NALCOR ENERGY
NEWFOUNDLAND AND LABRADOR HYDRO

2013 Annual Performance Report
Transparency and Accountability

June 2014

newfoundland labrador hydro
a nalcor energy company

nalcor energy

Message from the Board of Directors

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

Dear Minister:

In accordance with the *Transparency and Accountability Act*, I am pleased to submit the 2013 Annual Performance Report on behalf of the Boards of Directors of Nalcor Energy and Newfoundland and Labrador Hydro.

The 2011-2013 Strategic Plan for Nalcor Energy and Newfoundland and Labrador Hydro outlined how each entity would address the applicable strategic directions of the Provincial Government in relation to the energy sector as communicated by the Minister of Natural Resources.

This Performance Report will present results for all of Nalcor Energy and will also highlight the accomplishments of Newfoundland and Labrador Hydro. As 2013 is the final year of the strategic plan, performance results for the 2011-2013 planning period are summarized in addition to accomplishments for the calendar year 2013.

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

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

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1 Overview

Nalcor

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

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

Nalcor is a provincial Crown corporation established in 2007 under a special act of the Legislature of the Province of Newfoundland and Labrador. Nalcor's legal structure at December 31, 2013 included the entities listed below.

Entity Name	Description of Interest
Newfoundland and Labrador Hydro (Hydro)	Wholly owned subsidiary
Nalcor Energy – Oil and Gas Inc. (Oil and Gas)	Wholly owned subsidiary
Nalcor Energy – Bull Arm Fabrication Inc. (Bull Arm Fabrication)	Wholly owned subsidiary
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 venture of Hydro
Twin Falls Power Corporation Limited (Twin Falls)	33.3% owned joint venture of Churchill Falls

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

Hydro

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

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

Hydro's generating assets include nine hydroelectric plants, one oil-fired plant, three gas turbines, and 25 diesel plants. These generating assets along with a network of transmission and distribution lines bring electricity to communities throughout Newfoundland and Labrador. Under the Churchill Falls Power Contract, Churchill Falls (Labrador) Corporation (CF(L)Co) has the right to recall 300 megawatt (MW) of power (recall energy). CF(L)Co sells this power to Hydro under a long-term contract expiring in 2041. Hydro purchases a portion of this power to supply residential and commercial customer requirements under regulated service.

Hydro's non-regulated activities include the sale of another portion of the recall energy to mining operations in Labrador West and the remaining portion of this power is exported into Canadian markets.

Vision

Nalcor

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

Hydro

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

Mission

Nalcor

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

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

Hydro

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

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

Mandate

Nalcor

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

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

Hydro

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

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

Values

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

- Open Communication – fostering an environment where information moves freely in a timely manner.
- Accountability – holding ourselves responsible for our actions and performance.
- Safety – relentless commitment to protecting ourselves, our colleagues, and our community.
- Honesty and Trust – being sincere in everything we say and do.
- Teamwork – sharing our ideas in an open and supportive manner to achieve excellence.
- Respect and Dignity – appreciating the individuality of others by our words and actions.
- Leadership – empowering individuals to help guide and inspire others.

Lines of Business

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

Newfoundland and Labrador Hydro

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

- Electricity generation involves the operation of nine hydroelectric generating stations, one oil-fired plant, three gas turbines and 25 diesel plants. This line of business also includes Hydro's involvement in forecasting electricity requirements in the province and advancing options for generation expansion.
- Transmission, distribution and customer service activities include the operation and maintenance of over 3,700 kilometres of transmission lines and more than 3,300 kilometres of distribution lines. Customer service activities address the requirements of over 38,000 residential and commercial customers, Newfoundland Power, as well as our industrial customers.

Churchill Falls

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

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

Nalcor Energy – Oil and Gas

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

Lower Churchill Project

The lower Churchill River is one of the most attractive undeveloped hydroelectric resources in North America and is a key component of the province's energy warehouse. The two hydroelectric sites at Gull Island and Muskrat Falls will have a combined capacity of over 3,000 MW. Phase I of the Lower Churchill Project was sanctioned on December 17, 2012. The project includes the 824 MW hydroelectric facility at Muskrat Falls on the lower Churchill River, over 1,500 km of associated transmission lines in Newfoundland and Labrador linking the island of Newfoundland to Labrador, and the Maritime Link between the island of Newfoundland and Nova Scotia. The clean, stable, renewable electricity will provide an opportunity for the province to meet its own domestic and industrial needs in an environmentally sustainable way, and also export excess electricity to other jurisdictions where the demand for clean, renewable energy continues to grow.

Bull Arm Fabrication

Bull Arm Fabrication manages Atlantic Canada's largest fabrication site. Close to international shipping lanes and Europe, this site has unobstructed, deep water access to the Atlantic Ocean. This facility spans over 6,300 acres and has integrated and comprehensive infrastructure to support fabrication and assembly of three key project functions, simultaneously, in three separate theatres: Topsides Fabrication and Assembly, Dry-dock Fabrication and Construction, and Deepwater Construction and Integration Site. Currently, the Bull Arm site is fully leased by ExxonMobil for the construction and commissioning phases of the Hebron Project.

Energy Marketing

Nalcor is involved in energy marketing and other energy activities including non-regulated electricity generation, wind energy, and research and development. Nalcor's current energy marketing portfolio currently includes recall power that is not required by Hydro to meet

demand in Labrador. Nalcor's energy marketing portfolio will continue to grow over the coming years with the development of the Lower Churchill Project and increased production from Nalcor's offshore oil and gas interests.

Number of Employees, Physical Location and Other Key Statistics

Nalcor

Nalcor, the province's energy corporation, is leading the development of the province's energy resources. As of December 31, 2013, Nalcor had over 1,400 employees, with 67 per cent of these employees located in rural parts of the island and Labrador. The gender composition of Nalcor's employee group was 77 per cent male and 23 per cent female. Nalcor is currently implementing a multi-year action plan to support diversity and inclusion.

Gender	Rural	Urban	Total	Per cent
Female	149	180	329	23%
Male	812	291	1103	77%
Total	961	471	1432	
Per cent	67%	33%		

Hydro

Headquartered in St. John's with assets and offices throughout Newfoundland and Labrador, Hydro is the province's main electrical energy provider. As of December 31, 2013, Hydro directly employed 916 people. The location of these employees reflects Hydro's service area and the location of the company's electricity assets, with 72 per cent located in rural areas. The gender composition of Hydro's employee group is 83 per cent male and 17 per cent female. As the largest employer within Nalcor, Hydro will play a key role in implementing the multi-year action plan to support diversity and inclusion.

Gender	Rural	Urban	Total	Per cent
Female	53	104	157	17%
Male	604	155	759	83%
Total	657	259	916	
Per cent	72%	28%		

2013 Consolidated Revenues and Expenses

The following table summarizes the consolidated 2013 revenue and expenses for Nalcor. The 2013 Consolidated Financial Statements for Nalcor are appended to this document (See Appendix 2).

In 2013 Nalcor had revenues of $784.8 million. The majority of Nalcor's revenues are currently generated from energy sales through Hydro to utility, rural and industrial customers. Approximately 37 per cent of Nalcor's 2013 expenditures related to fuels and power purchases by Hydro with operations and administration accounting for 31 per cent of expenses, amortization and depletion totalling 13 per cent and interest and finance charges accounting for 11 per cent.

Table 1: Nalcor Energy Consolidated Revenue and Expenses 2013

For the year ended December 31 (millions of dollars)	$	%
Revenue		
Energy sales	756.0	96.3
Interest and finance income	-	-
Other revenue	28.8	3.7
	784.8	
Expenses		
Fuels	190.9	27.7
Power purchased	63.2	9.2
Operations and administration	215.4	31.2
Net finance expense	72.5	10.5
Amortization and depletion	87.7	12.7
Other income and expense	3.9	0.6
Regulatory Adjustments	55.6	8.1
	689.2	
Net Income	95.6	

Hydro

In 2013, Hydro had revenues of $688.2 million. The majority of Hydro's revenues are from energy sales to utility, rural and industrial customers with other revenues including preferred dividends from Hydro's subsidiary Churchill Falls. Consolidated energy sales also include CF(L)Co sales to Hydro Quebec as well as sales of recall power. In 2013, Hydro net income of $54.2 million consisted of $0.5 million from Hydro Regulated, $23.2 million from Churchill Falls and $30.5 million from recall power and other non-regulated activities. The following chart summarizes the consolidated 2013 revenue and expenses for Hydro.

Table 2: Hydro Consolidated Revenue and Expenses 2013

For the year ended December 31 (millions of dollars)	$	%
Revenue		
Energy sales	682.3	99.1
Interest and finance income	-	
Other revenue	5.9	0.9
	688.2	
Expenses		
Fuels	190.9	30.1
Power purchased	63.2	10.0
Operations and administration	185.0	29.1
Net finance expense	72.3	11.4
Amortization	65.9	10.4
Other income and expenses	1.1	0.2
Regulatory adjustments	55.6	8.8
	634.0	
Net Income	54.2	

The 2013 Consolidated Financial Statements for Hydro are appended to this document (see Appendix 3).

2 Shared Commitments

Nalcor works with a variety of agencies, departments and commissions to execute its mandate. Collectively these groups influence the activities that are reported herein.

Department of Natural Resources

The Department of Natural Resources works with Nalcor in policy-related areas for the various energy sector activities in which Nalcor engages and supports the company's efforts to progress all the strategic issues outlined. For example, the acquisition of working interests in offshore oil fields and the 2D seismic exploration program were coordinated efforts between the department and Nalcor Energy – Oil and Gas. The province through the Department of Natural Resources has invested in the geoscience through the Offshore Geoscience Data Program to help encourage global spending in offshore Newfoundland and Labrador. The ongoing administration of issues related to the electrical system throughout the province and the execution of key policy actions outlined in the province's Energy Plan are also areas of significant collaboration.

Department of Finance

The Department of Finance works with Nalcor in relation to addressing requirements related to financial structure, dividend policies as well as providing guarantees for the company's debt financing activities. Over the planning period in particular, the Department supported efforts related to financing of the Muskrat Falls Project.

Newfoundland and Labrador Board of Commissioners of Public Utilities

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

Nalcor also shares commitments with the Department of Environment and Conservation, Service NL, and the federal Department of Fisheries and Oceans in relation to the environmental aspects of the company's activities.

3 Outcome of Mission

In the 2011-2013 Strategic Plan, the following missions were presented for Nalcor and Hydro.

Nalcor

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

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

Measure: Advanced energy sector involvement

Indicators:

- Effectively managed Upper Churchill resource to:
    - Maintain assets to ensure long term reliable service, and,
    - Pursue Power Contract adjustments
- As an active partner in existing offshore oil developments, fulfilled all required obligations and worked to attain alignment between provincial interests and project partners
- Advanced oil and gas exploration activity
- Significantly advanced the Lower Churchill Development Phase I and continued efforts to progress Phase II
- Monitored asset management and environmental protection at the Bull Arm Fabrication Site and planned for long-term site utilization
- Enhanced energy marketing capabilities toward establishing a self-contained energy marketing line of business

Outcomes:

For the 2011-2013 planning period, nearly $143 million in capital was invested to keep Churchill Falls assets in reliable operating condition for the long-term. Also during the planning period, Churchill Falls continued preparations for, and participated in, a legal challenge regarding the pricing terms for the remainder of the 1969 Power Contract with Hydro- Québec.

Nalcor's oil and gas activities also progressed during the planning period. Offshore developments reached significant milestones with first oil for both West White Rose and the Hibernia Southern Extension in 2011 and the 2012 sanction of the Hebron project. The multi-year exploration strategy to increase exploration interest in the province also advanced during the planning period with the collection of 47,000 line kilometres of 2D seismic data off Labrador and down the southeast coast over the Orphan Basin, Flemish Pass and Flemish Cap – an area larger the Gulf Coast of the United States. Geoscience exploration and scientific analysis has identified three new deepwater basins (Chidley, Holton, and Henley) and the previously established Hawke Basin has substantially increased in size. As well, play types[1] that have yielded some of the leading discoveries in other regions of the world have been identified offshore Newfoundland and Labrador.

