debt portfolio is mitigated through the use of fixed rate debentures. The following table illustrates Hydro's exposure to a 100 basis point (1%) change in interest rates:

	Net Income		**Other Comprehensive Income**	
(millions of dollars)	**1% decrease**	**1 % increase**	**1% decrease**	**1 % increase**
Interest on short-term investments	**(0.3)**	**0.3**	**-**	**-**
Interest on sinking fund	**-**	**-**	**29.3**	**(10.3)**
Interest on reserve fund	**(0.1)**	**0.1**	**1.1**	**(0.9)**
	(0.4)	**0.4**	**30.4**	**(11.2)**

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

Risk Management (cont'd.)

Market Risk (cont'd.)

Foreign Currency and Commodity Exposure
The fair value of future cash flows of a financial instrument will fluctuate due to changes in the exchange rate between the foreign currency and the Canadian dollar. Hydro's primary exposure to both foreign exchange and commodity price risk arises within Hydro from its purchases of No. 6 fuel for consumption at the HTGS and certain electricity sales both of which are denominated in USD.

During 2010, Hydro had total purchases of No. 6 fuel of $104.1 million (2009 - $87.5 million) denominated in USD. Exposure to both the foreign exchange and commodity price risk associated with these fuel purchases is mitigated through the operation of the RSP. The purpose of the RSP is to both reduce volatility in customer rates as well as mitigate potential net income volatility from fuel price and volume variations. All variances in fuel prices including exchange rates, as compared to that approved in Hydro's most recent cost of service study, are captured in the RSP and are either refunded to or collected from customers through rate adjustments. Hydro also employs the periodic use of forward currency contracts to manage exposure to exchange rates on a particular day.

During 2010, total electricity sales denominated in USD were $72.8 million (2009 - $41.8 million). Hydro mitigates this risk through the use of commodity swaps and foreign currency forward contracts.

During 2009, Hydro entered into a series of 24 monthly foreign exchange forward contracts, in the amount of $87.8 million USD at an average exchange rate of 1.17 to hedge 75% of Hydro's forecasted USD electricity sales, the last of which expires in April 2011. These contracts have been designated as part of a hedging relationship.

During 2010, Hydro entered into 28 commodity swap contracts totalling $24.7 million, the last of which expired in December 2010. These contracts swapped floating market rates for fixed rates which ranged from $26 USD/MWh to $50 USD/MWh. These contracts have not been designated as part of a hedging relationship. During 2010, 24 of these settled. The fair value of the four contracts outstanding as at December 31, 2010 is a liability of $0.3 million and $3.4 million in losses from these contracts is included in Other gains and losses.

Effect of Hedge Accounting on Financial Statements

	Net Gains Included in Net Income	**Unrealized Gains Included in OCI**	Net Gains Included in Net Income	Unrealized Gains Included in OCI
(millions of dollars)	**2010**		2009	
Ineffective portion	**0.2**	**-**	0.5	-
Effective portion	**5.9**	**1.3**	2.4	6.2

The ineffective portion of hedging gains and losses is included in net income through Other gains and losses.

15. INTEREST AND FINANCE INCOME /CHARGES

(millions of dollars)	**2010**	2009
Interest and finance income		
Interest on sinking fund	**15.2**	13.9
Interest on reserve fund	**1.4**	1.3
Other interest income	**1.2**	2.6
	17.8	17.8
Interest and finance charges		
Long-term debt	**91.7**	91.8
Interest on rate stabilization plan	**10.2**	7.0
Accretion of long-term debt	**0.4**	0.4
Amortization of deferred foreign exchange losses	**2.1**	2.2
Other	**1.8**	1.6
	106.2	103.0
Interest capitalized during construction	**(1.2)**	(0.8)
	105.0	102.2

16. SUPPLEMENTARY CASH FLOW INFORMATION

(millions of dollars)	**2010**	2009
Accounts receivable	**4.9**	(9.2)
Inventory	**(3.4)**	(6.8)
Prepaid expenses	**(0.9)**	(0.6)
Regulatory assets	**4.4**	5.5
Regulatory liabilities	**37.2**	68.8
Accounts payable and accrued liabilities	**39.3**	25.5
Employee future benefits	**5.3**	2.5
Changes to non-cash working capital balances	**86.8**	85.7
Income taxes paid	**0.2**	0.2
Interest received	**2.0**	2.1
Interest paid	**92.1**	92.9