In late 2012 the official sanction of the Muskrat Falls Project was announced by the Government of Newfoundland and Labrador. Construction has progressed and in 2013 employment peaked with 1,682 people working on the project. The project will continue to generate economic benefits including $1.9 billion in income to labour and business in the province. Over the planning period work also continued to assess market and market access opportunities for the second phase of the Lower Churchill Development, Gull Island.

In 2011, Nalcor executed a lease with ExxonMobil Canada Properties for the construction, fabrication and commissioning phases of the Hebron project. Since the execution of the lease, over $31.5 million in site upgrades and refurbishments by the tenant have been approved by Nalcor. As well during the planning period, Nalcor has engaged stakeholders and completed research to inform the long-term strategy for site utilization.

During the 2011-2013 planning period, Nalcor continued to build its energy marketing expertise and processes consistent with its plan to establish a self-contained energy marketing line of business. Nalcor also pursued opportunities to maximize the value of its energy marketing portfolio and achieved revenues higher than market benchmark.

Hydro

Hydro is focused on providing a safe, reliable and cost-effective electricity supply to meet current and future energy needs. Hydro's strategy is focused on managing its assets in a

[1] Rock formations that may hold oil resources.

manner that optimizes total cost of operation. Diligence in the area of safety of employees, contractors and the public and a commitment to environmental sustainability and energy conservation drive the company. Over the next three years, Hydro will continue to enhance safety, asset management and environmental sustainability in order to improve the delivery of electricity to the people of the province.

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

Measure: Enhanced safety, asset management and environmental sustainability processes

Indicators:

- Advanced efforts toward safety excellence with emphasis on employees, contractors, and the public
- Enhanced asset management to ensure reliability of electricity assets (generation, transmission and distribution) and as well as future capacity to accommodate power from the Lower Churchill Development (Muskrat Falls)
- Advanced efforts to secure power from Muskrat Falls for use in the province
- Advanced research on renewable/alternative power generation options for the province with environmental sustainability in mind
- Promoted energy conservation by electricity consumers as well as internal energy efficiency

Outcomes:

During the 2011-2013 planning period, Nalcor and Hydro continued to focus on safety excellence with emphasis on employees, contractors, and the public. Training programs were developed and employees participated in training to maintain and enhance their skills working with energized equipment and other high-risk work. Nalcor's safety performance continued to improve and in 2013 the company experienced its best performance in over 15 years. Employee safety communications also continued through the planning period and new communication and education materials addressing contractor and general public safety around electricity equipment were introduced.

Hydro continued its focus on asset management to ensure reliability of electricity assets with $200 million invested during the planning period to upgrade or replace assets. As well, Hydro

advanced efforts to secure power from Muskrat Falls for use in the province and in 2013 completed a power purchase agreement with Muskrat Falls.

Hydro also advanced the investigation of renewable energy sources in communities that rely on diesel generation of electricity. During the 2011-2013 planning period, the Ramea Wind-Hydrogen Diesel Energy Project produced approximately four per cent (538,647 kWh) of Ramea's energy from renewable sources; resulting in a reduction of 131,114 litres of diesel fuel. Hydro also continued to investigate renewable generation in coastal Labrador communities over the planning period. In 2013, a feasibility study was completed to assess hydroelectric potential and stream gauges were installed on the St. Lewis River and Gilbert River to collect data. Also in 2013, wind assessment towers were installed near Nain, Makkovik, Hopedale, Cartwright and L'Anse au Loup to collect data regarding local wind conditions.

During the 2011-2013 planning period, Hydro created energy savings in its own facilities and pursued initiatives to help Hydro's rural electricity residential and commercial customers as well as provincial industrial consumers conserve energy. Hydro also continued to partner with Newfoundland Power to deliver the takeCHARGE program which offers rebate programs to encourage residential and commercial customers to reduce their electricity usage.

4 Outcomes of Goals and Objectives

The 2011-2013 Strategic Plan for Nalcor and Hydro highlighted seven strategic issues around which goals and objectives were established. These issues encompass the activities of Nalcor and its subsidiaries. In general, the accomplishments outlined are for Nalcor, accomplishments specific to Hydro are noted.

For each strategic issue, the information provided in the 2011-2013 Strategic Plan is reproduced, followed by an assessment of performance during the planning period. As well, the 2013 objectives, measures and indicators outlined in the 2012 Annual Performance Report are provided along with a summary of related accomplishments.

Issue 1: Safety Leadership

A relentless commitment to safety drives all Nalcor lines of business. Achieving excellence in safety is Nalcor's number one priority and safety is a shared core value. For Nalcor, safety excellence is more than a way of operating; it is an integral part of Nalcor's identity and strategy for the future. By driving the company's strategy and operations in all lines of business, Nalcor's safety focus supports the fulfillment of the strategic directions of the Provincial Government for the energy sector.

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

Over the 2011-2013 planning period, Nalcor's safety performance continued to improve and in 2013 the company experienced its best performance in over 15 years. Many areas of Nalcor sustained excellent safety performance with zero employee injuries and the company is seeing

its safety culture mature with Nalcor employees identifying and addressing unsafe conditions and behaviours and accepting personal responsibility for their safety and the safety of others.

Nalcor has also strengthened its procedures for working around electrical and other energized equipment. The work protection code[2] (code) creates an isolated and de-energized safe work area. An updated code is fully implemented across all electricity lines and ongoing monitoring is in place for compliance. Documenting and verifying work methods for completing work safely, is also a focus for Nalcor's electricity operations. Starting in 2010, the company identified critical tasks, completed risk assessments, and began documenting and verifying work methods.

Nalcor's safety journey is one of persistence and relentless commitment across the company and at all levels from front lines to the board of directors. From 2011 to 2013, Nalcor achieved significant improvement in its safety performance and positioned the company on the threshold of reaching sustained, best-in-class safety performance. During this period, both Nalcor and Hydro were successful in reducing both the number and severity of injuries.

Nalcor will continue to establish safety targets at levels that demonstrate the company's commitment to keeping employees, contractors and the general public safe. The company will continue to mature its safety culture and at the same time ensure that best practice processes and procedures are in place to protect employees and support the safe execution of work at all times.

Goal: By December 31, 2013, Nalcor and Hydro will have enhanced employee safety programs and strengthened initiatives towards enhanced contractor and public safety.

Measure: Enhanced safety programs and initiatives

During the 2011-2013 planning period, Nalcor and Hydro strengthened safety programs and completed planned safety initiatives. Key safety targets improved and both companies significantly reduced the number and severity of workplace incidents. Safety programs and

[2] The work protection code (code) establishes conditions that, when combined with appropriate work practices, procedures and work methods will provide workers with a safe work area when working on or around electrical and other energized equipment.

communications aimed at enhancing contractor and public safety also progressed with significant emphasis placed on power line safety awareness.

INDICATORS	ACCOMPLISHMENTS
Refined existing employee, contractor, and public safety programs	During the 2011-2013 planning period Nalcor and Hydro continued to refine safety programs for employees, contractors and the public. *Employee* Over the planning period, Nalcor and Hydro worked to strengthen safety culture and advanced programs aimed at completing work safely. ▪ Safety coaching: In 2011, a new *BeSafe* safety coaching framework was launched to help build the skills required to take action on at-risk behaviours. In the 2011-2013 period, over 1,175 participants (Hydro – 455) participated in safety coaching training. ▪ Work protection code: During the planning period the code was fully implemented in electricity lines of business. Introductory and refresher code training as well as monitoring for code compliance continued throughout the planning period. ▪ Work methods: Work methods outline the tools and equipment and standard procedures for completing work, particularly high-risk work, safely. Over the planning period, task-based risk assessments were completed as planned and work methods were developed for safety critical tasks. ▪ Grounding and bonding: The grounding and bonding program identifies practices for temporary grounding of electricity generation equipment and transmission and distribution lines to provide maximum protection for workers. During the planning period, a corporate standard was developed for transmission and distribution operations and a training program implemented for line workers. Training was delivered to 74 employees in electricity lines operations (Hydro – 66). As well, in 2013 a corporate standard and training package was developed for grounding and bonding for electricity generating plants and terminal stations.

INDICATORS	ACCOMPLISHMENTS
	▪ Fall protection: In 2011, a fall protection training program was developed and received Workplace Health, Safety and Compensation Commission (WHSCC) approval. During 2012 and 2013, Nalcor completed planned fall protection training for 518 employees (Hydro – 365). ▪ Confined space: During 2012, Nalcor developed a confined space entry training program and secured WHSCC approval. In 2013, some 288 Nalcor (Hydro – 197) were trained. In 2013, Nalcor reviewed and updated its corporate confined space entry standard and training program to reflect the provisions of the provincial standard introduced in 2013. Nalcor's standard was largely compliant with the provincial standard and required only limited changes including clarification of roles and responsibilities of those involved in confined space entry. An additional enhancement was the implementation of continuous atmospheric monitoring versus the previous practice of intermittent monitoring. *Contractor* As part of Nalcor's and Hydro's commitment to safety, the companies continued to focus on the contractor safety management program for work completed by external contractors. This program outlines expectations regarding safety programs and practices and monitors contractor safety performance. During the 2011-2013 planning period, training was provided to employees overseeing the work of contractors and an electronic evaluation tool was implemented to better identify areas for improvement in all types of contracted work. In addition, supplier development sessions provided an overview of the program in order to build contractor knowledge of expectations. *Public Safety* Throughout the 2011-2013 planning period, public safety programs focused on safety communications through the Back it Up safety campaign (Hydro only), the Power Line Safety campaign, Public Safety Around Dams campaign and seasonal safety communications. Activities under these programs are summarized below.

INDICATORS	ACCOMPLISHMENTS
Enhanced communication of safety programs and initiatives	*Employee* Over the 2011-2013 planning period Nalcor enhanced communication of safety programs and initiatives to employees. The annual Safety Summit conference was held in each of the three years and involved frontline workers, union executive, supervisors, occupational health and safety committee representatives and senior management from all lines of business. In addition revised approaches were developed and communicated regarding: safety incident and near miss investigation; early and safe return to work; and safety orientation for new and temporary employees. In 2013, a three-year plan for employee safety communications was developed and the overarching brand for internal safety – *Take a Moment for Safety* was introduced. Implementation of the plan also started in 2013 with the launch of an injury prevention and awareness campaign focusing on Nalcor's top trending injuries. *External* The Public Safety Campaign for Power Line Hazards was a key focus area for the 2011-2013 planning period. This campaign, which is delivered in partnership with Newfoundland Power, the Newfoundland and Labrador Construction Safety Association, and the WHSCC, promotes power line safety to the general public as well as targeted audiences such as heavy equipment operators and contractors. A public campaign including print, radio and digital media (www.hydrosafety.ca and social media) and media interviews has been supplemented with presentations to contractors, apprentice line workers, and students training in the operation of heavy equipment. Throughout the planning period Hydro employees also delivered safety presentations at schools throughout the province. As part of its seasonal safety communications program, Hydro issued advisories regarding winter recreational safety and reservoir water levels to promote public safety around electricity facilities.

Objective: By December 31, 2013, Nalcor and Hydro will have further strengthened employee, contractor and public safety programs.