17. SEGMENT INFORMATION

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

Segments	**Hydro Regulated**	**Churchill Falls**	**Energy Marketing**	**Other**	**Inter-segment**	**Total**
(millions of dollars)			**2010**			
Revenue						
Energy sales	**417.1**	**76.0**	**77.5**	**5.5**	**(3.9)**	**572.2**
Interest and finance income	**16.1**	**1.7**	**-**	**-**	**-**	**17.8**
Other revenue	**2.3**	**0.3**	**-**	**-**	**3.5**	**6.1**
	435.5	**78.0**	**77.5**	**5.5**	**(0.4)**	**596.1**
Expenses						
Fuels	**140.3**	**-**	**-**	**0.1**	**-**	**140.4**
Power purchased	**44.2**	**-**	**4.1**	**-**	**(3.9)**	**44.4**
Operations and administration	**97.8**	**40.5**	**21.4**	**3.9**	**-**	**163.6**
Interest and finance charges	**102.9**	**1.6**	**0.5**	**-**	**-**	**105.0**
Amortization	**43.8**	**12.6**	**-**	**-**	**-**	**56.4**
Other gains and losses	**-**	**-**	**2.6**	**-**	**-**	**2.6**
	429.0	**54.7**	**28.6**	**4.0**	**(3.9)**	**512.4**
Net income from operations	**6.5**	**23.3**	**48.9**	**1.5**	**3.5**	**83.7**
Preferred dividends	**-**	**3.5**	**-**	**-**	**(3.5)**	**-**
Net income	**6.5**	**26.8**	**48.9**	**1.5**	**-**	**83.7**
Capital expenditures	**55.5**	**9.9**	**-**	**-**	**-**	**65.4**
Total assets	**1,831.5**	**417.0**	**7.4**	**25.4**	**(2.0)**	**2,279.3**

(millions of dollars)			2009			
Revenue						
Energy sales	443.8	61.0	54.7	6.0	(3.9)	561.6
Interest and finance income	16.4	1.4	-	-	-	17.8
Other revenue	2.2	0.3	-	-	1.3	3.8
	462.4	62.7	54.7	6.0	(2.6)	583.2
Expenses						
Fuels	155.2	-	-	-	-	155.2
Power purchased	46.8	-	4.2	-	(3.9)	47.1
Operations and administration	100.9	37.7	16.6	3.3	-	158.5
Interest and finance charges	99.9	1.8	0.6	(0.1)	-	102.2
Amortization	41.7	12.8	-	-	-	54.5
Other gains and losses	-	-	(0.7)	-	-	(0.7)
	444.5	52.3	20.7	3.2	(3.9)	516.8
Net income from operations	17.9	10.4	34.0	2.8	1.3	66.4
Preferred dividends	-	1.3	-	-	(1.3)	-
Net income	17.9	11.7	34.0	2.8	-	66.4
Capital expenditures	54.1	3.7	-	-	-	57.8
Total assets	1,766.0	421.1	10.2	24.7	(0.8)	2,221.2

17. SEGMENT INFORMATION (cont'd.)

Geographic Information
Revenues by geographic area:

(millions of dollars)	**2010**	2009
Newfoundland and Labrador	**453.8**	473.9
Québec	**70.5**	69.2
Nova Scotia	**11.1**	36.6
New Brunswick	**60.7**	3.5
	596.1	583.2

All of Hydro's physical assets are located in the Province.

18. COMMITMENTS AND CONTINGENCIES

(a) Under the terms of a sublease with Twin Falls, expiring on December 31, 2014, Churchill Falls is required to deliver to Twin Falls, at an agreed price, horsepower equivalent to the installed horsepower of the Twin Falls plant and to maintain Twin Falls' plant and equipment. The costs associated with making the plant operational, if required, are not estimable at this time. In 2015, the physical assets of Twin Falls will revert to Churchill Falls, and Churchill Falls is required to make this horsepower available to Hydro at rates that are commercially reasonable pursuant to the 1999 shareholders' agreement.

(b) The results of an Environmental Site Assessment ("ESA") conducted at the Twin Falls Generating Station indicated higher than acceptable concentrations of contaminants in the soil and waters adjacent to the powerhouse. Further testing was conducted to determine the extent of contamination. The recommendations arising from this testing indicate that remediation is not required, but that monitoring be carried out every 5 years. Monitoring was performed throughout 2010 with no remediation required. Further monitoring will be performed in 2015.