Measure: Strengthened safety programs

INDICATORS	2013 ACCOMPLISHMENTS
Assessed implementation of work protection code and identified opportunities for improvement	During 2013, the implementation of the work protection code in Hydro and Churchill Falls electricity operations was assessed as planned. The assessments completed demonstrated a high-level of understanding of the requirement for work protection and excellent compliance with the process and associated documentation. There were some instances where minor administrative errors existed in documentation and changes were made in supporting forms to clarify requirements. Corresponding changes were made to online work protection refresher training documentation to reflect these changes to forms.
Completed planned activities to maintain and enhance the competence of employees working with energized equipment and other high-risk work activities: - Delivered planned grounding and bonding training to electricity lines operations employees. - Completed fall protection and confined space entry programs training for target employees.	Maintaining and enhancing the competence of employees completing high-risk work is an ongoing priority for electricity lines of business. *Grounding and Bonding* In 2013, planned training was delivered to 74 employees in electricity lines operations (Hydro – 66). Also during 2013, a corporate safety standard and training package was developed for grounding and bonding in other electricity operations-generating plants and terminal stations. *Fall Protection/Confined Space Entry Training* Employees of Nalcor and its subsidiaries complete a variety of safety training courses to enhance or maintain the skills necessary to work safely. The training is targeted based on job requirements and the skill level of individual employees. During 2013, 180 Hydro employees participated in fall protection training and 197 completed confined space entry training.
Continued planned safety coaching training with employees.	In 2013, planned safety coaching training continued and 452 employees participated in training (Hydro – 239). The majority of existing employees have now completed this training and it is offered periodically to new employees. BeSafe safety coaching workshops help build the skills required

INDICATORS	2013 ACCOMPLISHMENTS
	to take action on at-risk behaviours by outlining a consistent approach to safety interactions and providing an opportunity to practice the approach.
Completed three-year plan for employee safety communications.	In 2013, a three-year plan for employee safety communications was developed and the overarching brand for internal safety – Take a Moment for Safety was introduced. Implementation of the plan also started in 2013 with the launch of an internal injury prevention and awareness campaign focusing on Nalcor's top-trending injuries slips, trips and falls; sprains and strains; and hand-related injuries. The campaign educates employees about the possible safety hazards that exist both within and outside the workplace. The basis of the campaign is that every day, Nalcor employees encounter hazardous situations and they must be vigilant in reducing exposure to these hazards. The campaign included employee lunch and learns, safety moments, education posters, fact sheets as well as articles in Nalcor's internal employee newsletter and corporate magazine.
Completed planned 2013 activities in three-year public safety communications strategy focusing on children's electrical safety and power line safety (Hydro).	Hydro completed planned 2013 activities in the public safety communications strategy related to children's electrical safety, power line safety, and safety around dams. These activities are presented below. *Children's Electrical Safety* As part of Hydro's continuing commitment to safety in the community, employees visited schools in Hydro's service areas to talk about electrical safety and other energy and safety related topics. Other activities related to children's electrical safety included launch of a children's electrical safety mascot, development of a page on www.hydrosafety.ca with information about children's electrical safety, and completion of a contest on Facebook. *Power Line Safety* During 2013 power line safety continued to be promoted through the Power Line Safety Campaign in partnership with Newfoundland Power, the Newfoundland and Labrador Construction Safety Association, and WHSCC. A series of focus groups held in 2012 provided feedback to enhance communication actions. These enhancements included increased use of social media, speaking engagements at

INDICATORS	2013 ACCOMPLISHMENTS
	conferences, training sessions with local fire departments and the WHSCC Trainers Course. Also, a media engagement session was held in a high-volume construction area of the province. *Dam Safety* Public safety around dams was also a focus in 2013 with a social media campaign and print advertising running around summer long weekends. In addition, key stakeholders have been identified and presentations are being delivered to educate about the critical importance of educating the public about hazards that exist around dams and reservoirs.

Issue 2: Electricity Supply

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

Asset Management/Reliability

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

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

Hydro has developed long-term asset management plans for key generation, transmission, distribution assets and supporting technology and infrastructure. These plans reflect the

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

During 2005-2013, Hydro invested over $550 million to upgrade or replace its assets. From 2011 to 2013 alone, these expenditures totalled $220 million.

Long-term Least-cost Supply

Hydro has a responsibility to assess electricity requirements in the province and recommend supply options to meet growing energy needs. The examination of available alternatives determined that an interconnection to Labrador via a High-Voltage direct current (HVdc)[3] link bringing power from the Muskrat Falls hydroelectric generating station was the least-cost option for electricity customers.

During the 2011-2013 planning period, Hydro advanced arrangements to secure access to Muskrat Falls energy and in 2013 completed a power purchase agreement.

Environmental Sustainability

In addition to being the long-term least-cost alternative, with Muskrat Falls the Newfoundland and Labrador electricity system will be run on 98 per cent renewable, emission-free energy. In addition during the 2011-2013 planning period, Hydro pursued a number of initiatives aimed at environmental sustainability.

Investigation of alternative energy sources in communities that rely on diesel generation of electricity advanced during the 2011-2013 planning period. In 2009, the Government of Newfoundland and Labrador and Hydro completed the Coastal Labrador Alternative Energy study to investigate the potential for the integration of alternative energy sources, including solar, wind and mini-hydroelectric facilities into isolated Labrador communities that rely on diesel as a primary means of electricity generation. During the planning period, work continued

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

to investigate renewable electricity generation in coastal Labrador communities. Monitoring to assess hydroelectric potential is being completed on the Gilbert River and the St. Lewis River near the communities of Charlottetown, Port Hope Simpson and Mary's Harbour in Labrador. Wind monitoring is ongoing at sites in Nain, Makkovik, Cartwright and L'Anse au Loup. Data collection will continue until 2015.

The Ramea Wind-Hydrogen-Diesel Energy research and development project was also advanced during the 2011-2013 period. The objective of this project is to integrate diesel generators with wind turbines and hydrogen equipment and use renewable generation to offset diesel fuel requirements and also reduce Hydro's carbon footprint as well as other emissions. The first phase of this project, which began in 2009, focused on integrating the community's existing diesel generators with wind turbines and hydrogen technology. During the planning period, renewable energy generated from all components was used to reduce diesel fuel requirements.

Hydro's commitment to environmental sustainability also includes promoting energy conservation. During the 2011-2013 planning period, Hydro created energy savings in its own facilities and pursued initiatives to help Hydro's rural electricity residential and commercial customers as well as provincial industrial consumers conserve energy. Hydro also continued to partner with Newfoundland Power to deliver the takeCHARGE program which offers rebate programs to encourage residential and commercial customers to reduce their electricity usage. Residential programs include rebates for insulation upgrades, Energy Star® windows, thermostats and heat recovery ventilators. Commercial programs include discounted lighting, product rebates for thermostats, occupancy sensors and high performance shower heads. As well, free technical support was offered to help commercial customers identify electricity savings projects. Hydro's Isolated System Community Energy Efficiency Program, which helps residential and commercial customers in isolated communities save energy, provided assistance during both 2012 and 2013. Over the planning period, Hydro also delivered the Industrial Energy Efficiency Program (IEEP) which provides industrial electricity customers with financial assistance to complete feasibility studies and capital upgrades to achieve energy savings. Hydro also provided technical support to assist industrial customers in identifying and assessing energy savings projects through this program. An evaluation of IEEP was initiated in 2013 to assess its effectiveness and determine the appropriate approach to promote energy conservation by industrial customers moving forward.

Goal: By December 31, 2013, Hydro will have progressed milestones towards a reliable and cost-effective electricity supply for the province.

Measure: Progressed milestones.

During the 2011-2013 planning period, Hydro's strategy focused on electricity infrastructure investment and renewal to address the challenge of aging assets. As well, Hydro completed a power purchase agreement to secure a long-term, least-cost supply of electricity from Muskrat Falls. During the planning period, Hydro also advanced the investigation of renewable energy sources in communities that rely on diesel generation of electricity and pursued energy efficiency initiatives for residential, commercial and industrial customers and for Hydro's own facilities.

INDICATORS	ACCOMPLISHMENTS
Enhanced asset management.	In the 2011-2013 planning period, Hydro enhanced its approach for managing assets over their lifecycle and made the investments required for reliable, cost-effective electricity. The company enhanced its asset management approach by completing formal asset condition assessments and incorporating this information, along with other information regarding asset health and performance, into five-year plans for capital investments. Hydro also established and matured technical and functional councils to share knowledge and best practices. For 2011-2013, Hydro invested some $220 million in asset replacement and renewal. This investment upgraded and replaced electricity generation, transmission and distribution assets, as well as supporting technology and infrastructure.
Completed milestones to facilitate access to Muskrat Falls energy.	During the 2011-2013 planning period, Hydro completed planned milestones to facilitate access to Muskrat Falls energy. Early in the planning period, Hydro worked to identify commercial terms for delivery, payment, pricing and performance standards. In 2013, Hydro and the Muskrat Falls Corporation entered into a power purchase agreement. The agreement contains detailed provisions allowing Hydro the flexibility required to meet Newfoundland and Labrador's power requirements.

INDICATORS	ACCOMPLISHMENTS
	Hydro also advanced planning and budgeting activities regarding the electricity system upgrades/modifications required to support integration of Muskrat Falls energy during the planning period. Integration studies by consulting engineering firms were advanced to determine the requirements for system upgrades including circuit breaker replacements, Soldier's Pond connection configuration and synchronous condenser requirements. Analysis was also advanced to confirm the requirement for a new transmission line between Bay d'Espoir and the western Avalon for system reliability.
Enhanced programs to support environmental sustainability.	*Muskrat Falls* Access to Muskrat Falls energy will enable Hydro to meet the province's energy needs with 98 per cent renewable, emission-free energy. *Ramea Wind-Hydrogen Diesel Energy Project* As noted, the objective of this project is to integrate diesel generators with wind turbines and hydrogen equipment and use renewable generation to offset diesel fuel requirements. During the 2011-2013 planning period, the project produced approximately four per cent (538.647 kWh) of Ramea's energy from renewable sources; resulting in a reduction of 131,114 litres of diesel fuel. In 2013, Nalcor received funding from ACOA, through the Atlantic Innovation Fund for phase two of the project. This phase will take place over a five year period and will involve the installation and integration of a hydrogen fuel cell to the existing system to further enhance operations. *Coastal Labrador Renewable Generation* During the planning period, work also continued to investigate renewable generation in coastal Labrador communities. In 2013, a feasibility study was completed to assess the hydroelectric potential near the communities of Charlottetown, Mary's Harbour and Port Hope Simpson. As well, stream gauges were installed on the St. Lewis River and Gilbert River. Also in 2013, wind assessment towers were installed near Nain, Makkovik, Hopedale, Cartwright and L'Anse au Loup to collect data regarding local wind conditions. *Energy Efficiency*

INDICATORS	ACCOMPLISHMENTS
	▪ TakeCHARGE: Over the planning period, Hydro and Newfoundland Power worked in partnership to deliver the takeCHARGE energy efficiency program. During the 2011-2013 period, Hydro customers received 900 rebates for insulation, Energy Star® windows, high efficiency and programmable thermostats. As well, in the same period a program to support commercial customers to make more energy efficient lighting choices provided incentives for over 21,600 lighting products used by Hydro customers. ▪ Coastal Labrador Energy Efficiency Program: In 2011, Hydro also delivered the Coastal Labrador Energy Efficiency Program on behalf of the provincial Department of Natural Resources. This program provided education and advice to residential and commercial customers and also offered direct installation of lighting and water heating savings items in homes. ▪ Isolated Systems Energy Efficiency Program: During 2012 and 2013, Hydro delivered its Isolated Systems Energy Efficiency Program to help homeowners and small businesses in communities served by diesel systems in Labrador and the island. Over the two years, over 2,500 home and business customers benefitted from the installation of energy efficient technologies free of charge. ▪ Isolated Systems Business Efficiency Program: In 2012 and 2013, Hydro's Isolated Systems Business Efficiency Program (ISBEP) completed more than 40 commercial facility audits to help customers identify energy efficiency opportunities. Two retrofit projects identified through the audits have been completed resulting in savings of 29 MWh per year. As well, a number of other projects are currently being explored further. ▪ Industrial Energy Efficiency Program: The Industrial Energy Efficiency Program provided assistance to industrial electricity customers in the 2011-2013 planning period. During the planning period, two energy savings projects were completed resulting in annual savings of 3.3 GWh of electricity. As well, feasibility studies were completed to review compressed air system optimization and pump sizing assessment and consolidation. Hydro also held an employee engagement partnership event with one of its industrial

INDICATORS	ACCOMPLISHMENTS
	customers to encourage energy efficiency in the workplace. The IEEP closed to new project submissions in the fall of 2013 and an evaluation was initiated to determine the future approaches to promoting energy conservation by industrial customers. ▪ Block Heater Timer Rebate Program: The engine block heater timer[4] rebate program was delivered in both 2012 and 2013. This program provided both free and discounted block heater timers to customers in the Labrador Interconnected System where block heaters are frequently used. Total savings from the program and subsequent retailer coupon redemption was estimated at 288 MWh. ▪ Internal Energy Efficiency: During the 2011-2013 planning period, Hydro also identified and implemented measures to reduce energy use in Hydro facilities. Measures including heating and cooling system optimization, lighting upgrades and controls resulted in energy savings of 1.28 GWh during the planning period.