(c) Pursuant to the terms of the 1999 shareholders' agreement Churchill Falls, in 2007, commenced the creation of a $75.0 million segregated reserve fund to contribute towards the funding of capital expenditures related to Churchill Falls' existing facilities and their replacement. Churchill Falls invested $17.0 million in each of 2007, 2008 and 2009 and $8.0 million in 2010. The remaining investments will be acquired during the 30-day period commencing on each of the following dates:

January 1, 2011	$8.0	million
January 1, 2012	$8.0	million

This fund must remain in place until the end of the shareholders' agreement in 2041. Any amounts removed to fund capital expenditures must be replaced. Reserve fund holdings consist of securities issued by the Government of Canada, various provinces of Canada and Schedule 1 Canadian Chartered Banks. Hydro's share of this commitment is 65.8%.

A summary of Hydro's 65.8% share of the reserve fund is as follows:

(millions of dollars)	**2010**	2009
Opening balance	**34.8**	23.4
Contribution	**5.3**	11.2
Net interest	**(0.4)**	(0.2)
Mark-to-market adjustment	**(0.4)**	0.4
Fair value of reserve fund	**39.3**	34.8

18. COMMITMENTS AND CONTINGENCIES

(d) Hydro has received claims instituted by various companies and individuals with respect to outages and other miscellaneous matters. Although such matters cannot be predicted with certainty, management currently considers Hydro's exposure to such claims and litigation, to the extent not covered by insurance policies or otherwise provided for, to be $0.1 million (2009 - $0.1 million).

One of Hydro's industrial customers commenced legal proceedings in 1997, claiming approximately $21.8 million (2009 - $21.9 million) related to outages and plant shutdowns. Hydro is defending this claim. While the ultimate outcome of this action cannot be ascertained at this time, in the opinion of Hydro's management, following consultation with its legal counsel, no liability should be recognized.

(e) Outstanding commitments for capital projects total approximately $17.6 million (2009 - $13.3 million).

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

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

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

(millions of dollars)	2011	2012	2013	2014	2015
Power purchases	23.9	24.5	25.1	25.6	26.1

(g) Hydro has issued 23 irrevocable letters of credit to the New Brunswick System Operator totalling $18.6 million as credit support related to applications for point to point transmission services. In addition Hydro has issued one letter of credit to the Department of Fisheries and Oceans in the amount of $0.3 million as a performance guarantee in relation to the Fish Habitat Compensation Agreement. Churchill Falls has issued 3 irrevocable letters of credit, totalling $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.

(h) Hydro entered into power sales agreements with third parties with respect to the energy previously sold to Hydro-Québec under a power sales agreement that expired on March 31, 2009. To facilitate market access, Hydro has entered into a five-year transmission service agreement with Hydro-Québec TransÉnergie to acquire access to 265 MW of transmission capacity from Labrador through Québec. Hydro has the right to renew its transmission service contract at the end of the contract term. If at that time there is a competing request for the same path, in order to renew the service agreement, Hydro must agree to accept a contract term that is at least equal to that competing request.

Pursuant to Hydro's five-year transmission service agreement with Hydro-Québec TransÉnergie, the transmission rental payments to contract maturity are as follows:

2011	$ 19.4 million
2012	$ 19.4 million
2013	$ 19.4 million
2014	$ 4.8 million

18. COMMITMENTS AND CONTINGENCIES (cont'd.)

(i) Hydro has received funding, in the amount of $3.0 million, from the Atlantic Canada Opportunities Agency in relation to a wind-hydrogen-diesel research development project in the community of Ramea. This funding is repayable in annual installments of $25,000 per commercial implementation of the resulting product. As at December 31, 2010 there have been no commercial implementations.

(j) On February 23, 2010, Churchill Falls filed a motion against Hydro-Quebec in the Quebec Superior Court. The motion is seeking a modification to the pricing terms of the 1969 Power Contract as of November 30, 2009. The trial is scheduled for the fall of 2013. The outcome of this motion is not determinable at this time.

19. RELATED PARTY TRANSACTIONS

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

Related Party	Relationship
Nalcor Energy ("Nalcor")	Nalcor Energy is a 100% shareholder of Hydro.
The Province	The Province is a 100% shareholder of Nalcor.
Churchill Falls	Churchill Falls is a jointly controlled subsidiary of Hydro.
Twin Falls	Twin Falls is a jointly controlled subsidiary of Churchill Falls.
The Trust	Churchill Falls (Labrador) Corporation Trust was created by the Province with Churchill Falls as the beneficiary.
Nalcor Energy – Oil and Gas	Nalcor Energy – Oil and Gas is a wholly owned subsidiary of Nalcor.
Board of Commissioners of Public Utilities	The PUB is an agency of the Province.