Objective: By December 31, 2013, Hydro will have further enhanced its asset management activities, completed additional planning activities to support access to Muskrat Falls energy and progressed select environmental sustainability initiatives.

Measure 1: Completed planned initiatives to support enhanced asset reliability.

INDICATORS	2013 ACCOMPLISHMENTS
Completed required updates to five-year plan for capital investments.	In 2013 Hydro completed updates to the five year plan for capital investments to establish the 2014-2018 five-year capital plan. The 2014-2018 plan outlines the timing, scope and cost for capital investments and reflects the latest data about asset condition and performance. This updated plan was the basis for preparing the 2014 capital budget for the company. An example of an update to Hydro's five-year plan for capital investments was advancing the replacement of the exterior coating on a surge tank at the Bay d'Espoir hydroelectric generating plant from 2015 to 2014 based a condition assessment of the tank that highlighted exterior corrosion.

[4] Block heater timers are installed on vehicle engine block heaters to manage the period the block heater operates.

INDICATORS	2013 ACCOMPLISHMENTS
Completed 2013 priorities outlined in the asset management implementation plan.	Partially completed. In 2013, Hydro completed the following priorities outlined in the asset management implementation plan: ▪ Incorporated formal condition assessments and other information regarding asset health and performance into the five-year plan for capital investments. ▪ Assessed asset management progress in areas of Hydro to identify focus areas for the next planning period. Hydro's focus areas include root cause and repeat failure analysis, long and short-term integrated planning and scheduling, and lubrication program assessment. ▪ Progressed initiative to complete formal criticality ranking of Hydro's assets. This assessment will enable Hydro to focus performance improvement efforts and resources to the areas that are most critical to the organization. ▪ Continued to mature existing technical and functional councils that share knowledge and best practices. Several areas of the company advanced but did not complete planned work on assessing asset criticality due to the large number of small assets involved. These areas focused their attention on higher priority assets and will continue work on other assets in 2014. In addition to the 2013 priorities, Hydro did advance several priorities originally planned for 2014 including establishing several new councils and integrating asset management training into employee personal development plans.
Completed planned investments in Hydro assets.	In 2013, Hydro invested $80.6 million to upgrade electricity generation, transmission and distribution equipment and supporting assets. This expenditure was below the $116 million budgeted for 2013. Project cost reductions for completed projects account for a significant portion of the lower than budgeted expenditures. A number of 2013 projects were delivered at lower than budgeted cost as a result of the following factors: ▪ lower than estimated costs for equipment, labour and contingency;

INDICATORS	2013 ACCOMPLISHMENTS
	▪ execution efficiencies[5] realized during project execution; and, ▪ favorable tender pricing obtained through the competitive bid process. Several other factors also contributed to expenditures below budget. A number of projects were delayed as a result of late equipment delivery resulting in carryover of some planned 2013 work into 2014. Other planned work was deferred when electricity system constraints prevented the equipment outages required to complete work without impacting safety and system reliability.

Measure 2: Completed planned activities related to accessing power from Muskrat Falls

INDICATORS	2013 ACCOMPLISHMENTS
Further advanced commercial arrangements to secure access to Muskrat Falls energy.	In 2013, Hydro finalized commercial arrangements to secure access to Muskrat Falls energy. The power purchase agreement (PPA) provides for the purchase by Hydro of energy, capacity, ancillary services and greenhouse gas credits. The PPA ensures Hydro access to available energy as required to meet Newfoundland and Labrador load during the contract term.
Completed required electricity system engineering and design activities to support integration of Muskrat Falls energy.	In 2013, Hydro completed the required electricity system engineering and design activities to support integration of Muskrat Falls energy. During the year, Hydro completed significant engineering analysis, including stability and load flow studies, to assess the best transmission option to ensure optimal reliability levels once the island is connected to Labrador in order to confirm the need for a new transmission line from Bay d'Espoir to the western Avalon.

[5] Includes saving from the Holyrood Marine Terminal project where an alternate repair method resulted in a significant reduction in contract cost.

Measure 3: Completed planned environmental sustainability initiatives

INDICATORS	2013 ACCOMPLISHMENTS
Continued collection and analysis of data collected from the Ramea Wind-Hydrogen Diesel Energy Project.	Hydro continued to collect and analyse data collected from the Ramea Wind-Hydrogen Diesel Energy Project during 2013.[6] During 2013, the project successfully produced 110,900 kWh of renewable energy continuing to reduce diesel fuel consumption in Ramea. Data analysis in 2013 demonstrated that continued reliability issues with the hydrogen generator system will need to be resolved in order to have a fully operational and optimized EMS. These analyses lead to a second phase of the project.
Completed feasibility study of potential hydroelectric projects for Labrador coastal communities.	During 2013, Hydro continued to investigate alternative energy sources in communities that rely on diesel generation of electricity. The feasibility study of potential hydroelectric projects for southern Labrador coastal communities was completed as planned in 2013 and a requirement for additional data was identified. In 2013, stream gauges were installed on the St. Lewis River and Gilbert River near the communities of Charlottetown, Port Hope Simpson and Mary's Harbour. These gauges will collect data regarding water levels and stream flows to validate the assumptions in the feasibility study. Data collection will continue until 2015 and Hydro will review if the resulting data has any impact on the feasibility study results.
Completed planned site selection and approvals process to advance Coastal Labrador Wind Monitoring Program.	The investigation of wind as an alternative energy source in communities that rely on diesel generation of electricity was also advanced as planned in 2013. Hydro completed the planned site selection and approvals to advance the Coastal Labrador Wind Monitoring Program. Also in 2013, wind assessment towers were installed in Nain, Makkovik, Hopedale, Cartwright and L'Anse au Loup to collect the data regarding local wind conditions. This information is required to assess the feasibility of integrating wind energy into these diesel communities; data collection will continue until 2015.

[6] Data analysis is required to optimize the Energy Management System (EMS), which is the control system that dispatches the different generation sources. By optimizing the EMS, Nalcor will be able to maximize the amount of renewable energy produced.

INDICATORS	2013 ACCOMPLISHMENTS
Completed an evaluation of the Industrial Energy Efficiency Program (IEEP) and determined next steps for gaining energy efficiency savings with industrial customers.	Partially completed. In 2013 Hydro began a third party evaluation of the Industrial Energy Efficiency Program (IEEP). CLEARresult, a conservation and efficiency consultant that works in program design and review and have extensive industrial sector experience, was engaged. In 2013, the consultant completed surveys with Hydro's industrial customers and energy efficiency program staff. However, due to scheduling challenges with industrial customer representatives, survey completion was delayed until late in the year and the evaluation could not be completed as planned in 2013. The IEEP evaluation will be finalized in 2014 and Hydro will determine the appropriate approach to promote energy conservation by industrial customers.
Delivered residential and commercial customer rebate programs pending PUB approval of the proposed Five Year Conservation and Demand Management Plan.	In 2013, Hydro continued to implement the activities outlined in the Five Year Conservation and Demand Management (CDM) Plan filed with the PUB in 2012. These activities included the joint utility program offerings for residential and commercial customers through the takeCHARGE program as well as Hydro's own energy efficiency programs. In addition, in late 2013 a joint utility Business Efficiency Program was launched to provide technical and financial support for energy efficient upgrades. In 2013 the takeCHARGE energy efficiency program continued to be very successful with 271 rebates insulation upgrades and Energy Star windows and thermostats for residential customers of Hydro and more than 1,000 rebates for efficient lighting technologies purchased by Hydro's commercial customers.
Continued delivery of the Isolated Systems Community Energy Efficiency Program to promote energy efficiency to residential and commercial customers in Hydro's isolated systems.	In 2013, Hydro continued delivery of the Isolated Systems Community Energy Efficiency Program. This program promotes energy efficiency to residential and commercial customers in communities served by diesel electricity systems in Labrador and the island. During 2013, 1,153 home and business customers benefitted from the installation of energy efficient technologies free of charge. The Isolated Systems Business Efficiency Program (ISBEP) was also delivered in 2013 providing facility audits and technical support to identify energy efficiency opportunities and assess their economics. ISBEP also provides financial support for capital upgrades. In 2013, more than 40 commercial facility

INDICATORS	2013 ACCOMPLISHMENTS
	audits were completed to inform customers of opportunities for incentives and 2 projects were completed resulting in annual savings of 26 MWh. In addition, the block heater timer (BHT) rebate program was delivered in 2013. In 2013 a survey was conducted to verify the installation and use of the block heater timers provided during the launch giveaway in 2012. Sixty-three per cent of customers indicated using the timer which Hydro sees as a positive result. In total, savings estimated from the program and subsequent retailer coupon redemption for the timers was 288 MWh for 2013.

Issue 3: Upper Churchill asset management and Power Contract adjustments

The Churchill Falls generating station is one of the largest underground hydroelectric powerhouses in the world with 5,428 MW of capacity used by millions of consumers in North America. Nalcor, through its subsidiary, Hydro, holds a 65.8 per cent interest in Churchill Falls (Labrador) Corporation Limited (CF(L)Co), with Hydro-Québec holding the remainder. In 2013, Churchill Falls net income was $23.2 million, representing 24 per cent of Nalcor net income.

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

Asset Management

In 2011, Churchill Falls celebrated 40 years since first power. With the plant and related infrastructure aging, asset management is critical to keeping assets in reliable operating condition to provide reliable service to customers for the long-term and to ensure assets are fully functional well beyond the expiry of current commitments in 2041. From 2005-2013, $193.5 million was invested to upgrade or replace Churchill Falls assets with annual capital expenditures increasing during the period by 440 per cent to $49.4 million in 2013.

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

Falls five-year capital plan informed the increased investment noted above and the plan is reviewed annually and updated to reflect new information that could impact the timing or scope of future asset investments.

Upper Churchill Power Contract – Legal Actions

A power contract with Hydro-Québec dated May 12, 1969, provides for the sale of almost 90 per cent of the energy from the Churchill Falls facility to Hydro-Québec. Presently, the purchase price under the Power Contract is one-quarter of one cent per kilowatt hour and the automatic renewal clause fixes the purchase price at one-fifth of one cent for a 25 year period beginning in 2016. This will mean, for the remainder of the Power Contract, power will be sold to Hydro- Québec for less than five per cent of its present commercial value.

In 2009, CF(L)Co formally requested that Hydro-Québec enter into discussions to amend the pricing terms for the remainder of the 1969 Power Contract. Hydro-Québec did not respond and therefore, in early 2010, CF(L)Co filed a motion against Hydro-Québec in Quebec Superior Court seeking to change, as of November 2009, the pricing terms for the remaining term of the Power Contract. It is the position of CF(L)Co that the circumstances since the original contract was signed have changed in ways that could not have been anticipated by the parties, and have resulted in an inequitable distribution of the contractual benefits in favour of Hydro-Québec. This situation, combined with the obligation under the Quebec Civil Code to act in good faith throughout the term of a contract, CF(L)Co believes obliges Hydro-Québec to renegotiate the pricing terms of the contract to re-establish the equilibrium of benefits.

The trial finished on December 16, 2013. It is expected that the decision of the court will be received within six to eight months of that date. After the decision has been handed down, the unsuccessful party will have 30 days to consider whether or not it will be appealing the decision and, if so, to file a Notice of Appeal.

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

Goal: By December 31, 2013 Churchill Falls will have advanced long-term asset renewal and completed preparations for the Upper Churchill Power Contract trial.

Measure: Pursued opportunities for the Upper Churchill to make a greater economic contribution to the province

During the 2011-2013 planning period, Churchill Falls continued to invest in electricity generation and transmission assets as well as supporting technology and infrastructure. During the planning period capital investments totalled nearly $143 million. Also during the planning period, preparations were completed for the Upper Churchill Power Contract trial and CF(L)Co participated in the trial which ended on December 16, 2013.