Intercompany transactions and balances have been eliminated upon consolidation. The amounts included in the financial statements for related party transactions are as follows:

		Nalcor	**Other Affiliates**	**Total**
(millions of dollars)			**2010**	
Revenue	(g)	**-**	**2.0**	**2.0**
Expenses	(a)(b)(c)(e)	**20.2**	**4.8**	**25.0**
Accounts receivable	(g)(h)	**-**	**1.9**	**1.9**
Accounts payable and accrued liabilities	(c)(d)(e)	**40.9**	**3.8**	**44.7**
Deferred capital contribution	(f)	**-**	**0.1**	**0.1**
Long-term related party note payable	(i)	**25.3**	**-**	**25.3**
(millions of dollars)			2009	
Revenue	(g)	-	2.0	2.0
Expenses	(a)(b)(c)(e)	21.4	4.0	25.4
Accounts receivable	(g)(h)	-	0.7	0.7
Accounts payable and accrued liabilities	(c)(d)(e)	21.3	2.7	24.0
Deferred capital contribution	(f)	-	0.2	0.2
Long-term related party note payable	(i)	23.9	-	23.9

19. RELATED PARTY TRANSACTIONS (cont'd.)

(a) Hydro has entered into a long-term power contract with Churchill Falls for the purchase of $6.0 million (2009 - $5.9 million) of the power produced by Churchill Falls.

(b) For the year ended December 31, 2010, approximately $2.5 million (2009 - $1.2 million) of operating costs were recovered from Nalcor and $3.4 million (2009 - $2.7 million) from other affiliates for engineering, technical, management and administrative services. During 2010 Hydro incurred $2.7 million (2009 - $1.7 million) of operating costs from Nalcor for engineering, technical, management and administrative services.

(c) Hydro is required to contribute to the cost of operations of the PUB as well as pay for the cost of hearings into applications it makes. During 2010, Hydro incurred $0.6 million in costs related to the PUB (2009 - $0.6 million) of which $0.1 million (2009 - $0.1 million) was included in Accounts payable and accrued liabilities.

(d) As at December 31, 2010, Hydro has a payable to Nalcor of $40.9 million (2009- $21.3 million) and a receivable from other affiliates for $1.5 million (2009 – $0.6 million receivable and $0.2 payable). This payable/receivable consists of various intercompany operating costs and power purchases.

(e) Under the terms and conditions of the Churchill Falls (Labrador) Corporation (Lease) Act, 1961, Churchill Falls must pay rentals and royalties to the Province annually. As at December 31, 2010, $5.6 million (2009 - $3.7 million) was payable.

(f) During 2010, Nalcor advanced $2.3 million (2009 - $1.1 million) as a contribution in aid of construction related to the Ramea Wind-Hydrogen-Diesel Project. Hydro also received contributions in aid of construction from the Province related to wind feasibility studies. As at December 31, 2010, $0.1 million (2009 - $0.2 million) has been recorded as a Deferred capital contribution.

(g) During 2010, Hydro received $0.4 million (2009 - $0.4 million) as a rate subsidy for rural isolated customers from the Province and $1.6 million (2009 - $1.6 million) as an energy rebate to offset the cost of basic electricity consumption for Labrador rural isolated residential customers under the Northern Strategic Plan with $0.3 million (2009 - $0.1 million) recorded as Accounts receivable at year-end.

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

(i) Hydro has a long-term related party note payable to Nalcor for $25.3 million (2009 – $23.9 million). The note is non-interest bearing and has no set terms of repayment.

20. WATER MANAGEMENT AGREEMENT

In June 2007, the Province passed an amendment to the Electrical Power Control Act, 1994 ("EPCA"). The amendment requires parties that utilize a common water resource in the province for power production, enter into a water management agreement. The amendment provides that any resulting water management agreement will not adversely affect existing power contracts. Churchill Falls shares the Churchill River with a Nalcor Energy proposed hydro-electric generation development downstream from Churchill Falls. On March 9, 2010, the PUB issued a Board Order establishing a water management agreement between the parties.

21. SUBSEQUENT EVENT

In January 2011, Hydro entered into nine forward contracts with a notional value of $35.7 million to hedge the foreign exchange risk on USD electricity sales. In February 2011, Hydro also entered into 20 swap contracts with a notional value of $27.8 million to hedge the commodity price risk on electricity sales.

22. COMPARATIVE FIGURES

The comparative figures have been reclassified to conform with the 2010 financial statement presentation including Interest and finance charges, Other gains and losses, Accounts receivable and Accounts payable and accrued liabilities.