INDICATORS	ACCOMPLISHMENTS
Advanced long-term asset renewal.	During the 2011-2013 planning period, Churchill Falls advanced the renewal of its electricity generation, transmission and other infrastructure with the investment of nearly $143 million. Multi-year replacement programs for transformers, switchyard equipment, dykes, dams and control structures as well as high-voltage cabling were a focus for this period.
Completed preparations for the Upper Churchill Power Contract trial.	During the 2011-2013 planning period, Churchill Falls completed preparations for the Upper Churchill Power Contract trial and participated in the trial during the fall of 2013. In 2011, preparations included commencement of discovery with Hydro-Québec personnel and in 2012 when the discovery of witnesses was completed all pre-trial documents were filed by CF(L)Co. As well, in 2012 the parties each filed a Certificate of Readiness for Trial. In 2013, CF(L)Co completed preparations and participated in the trial which ended on December 16, 2013. Churchill Falls is currently waiting for the decision of the court.

Objective: By December 31, 2013, Churchill Falls will have completed planned 2013 capital investments to support long-term asset reliability and began Upper Churchill Power Contract trial scheduled for fall 2013.

Measure: Completed planned capital investments

INDICATORS	2013 ACCOMPLISHMENTS
Refreshed five-year capital plan as required.	During 2013, Churchill Falls refreshed the 2013-2017 capital plan to create a plan for 2014-2018. Planned projects are updated on an annual basis and as required based on condition assessments and risk assessments. An example of an update to the 2014-2018 plan involved the timing for the replacement of two transformers in Churchill Falls. Findings from a dissolved gas analysis of oil in one transformer resulted in a risk assessment that increased the priority of replacing this transformer. As a result, the transformer originally planned for replacement in 2015 will be replaced in 2014 and the second transformer will be replaced in 2015.
Completed planned 2013 capital investments.	In 2013, Churchill Falls completed capital investments of over $49.4 million compared to $52.3 million budget planned for the year. This performance against budget was an improvement over 2012. The lower than budgeted costs in 2013 resulted from the deferral of some planned work on multi-year projects to 2014 and cancellation or scope reduction for several other projects. These decisions reflected Churchill Falls focus on completing high priority work within the total budget. Cost and schedule savings also resulted from the multi-year contracting strategy being executed by Churchill Falls. Multi-year contracts exist for key electricity equipment including transformers, switchyard equipment and high-voltage cables.

Measure: Prepared for Upper Churchill Power Contract trial.

INDICATORS	2013 ACCOMPLISHMENTS
Complete required preparations for the Upper Churchill Power Contract trial and began trial scheduled for fall 2013.	In 2013, Churchill Falls completed preparations for the Upper Churchill Power Contract trial and participated in the trial. The trial ended on December 16, 2013. Churchill Falls is currently waiting for the decision of the court. Also in July of 2013 Hydro-Québec filed a Motion in Quebec Superior Court seeking a Declaratory Judgement with respect to the Power Contract. CF(L)Co has commenced activities with respect to defending this Motion.

Issue 4: Oil and gas interests, exploration and development

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

Nalcor's subsidiary, Nalcor Energy – Oil and Gas, currently manages oil and gas interests in three developments offshore Newfoundland and Labrador. Nalcor holds a five per cent working interest in the White Rose Growth Project. This project includes the North Amethyst field, West White Rose Extension and South White Rose Extension. The company also has a 10 per cent working interest in the Hibernia Southern Extension (HSE) and is a co-venturer in the Hebron oil field holding a 4.9 per cent working interest in the province's fourth offshore oil project. Total production in 2013 was above target at 657,000 barrels and net income was $37.5 million, 39 per cent of Nalcor net income.

Nalcor has also developed a multi-year strategy that outlines priorities for increasing exploration interest in the province. This strategy aims to encourage more exploration and drilling by international exploration and production companies through investment in the provision of high-quality seismic data.

Offshore Developments

The three offshore developments in which Nalcor is a partner reached significant milestones over the 2011-2013 planning period.

2011

- White Rose Growth Project
  - First oil West White Rose Extension pilot.
  - North Amethyst Hibernia Formation (North Amethyst Field) development plan amendment submitted.
- Hibernia Southern Extension first oil.
- Hebron project development plan submitted and public hearings completed.

2012

- White Rose Growth Project
    - Development plan amendments for both the North Amethyst (Hibernia Reservoir) and South White Rose Growth Project submitted.
- Hibernia Southern Extension
    - Completed planned fabrication and construction activities including completion of the excavated drill centre.
- Hebron project development plan approval received and project sanctioned.

2013

- White Rose Growth Project
    - West White Rose Extension front-end engineering design completed for the wellhead platform.
    - North Amethyst (Hibernia reservoir) drilling started.
- Hibernia Southern Extension
    - Subsea installation completed and drilling operations started.
- Hebron project began topsides and gravity-based structure construction.

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

Exploration

Oil and gas exploration, when successful, can lead to significant discoveries and new developments. Nalcor's exploration strategy is driven by a plan to replace reserves that have been produced, add sufficient reserves to allow for growth in production, and discover new resources that will provide the basis for a long term industry that yields significant economic benefits for the people of the province.

The availability of quality well and seismic data is a critical step to exploration. To date, the amount of geoscientific data collected and the number of exploratory wells drilled in offshore Newfoundland and Labrador are significantly lower than in areas such as offshore United Kingdom or Norway. Despite similar discovery rates and larger sedimentary basin areas in

offshore Newfoundland and Labrador, historic exploration activity in our offshore has only been about five to ten per cent of the exploration activity that has taken place in the North Sea.

Significant milestones were reached for Nalcor's exploration strategy over the 2011-2013 planning period.

2011

- Completed regional satellite oil seep[7] mapping collecting data from over 1.5 million square kilometres of the offshore area of Newfoundland and Labrador linking to southwest Greenland.
- Advanced North Atlantic plate reconstruction[8] project with partners and completed a planned workshop and technical reviews.
- Developed an integrated Exploration Strategy System (NESS) that provides systematic scoring of Newfoundland and Labrador's frontier basins on both the potential for new discoveries and the level of industry knowledge about the basin's petroleum potential.
- Reprocessed legacy seismic data from both Western Newfoundland and the Grand Banks using the latest technologies to inform a more accurate understanding of the petroleum potential of a basin.
- Developed a position paper with the Department of Natural Resources on the federal *Coasting Trade Act*[9] and presented it to key provincial and federal officials. Also completed international benchmarking studies and analysis on other policy issues, including land tenure and access to infrastructure.
- Initiated large-scale multi-client 2D seismic survey offshore Newfoundland and Labrador and acquired 10,700 kilometres of data.

[7] Following the study of data interpreted seeps (deemed to be natural oil seeps as opposed to oil resulting from ship traffic or other man-made spills) were added to a database with other exploration data that be licensed by oil exploration companies.
[8] Plate reconstruction provides data to support oil and gas exploration. The Plate Reconstruction Project provides a structural image of the early stages of basin evolution and shows the history of a basin's structural development. This project is jointly funded by the Irish Petroleum Studies Group and Nalcor (on behalf of the Offshore Geoscience Data Program, Government of Newfoundland and Labrador).
[9] The Act inadvertently impeded the ability of the oil and gas industry in offshore Newfoundland and Labrador to use modern, high-technology internationally flagged vessels for new seismic acquisition. Nalcor and the Department of Natural Resources advocated for a change and following consultation, the Federal Government amended the law to exempt seismic vessels from the *Coasting Trade Act* to bring Canada in line with the United States, the United Kingdom and Norway. Subsequent to this change in 2012, there has been a material increase in exploration seismic activity in Newfoundland and Labrador's offshore.

2012

- Completed two-year 22,000 kilometre seismic data acquisition program offshore Labrador.
- Acquired initial 7,500 kilometres of seismic data over the Orphan Basin to the Flemish Pass.
- Completed ranking of all Newfoundland and Labrador basins based on prospectivity and knowledge level.
- Discovered three new basins offshore Labrador.

2013

- Announced the discovery of three newly defined basins in the Labrador Sea – Henley, Chidley and Holton. These new basins, together with the redefinition of the previously discovered Hawke basin, more than doubled the basin area offshore Labrador. This was announced to the Newfoundland and Labrador Oil and Gas Industries Association in January 2013.
- Completed 17,000 kilometres of seismic data acquisition to bring the three year total to 47,000 line kilometres, one of the largest regional seismic programs globally.
- Nalcor and partners presented 11 conference papers regarding ongoing exploration geoscience work offshore Newfoundland and Labrador to leading international geoscience conferences.
- Worked with the Provincial Government to identify strategies to increase exploration in the Newfoundland and Labrador offshore. New scheduled land system announced by Canada-Newfoundland Offshore Petroleum Board (CNLOPB) in December 2013.
- Positive early industry interest in Nalcor invested seismic data resulted in revenues materially in excess of plan.

Goal: By December 31, 2013 Nalcor Energy-Oil and Gas will have maximized opportunities for oil and gas developments and exploration.

Measure: Maximized oil and gas development and exploration opportunities.

During the 2011-2013 planning period, Nalcor managed its offshore interests and the White Rose Growth Project, Hibernia Southern Extension and the Hebron project progressed through the planning period. Nalcor also advanced efforts to encourage exploration in Newfoundland and Labrador's basins.

INDICATORS	ACCOMPLISHMENTS
Managed offshore interests.	During the 2011-2013 planning period, Nalcor managed its interests and supported the achievement of significant milestones for all three offshore developments. *White Rose Growth Project* As noted, the White Rose Growth Project includes the North Amethyst field, West White Rose Extension and South White Rose Extension. In 2011, West White Rose achieved first oil. Progress continued in 2012 with development plan amendments (DPA) filed with the CNLOPB for both North Amethyst (Hibernia reservoir) and South White Rose Extension. In 2013, the DPAs were approved and FEED was completed for the wellhead platform for the West White Rose Extension. Nalcor also participated in the successful completion of the benefits agreement for the project as well as the process for achieving partner alignment on the development concept. In late 2013, the Argentia graving dock construction was sanctioned. Over the 2011-2013 planning period, Nalcor production from the White Rose Growth Project totalled 1,676,402 barrels. *Hibernia Southern Extension* In 2011, first oil was achieved for Hibernia Southern Extension. Throughout 2012, planned fabrication and construction activities were completed including completion of the excavated drill centre. Subsea installation was completed in 2013 and drilling operations started. Over the 2011-2013 planning period, Nalcor production from the Hibernia Southern Extension totalled 374,128 barrels. *Hebron* In 2011, the Hebron project development plan was submitted and public hearings were completed. In 2012, the development plan approval was received and the project was sanctioned. Subsequently in 2013, topsides and gravity-based structure construction started.
Advanced efforts to support exploration activity.	During the 2011-2013 planning period, Nalcor completed planned activities in its exploration strategy to support exploration activity in the province. The summary above highlights these activities.

Objective: By December 31, 2013 Nalcor Energy-Oil and Gas will have worked with its partners to advance project milestones, including the Hebron construction process, and progressed seismic data acquisition and analysis activities.

Measure: Promoted work plans and budgets and further advanced exploration strategy.

INDICATORS	2013 ACCOMPLISHMENTS
Worked with partners in the three offshore developments that Nalcor holds working interest to support achievement of key project milestones: ▪ White Rose – Determination of concept for field extension. ▪ Hebron project – Advanced detailed engineering and began GBS and topsides construction. ▪ Hibernia Southern Extension – Subsea equipment Installation.	*White Rose Growth Project* The development concept for the West White Rose Extension was selected in 2013. The wellhead platform, instead of the subsea development originally planned, offers the opportunity to increase recoverable oil and extend field life. Nalcor participated in the process for achieving partner alignment on the development concept. Also in 2013, the construction of a graving dock in Argentia was sanctioned. The graving dock and gates will enable the construction of the wellhead platform concrete gravity structure and will also add a significant piece of infrastructure in the province for future industrial work. *Hebron* The Hebron project was sanctioned in late 2012. During 2013, detailed engineering was completed as planned and construction of the topsides and GBS started. The Hebron project is estimated to return approximately $23 billion to the Provincial Government in royalties, return on investment through Nalcor, and corporate income tax. *Hibernia Southern Extension* In 2013, the installation of subsea equipment for the Hibernia Southern Extension was completed as planned and drilling operations started. As well, the Ben Nevis-Avalon project was sanctioned.
Completed planned 2013 activities outlined in the multi-year exploration strategy: data acquisition including completion of the north-east Newfoundland slope 2012-2013 regional seismic program, data assessment	Completed planned 2013 activities outlined in the multi-year exploration strategy. *Data Acquisition* Completed 2013 regional seismic program including north-east Newfoundland slope. Total data acquisition of 17,000 kilometres in 2013 brought the three-year program total to 47,000 line kilometres.

INDICATORS	2013 ACCOMPLISHMENTS
including continuation of basin analysis activities for offshore Labrador and north-east Newfoundland slope, and exploration policy support to attract and accelerate global exploration investment in Newfoundland and Labrador.	*Data Assessment* Basin analysis activities for offshore Labrador and north-east Newfoundland slope continued in 2013. Studies included regional seismic interpretation, geopressure analysis, rock physics analysis, and biostratigraphic analysis. These studies were undertaken to scientifically assess the petroleum potential of frontier basins. As well, the 2012 discovery of three new basins and the redefinition of the previously established Hawke basin was announced to industry in early 2013. *Exploration Policy Support* Worked with the Provincial Government to identify strategies to increase exploration activities including completing research of global best practices from leading exploration jurisdictions regarding a scheduled exploration land tenure system for the Newfoundland and Labrador offshore. A new scheduled land system was announced by Canada-Newfoundland Offshore Petroleum Board (CNLOPB) in December 2013. Announcing scheduled land sales in a predictable and structured fashion puts the province in charge of the process while fostering a more competitive environment for access to the province's resources.

Issue 5: Lower Churchill development

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

The lower Churchill development plays a key role in supporting the fulfillment of several strategic directions of the Provincial Government. The development of clean, renewable energy through the Lower Churchill Project supports the strategic direction related to

responsible resource development. The project will also continue to support social license through adequate stakeholder consultation and engagement. Increased participation in energy developments supports the outcome of ensuring maximum benefits to the province through the strategic development of the province's resources, while providing a stable and competitive energy supply for domestic use and export to markets.

Muskrat Falls Project

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

The Muskrat Falls Project was sanctioned by the Government of Newfoundland and Labrador in 2012. Construction commenced in late 2012 and is expected to take approximately five years to complete.

Several major milestones for the Muskrat Falls Project were achieved in 2013. At Muskrat Falls, excavation of the powerhouse, intake and spillway area was completed as was construction of the first cofferdam. For transmission work in Labrador, right-of-way clearing began between Muskrat Falls and Churchill Falls. Work on the Labrador-Island Link (LIL) included civil work in the Strait of Bell Isle and start of the horizontal directional drilling program in Shoal Cove.

In November, the Nova Scotia Utility and Review Board approved the Maritime Link and Energy Access Agreement between Nalcor and Emera. The year concluded with the completion of the federal loan guarantee, long-term debt financing and equity financing for the project. Achieving this milestone provides certainty with respect to how the project will be financed and the cost of financing over the next 40 years. The loan guarantee will result in estimated savings of over $1 billion in interest costs for ratepayers and contribute to stable electricity rates for customers in the province.

In addition to meeting the province's energy needs, the Muskrat Falls Project will provide electricity for future developments and promote jobs and benefits for the people of Newfoundland and Labrador. This development will generate economic benefits in every corner of the province, including $1.9 billion in income to labour and business, with approximately $500 million of this to be earned by Labradorians and Labrador-based businesses. The provincial economy will also benefit from employment associated with building

the Muskrat Falls hydroelectric generating facility and the transmission links, with 9,100 person-years of direct employment, including 5,800 person-years in Labrador**.**

In 2013, employment on the Muskrat Falls Project peaked in September with 1,682 people working on all components of the project. During that month, 1,593 of the total project workforce were Newfoundland and Labrador residents accounting for 95 per cent of the total peak workforce in that month. There were 1,122 people working directly in Labrador and of these, 462 (41 per cent) were Labrador residents.

In 2013, employment of women peaked in August at 274 accounting for 18 per cent of the workforce in that month. In October, employment of Labrador Aboriginal people reached a peak of 222 workers and 105 of these workers were members of the Labrador Innu Nation.

Aboriginal Affairs

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

All joint Nalcor-Innu Nation committees required under the IBA have been established. By the end of December 2013, procurement commitments outlined in the IBA with the Labrador Innu Nation were exceeded and contracts with a projected value of over $300 million awarded to that date to Innu businesses.

Processes and personnel have been put in place to support Innu employment and as noted above, in October 2013 105 workers at the Muskrat Falls site were members of the Labrador Innu Nation. Nalcor will continue to work with the Labrador Aboriginal Training Partnership and contractors to provide training to enable Labrador Aboriginal people to be qualified for positions at Muskrat Falls construction site.

Environment

In 2013, Nalcor received release from the environmental assessment[10] for the Labrador-Island Transmission Link project from the governments of Newfoundland and Labrador and Canada. The transmission project was released from environmental assessment by the provincial and federal governments in June and November 2013 respectively. Nalcor is incorporating the terms and conditions outlined in the governments' responses into the project design and planning work.

[10] Environmental Assessment is a regulatory review and planning process administered by the federal and provincial governments for identifying the potential environmental and socioeconomic effects of proposed development projects and to inform project planning and decision making.

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

Engineering, Procurement and Construction

Detailed project engineering work for the Muskrat Falls Project was significantly completed in 2013 with carry on engineering work that will support the construction effort continuing through to project completion. Also in 2013, significant procurement activities took place with many large contracts awarded. All awarded contracts and purchase orders are reported in Nalcor's Monthly Reports available at www.muskratfallsproject.nalcorenergy.com.

Following the successful completion of earth works/excavation program at the Muskrat Falls hydroelectric generation site in Labrador throughout 2013, construction of the powerhouse, spillway and dams will commence in 2014 and continue in the 2014-2016 planning period. The Strait of Belle Isle marine cable crossing program, which began in the fall of 2013, will also continue during the next planning period.

Gull Island

The lower Churchill development's second hydroelectric installation is proposed at Gull Island with a capacity of 2250 MW and average annual energy 11.9 terawatt hours. Over the 2011-2013 planning period Nalcor monitored and assessed external market opportunities for Gull Island and investigated potential new large-scale industrial requirements in the province. Also over the last three years, Nalcor has continued efforts to advance market access via the Hydro-Québec transmission system in accordance with the Hydro-Québec transmission open access tariff. A legal case for a judicial review by the Quebec Superior Court was initiated in May 2011 following regulatory decisions made by the Régie de l'énergie. These decisions related to complaints filed by Hydro against Hydro-Québec regarding treatment of a transmission service request made for the Lower Churchill Project in 2006. In January 2013 a hearing was held in the Quebec Superior Court and in August 2013 the Quebec Superior court ruled against Hydro. As a result of the outcome of this proceeding, the transmission service request is no longer active. However, Hydro, in its capacity as a current transmission customer of Hydro-Québec, is continuing its engagement in transmission open access regulatory activities in Quebec through its interventions in Open Access Transmission Tariff (OATT) hearings before the Régie de l'énergie.

Goal: By December 31, 2013, Nalcor will have progressed milestones to advance the sanction decisions for Lower Churchill Development Phase I projects (Muskrat

Falls, Labrador-island transmission link, Maritime link) and advanced Phase II (Gull Island) of the Development.

Measure: Progressed Phase I and Phase II milestones.

During the 2011-2013 planning period, the work required to inform the sanction decision for the Lower Churchill Development Phase I projects was completed. In December 2012 the Muskrat Falls hydroelectric facility and Labrador-island link and related transmission were sanctioned. The Maritime Link transmission project, which will be constructed by Emera was also sanctioned in December 2012. Also during this period, Nalcor continued to assess market opportunities and advance regulatory and legal matters associated with market access for the Gull Island phase of the development.

INDICATORS	ACCOMPLISHMENTS
Advanced sanction decisions for projects.	During the 2011-2013 planning period, Nalcor completed activities necessary to inform the sanction decision for the Lower Churchill Phase I projects. This phase includes the hydroelectric generating facility at Muskrat Falls on the lower Churchill River in Labrador, over 1,500 kilometres of associated transmission lines in Newfoundland and Labrador linking the island to Labrador, and the Maritime Link between the island of Newfoundland and Nova Scotia. In order to inform the sanction decision, Nalcor progressed project engineering, financing, Aboriginal and public consultation and environmental assessment throughout the planning period. In late 2012 the Government of Newfoundland and Labrador sanctioned the Muskrat Falls projects (Muskrat Falls generating facility, Labrador transmission assets, Labrador-island transmission link). The Maritime Link transmission project, which will be constructed by Emera, was also sanctioned in December 2012. In December 2013, the federal loan guarantee, long-term debt financing and equity financing for the project was completed.
Completed approved engineering, procurement and construction activities for each project.	During the 2011-2013 planning period, Nalcor completed planned engineering, procurement and construction activities for the Muskrat Falls generating facility and related transmission projects. Key milestones include: 2011 ▪ Commenced a horizontal direct drilling pilot bore study well program for the Strait of Belle Isle.

INDICATORS	ACCOMPLISHMENTS
	▪ Issued a request for proposals for Strait of Belle Isle cable and received responses. ▪ Completed sea bed data collection program activities. ▪ Received responses to requests for proposals for construction power and road construction. ▪ Worked with world-class engineering companies to complete both a physical hydraulic model of the site and models of the generating turbines. ▪ Commenced procurement process for long lead time items, including turbines and generators. 2012 ▪ Completed in excess of 50 per cent of project engineering. ▪ Completed Strait of Belle Isle horizontal direct drilling pilot bore program. ▪ Prepared, evaluated and awarded numerous procurement packages including Strait of Belle Isle cable, tower steel and turbine and generator sets and progressed other procurement packages as planned. 2013 ▪ Project engineering 95 per cent complete. ▪ Awarded major contracts including: the supply of electro-mechanical equipment for the powerhouse and spillway, supply of electrical equipment for the transmission lines, right-of way clearing for the Labrador alternating current (AC) transmission line, reservoir clearing, construction of marshalling yard in Labrador, provision of drilling rig for horizontal drill program and completion of civil works for the Strait of Belle Isle marine cable crossing, major works for powerhouse, spillway and transition dams, construction of AC transmission line and camp and accommodations services.
Advanced activities to secure transmission access to external electricity markets for Gull Island power.	During the 2011-2013 planning period, the focus for Phase II of the lower Churchill development – Gull Island was assessing market opportunities and advancing regulatory and legal matters associated with market access. Nalcor monitored and assessed electricity market opportunities in Canada and northeastern North America for Gull Island power. In

INDICATORS	ACCOMPLISHMENTS
	addition, in 2011 a legal case for judicial review was initiated following regulatory decisions made by Régie de l'énergie against Hydro in relation to a dispute with Hydro-Québec regarding a Lower Churchill Project transmission service request. In 2012, court filings were completed in preparation for the Quebec Superior Court hearing that took place in January 2013. In August 2013 the Quebec Superior court ruled against Hydro. As a result of the outcome of this proceeding, the transmission service request is no longer active. However, Hydro, in its capacity as a current transmission customer of Hydro-Québec, is continuing its engagement in transmission open access regulatory activities in Quebec.
Objective:	By December 31, 2013, Nalcor will have further advanced the Lower Churchill development Phase One and will have continued efforts to secure additional access to electricity markets outside Newfoundland and Labrador for Phase Two (Gull Island) power.
Measure:	Completed planned activities to advance Lower Churchill development Phase One (Muskrat Falls generating facility, Labrador-Island Transmission Link, Maritime Link) and progressed to market access for Phase Two.

INDICATORS	2013 ACCOMPLISHMENTS
Lower Churchill Development Phase I	
Completed planned engineering/procurement activities in accordance with the project construction schedule.	Completed planned 2013 engineering/procurement activities in accordance with the project construction schedule including completion of 95 per cent of project engineering and award of a number of key contracts: ▪ Muskrat Falls generating facility**:** supply of electro-mechanical equipment for the powerhouse and spillway, reservoir clearing, major works for powerhouse, spillway and transition dams, and camp and accommodations services. ▪ Labrador transmission assets: supply of electrical equipment for the alternating current (AC) transmission line, right-of-way clearing for the transmission line, construction of the AC transmission line, and construction of the marshalling yard in Labrador. ▪ Labrador-island transmission link: supply of electrical equipment for the direct current (DC) transmission lines,

INDICATORS	2013 ACCOMPLISHMENTS
	provision of drilling rig for horizontal drill program and completion of civil works for the Strait of Belle Isle marine cable crossing. ▪ Maritime Link: Construction of the Maritime Link is being undertaken by Emera. Construction activities also progressed as scheduled in 2013 with the completion of bulk excavation of the powerhouse and spillway area at the Muskrat Falls hydroelectric generating site, continuation of Labrador transmission assets right-of-way clearing, beginning of earthworks at the Churchill Falls site and start of horizontal drilling at the Strait of Belle Isle site in Shoal Cove.
Continued to adhere to the terms and conditions outlined by the federal and Provincial Governments in the Environmental Assessment release of the Lower Churchill Hydroelectric Generation Project.	In March 2012, Nalcor received a joint release from environmental assessment for the Lower Churchill Hydroelectric Generation Project from the governments of Newfoundland and Labrador and Canada. During 2013, Nalcor continued to adhere to the terms and conditions outlined in this release and submitted environmental protection plans, developed environmental effects monitoring programs and obtained required licenses, permits and approvals. In 2013, Nalcor received release from environmental assessment for the Labrador-Island Transmission Link project from the governments of Newfoundland and Labrador and Canada, in June and November respectively. Nalcor is incorporating the terms and conditions outlined in the government's responses into the project design and planning work. Nalcor has implemented an Environmental Management System for the Muskrat Falls project to ensure regulatory compliance and also to ensure commitments and conditions of the environmental assessments are met. To date, environmental protection plans have been developed and have been submitted to the Provincial Government.

INDICATORS	2013 ACCOMPLISHMENTS
	Environmental effects monitoring programs have were initiated for many environmental components[11] in 2013 and will continue going forward.
Continued implementation and monitoring of all IBA commitments, including regular meetings of the Tshiashkueish committee.	During 2013, Nalcor continued implementation and monitoring of commitments made in the Impacts and Benefits Agreement (IBA) between Nalcor and the Innu Nation of Labrador. To support IBA implementation, a number of committees were established with representation from the Innu Nation and Nalcor. The Tshiashkueish Committee established in 2012 to oversee implementation of the IBA met four times during 2013. The following Nalcor-Innu Nation joint committees also met in 2013: Environmental Management Committee, Innu Employee Advisory Committee, Leadership Committee and Innu Business Development Advisory Committee. Significant achievements were made with respect to Innu employment on the project and contracts awarded to Innu businesses. Innu employment grew steadily in 2013 reaching a peak of 105 in the fall. By the end of December 2013, procurement commitments outlined in the IBA with the Labrador Innu Nation were exceeded and contracts with a projected value of over $300 million awarded to that date to Innu businesses. Other key 2013 milestones related to the IBA include: ▪ Innu Employment and Training Coordinator hired to support the IBA commitment of employment preference for qualified Innu as well as related services ▪ An on-site Innu Liaison Coordinator hired to support Innu employees who have questions or are encountering problems in the workplace; ▪ Innu Orientation program developed and delivered to support Innu employees joining the LCP workforce; ▪ Contract awarded to an Innu business to deliver Innu Cultural Awareness training to all LCP employees; ▪ Supported delivery of targeted training programs to assist Innu to qualify for LCP positions, including providing advice

[11] Environmental effects monitoring programs were implemented for the following environmental components in 2013: small mammals, black bear, aquatic, ice formation and methyl mercury.

INDICATORS	2013 ACCOMPLISHMENTS
	and information to the Labrador Aboriginal Training Partnership, as well as dedicating the services of Nalcor's training coordinators to deliver a suite of construction safety training programs; ▪ Two environmental monitors hired by Innu Nation commenced working on the Muskrat Falls hydroelectric generation site; they work in close cooperation with the LCP site environmental monitors; and, ▪ Established the Tshiashkueish Lower Churchill IBA Scholarship program, which is funded by Nalcor for the benefit of Labrador Innu under the terms of the IBA.
Lower Churchill Development Phase II	
Participated in Québec Superior court judicial review hearing and as appropriate, identified appropriate course of action following court decision.	Nalcor participated in Quebec Superior court judicial review hearing in January 2013. The hearing concerned decisions made by the Régie de l'énergie in relation to Hydro's complaints regarding Hydro-Québec treatment of a 2006 Lower Churchill Project transmission service request. In August 2013 the Quebec Superior court ruled against Hydro. As a result of the outcome of this proceeding, the transmission service request is no longer active. However, Hydro, in its capacity as a current transmission customer of Hydro-Québec, is continuing its engagement in transmission open access regulatory activities in Quebec.
Advanced planned market assessment and engagement activities.	During 2013 Nalcor completed planned market assessment and engagement activities related to Gull Island. These activities included: ▪ Monitoring market developments in northeast North America related to: electricity demand, plant retirements and clean energy policy and legislation; ▪ Engaging with Governments, market participants, transmission developers and transmission providers; and ▪ Identifying market opportunities and promoting the Lower Churchill Phase II as a clean energy supply option in the northeast region.

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

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

The Bull Arm Fabrication site supports fulfillment of the strategic direction of the Provincial Government related to ensuring maximum benefits to the province through the strategic development of our resources. More specifically, increased local industrial and employment benefits are facilitated by a site that can accommodate construction and fabrication activities in the province.

Nalcor is focused on utilization of the Bull Arm Site during the short to medium term for the Hebron project, while planning for a competitive operation with a sustained workforce in the long-term.

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

In 2011, Nalcor executed a site lease with ExxonMobil Canada Properties and in the fall of that year, work began to prepare the site for construction related to the Hebron project. During 2012, the early works phase of the project began in preparation for the construction of the gravity-based structure (GBS) and fabrication of the living quarters module. During the summer of 2013, more than 3,500 people were employed at the site and significant progress was made on construction and fabrication work. The Bull Arm site is leased to ExxonMobil Canada Properties until 2017.

A key provision of the current lease is the management of change process. This process allows Nalcor to assess, approve and monitor all site infrastructure modifications. The intent is to meet tenant requirements to customize the site while ensuring that at the end of lease, the modifications completed by the tenant provide ongoing value or are removed. As well, the

process provides Nalcor with information about the site infrastructure modifications required to manage site assets in the future.

Goal: By December 31, 2013, Nalcor will have progressed milestones toward a competitive, successful fabrication site.

Measure: Progressed milestones.

During the 2011-2013 planning period, Nalcor engaged stakeholders including potential customers in the oil and gas and other industries and government departments regarding the long-term operations of the Bull Arm Site and completed research regarding alternate site operating models. In 2011, Nalcor was also successful in executing a lease for the site and since then has focused on building a strong working relationship with the tenant including implementing a process to manage all site infrastructure modifications.

INDICATORS	ACCOMPLISHMENTS
Advanced the long-term strategy.	During the 2011-2013 planning period, Nalcor advanced the long-term strategy as planned. An engagement strategy identifying key stakeholders and consultation activities was developed and approved in 2011. Over the planning period, Nalcor completed engagement sessions with potential customers, local communities as well as internal and government stakeholders. Early phases of engagement focused on building knowledge, creating alignment and informing the long-term strategy. Nalcor also completed planned research to investigate alternate operating models in place at various fabrication yards throughout the world. During the planning period potential site operating models were identified along with information required to complete a more detailed evaluation.
Executed lease and implemented lease monitoring activities.	In 2011, Nalcor executed a lease with ExxonMobil Canada Properties for the construction, fabrication and commissioning phases of the Hebron project at the Bull Arm Fabrication Site. Since then, lease monitoring activities have focused on three key areas: management of change process for approval of all site infrastructure modifications; participation in tenant safety and environment meetings; and implementation of key elements of Nalcor's environmental emergency response plan.

INDICATORS	ACCOMPLISHMENTS
	Site Infrastructure Change Process The site infrastructure management of change process allows Nalcor to assess, approve and monitor all site infrastructure modifications. Since the execution of the site lease in 2011, more than $31.5 million in site upgrades and refurbishments by the tenant have been approved by Nalcor. *Safety and Environment* Since 2012, Nalcor has participated in regular safety and environment meetings with the site tenant. These meetings focus on site safety and environmental performance and provide an opportunity for both Nalcor and the tenant to discuss incident investigations, high-potential near misses as well as safety and environmental programs. *Environmental Emergency Response* In 2011, Nalcor established a framework to guide the review of the environmental management systems of ExxonMobil Canada Properties and its contractors and their reporting of significant environmental incidents during the lease duration. During 2013, Nalcor updated and tested the Bull Arm Emergency Response Plan, which includes responses to an environmental emergency. Also during the year, Nalcor implemented an environmental management framework which provides operational direction regarding oversight of the environmental terms of the lease.

Objective: By December 31, 2013, Nalcor will have advanced engagement activities and completed preliminary evaluation of alternate business models to inform long-term strategy, and monitored the key lease provisions and acted on issues and opportunities.

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

INDICATORS	2013 ACCOMPLISHMENTS
Completed planned 2013 engagement activities outlined in the multi-year engagement strategy.	In 2013, Nalcor completed planned engagement activities. Nalcor conducted two external and government site tours and eight internal Nalcor tours including the Board of Directors. The focus of these tours was to increase the knowledge of the site among stakeholders who will provide input into future long-term strategy discussions.

INDICATORS	2013 ACCOMPLISHMENTS
Completed preliminary evaluation of alternate business models for the Bull Arm Fabrication site.	In 2013, Nalcor completed the preliminary evaluation of alternate business models for the operation of the Bull Arm Fabrication site. These models include the current landlord operating model as well as alternate models in place at other international fabrication yards. Nalcor also identified information requirements to complete the next phase of evaluation of these models.

Measure: Continued lease monitoring activities.

INDICATORS	2013 ACCOMPLISHMENTS
Continued management of change process for approval and monitoring of all site infrastructure modifications.	Continued management of change process for site infrastructure modifications with $14 million in upgrades and site refurbishments approved in 2013. Performed better than internal target and completed 100 per cent of Change Requests closeout nominations addressed within 60 days.
Continued participation in tenant safety and environment meetings to share Nalcor and tenant lessons learned and best practices.	During 2013, Nalcor continued to participate in monthly safety and environment meetings with the tenant. These meetings focused on site safety and environmental statistics and reporting.
Completed planned review and update of Nalcor's emergency response plan and completed development of procedures to support environmental management framework.	Completed planned review and update of Nalcor's emergency response plan. Key findings of the review included updates to emergency contacts, alterations to internal communications procedures and clarification of tenant interfaces during emergency situations. Nalcor also completed the development of procedures to support the environmental management framework. The procedures detail how Nalcor will process environmental observations, including those of the tenant, communicate environmental information to stakeholders and process environmental documentation and records.

Issue 7: Energy marketing portfolio management and long term strategy

In 2009, Nalcor established an energy marketing team to sell energy from existing and future developments and build expertise as a participant in competitive energy markets in Canada and the United States. Nalcor's energy marketing activities support fulfillment of the strategic

direction of the Provincial Government related to a stable and competitive energy supply for domestic use and export to market and more specifically the focus area related to the export of surplus energy.

The current energy marketing portfolio includes electricity available from the 300 MW recall energy block available from Churchill Falls to Hydro. The electricity that is surplus to domestic needs and the iron ore industry in Labrador is sold to markets in eastern Canada and the northeast United States. To access export markets, Nalcor, through its subsidiary, Hydro, signed a Transmission Service Agreement with Hydro-Québec TransÉnergie (HQT) under HQT's Open Access Transmission Tariff in 2009 and in 2013, Nalcor renewed that agreement for another 10 years. The agreement is for long-term power transmission capacity from Labrador through Quebec to the New York border with the ability to transmit electricity to other markets. Under this arrangement power is currently sold on the Canadian side of the border to a third-party energy marketer.

During the 2011-2013 planning period Nalcor pursued opportunities to maximize the overall value of its energy marketing portfolio creating net income of over $100 million, representing 32 per cent of total Nalcor net income for the period. In 2013 alone, energy marketing net income was $33.2 million. Energy marketing continually monitors all markets and the ability to secure transmission to those markets in order to identify opportunities to achieve premium prices. Nalcor balances its participation in the day-ahead and real time spot markets and regularly assesses opportunities to increase value through term contracts.

Nalcor's energy portfolio will continue to grow over the coming years with the development of the lower Churchill River hydroelectric resource and increased production from Nalcor Energy-Oil and Gas' offshore interests. To extract maximum value from these activities, a long-term implementation plan for energy marketing operations was developed and approved in 2011. This multi-year plan outlines the risk management, regulatory and organizational activities required to enhance Nalcor's energy marketing capability and establish a wholly-owned energy marketing subsidiary. Nalcor's wholly owned energy marketing subsidiary will participate directly in energy markets in northeast North America.

Goal: By December 31, 2013, Nalcor will have enhanced its energy marketing capability.
Measure: Enhanced energy marketing capability

During the 2011-2013 planning period Nalcor continued to build its internal energy marketing expertise and processes consistent with its long-term implementation plan for energy

marketing operations. As well, over the last three years measures to increase the value of the energy portfolio were pursued and resulted in revenues higher than the market benchmark pricing.

INDICATORS	ACCOMPLISHMENTS
Completed planned implementation activities for long-term energy marketing operations.	Activities outlined in the long-term implementation plan for energy marketing operations were completed as planned during 2011-2013.[12] In 2011, Nalcor completed a risk management guide for energy trading operations and in 2012 the Energy Marketing Operations Manual was completed. The Operations Manual brings together the full suite of controls for energy marketing and includes policies and procedures governing energy trading activities to effectively manage operational risk and growth. Implementation of the long-term plan for energy marketing operations continued in 2013 with a detailed needs assessment and subsequent open request for proposals to supply a comprehensive Energy Trading and Risk Management software system. A detailed recruitment plan for 2014/2015 was also developed during 2013.
Increased value of current energy marketing portfolio.	During the planning period, Nalcor successfully identified and implemented measures to increase portfolio value. To assess progress for this indicator, Nalcor compares its export sales performance to benchmark pricing at an interface in the New York Independent System Operator (NYISO) which corresponds to the delivery point of Nalcor's firm annual transmission booking. In 2011, an energy supply contract with New Brunswick Power contributed significantly to revenues that were 18 per cent above market benchmark. In 2012, Nalcor implemented an approach to enhance energy supply flexibility that provided the company with the ability to supply greater volumes of energy to markets during periods of higher prices. Also the company took steps to mitigate transmission congestion risk in New York thereby achieving higher overall prices for the energy Nalcor delivers to that market. As a result of these

[12] In accordance with its long-term growth plans, Nalcor has incorporated a new wholly-owned subsidiary in 2014, Nalcor Energy Marketing Corporation (Nalcor Energy Marketing).

INDICATORS	ACCOMPLISHMENTS
	measures, Nalcor achieved revenues 52 percent, or slightly more than $6 million, above the market benchmark. Efforts to increase portfolio value in 2013 also focused on supplying energy to premium markets during periods of higher prices resulting in revenues more than 33 per cent above the New York market benchmark.

Objective: By December 31, 2013, Nalcor will have further advanced its long-term implementation plan for energy marketing operations and pursued opportunities to increase the value of the current portfolio.

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

INDICATORS	2013 ACCOMPLISHMENTS
Completed planned 2013 activities outlined in the long-term implementation plan for energy marketing operations.	Implementation of the long-term plan for energy marketing operations was advanced as planned in 2013. Energy marketing completed a detailed needs assessment and subsequent open request for proposals to supply a comprehensive Energy Trading and Risk Management software system. A detailed recruitment plan for 2014/2015 was also developed.

Measure: Pursued opportunities to increase portfolio value.

INDICATORS	2013 ACCOMPLISHMENTS
Implemented measures to increase portfolio value.	Efforts to increase portfolio value in 2013 focused on supplying energy to premium markets to capture higher prices. As a result of these measures, Nalcor achieved revenues that were more than 33 per cent, or $7.4 million, above the market benchmark.

5 Opportunities and Challenges

Implementing a new three-year strategic plan for 2014-2016 will require that Nalcor and Hydro build on accomplishments of the past and address future challenges and opportunities. The issues for the next planning period are consistent with the issues presented in the 2011-2013 plan. The key challenges and opportunities that will be addressed reflect the next phase of Nalcor's strategy execution in support of the Provincial Government's energy sector strategic directions.

Safety leadership

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

Electricity supply

Nalcor's subsidiary, Hydro, ensures there is a safe, reliable and cost-effective electricity supply available to meet current demand and future growth. During the 2014-2016 planning period, Hydro will increase investment to renew aging asset and will implement programs to support safety and environmental sustainability. Hydro will also develop a multi-year strategy to prepare for the timely and effective integration of all aspects of Muskrat Falls into the provincial electricity system.

Upper Churchill asset management and Power Contract legal actions

The Churchill Falls generating station is one of the largest underground hydroelectric powerhouses in the world. The generating plant and related infrastructure have been in service for over 40 years and during the next planning period. Taking steps to ensure the continued performance of the Churchill Falls facilities through planning and strategic investment will drive the company's strategy for the 2014-2016 planning period and beyond. Over the coming planning period, Churchill Falls will also continue to advance preparations for Upper Churchill power contract legal actions.

Oil and gas interests, exploration and development

Nalcor's subsidiary, Nalcor Energy – Oil and Gas, currently manages oil and gas interests in three developments offshore Newfoundland and Labrador. Nalcor has also developed a multi-year exploration strategy to encourage more exploration and drilling by international exploration and production companies. During the 2014-2016 planning period, Nalcor will continue to support partners' efforts to advance offshore project milestones and further enhance knowledge of the province's oil and gas resource potential.

Lower Churchill development

The lower Churchill River is one of the most attractive undeveloped hydroelectric resources in North America. The two sites at Muskrat Falls and Gull Island have a combined capacity of over 3,000 MW. The Muskrat Falls Project includes construction of an 824 MW hydroelectric dam and more than 1,500 kilometres of transmission lines. During the 2014-2016 planning period, Nalcor will continue to advance Muskrat Falls construction and progress Gull Island consistent with progress on market opportunities.

Bull Arm Fabrication site long-term strategy and lease management

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

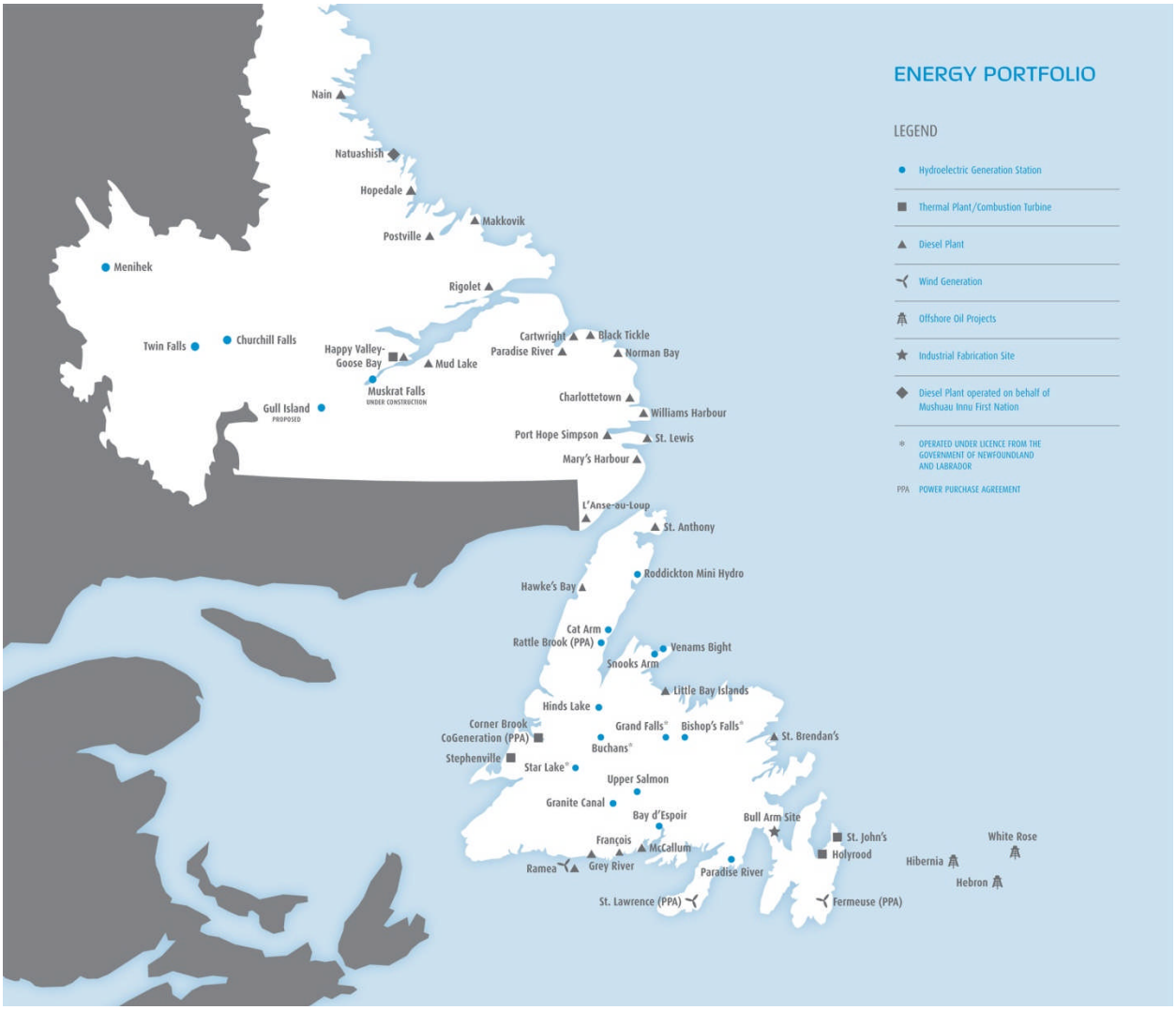
Energy marketing portfolio management and long-term strategy

Nalcor's energy marketing portfolio currently includes Churchill Falls recall power that is surplus to Newfoundland and Labrador's needs. This portfolio will continue to grow with the development of the lower Churchill River hydroelectric resource and increased production from Nalcor's oil and gas interests. Over the 2014-2016 planning period, Nalcor will advance its implementation plan for energy marketing operations and continue to pursue opportunities to increase the value of its portfolio.

Appendix 1

Energy Portfolio

Energy Portfolio



Appendix 2

Nalcor Energy Consolidated Financial Statements

INDEPENDENT AUDITOR'S REPORT

To the Lieutenant-Governor in Council

Province of Newfoundland and Labrador

We have audited the accompanying consolidated financial statements of Nalcor Energy, which comprise the consolidated balance sheet as at December 31, 2013, 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 CONSOLIDATED 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our 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 Nalcor Energy as at December 31, 2013, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte LLP

Chartered Accountants
St. John's, NL
Canada
April 3, 2014

CONSOLIDATED BALANCE SHEET

As at December 31 (millions of Canadian dollars)	Notes	2013	2012
ASSETS			
Current assets			
Cash and cash equivalents		94.0	12.1
Restricted cash	3	525.5	-
Short-term investments		1.7	11.5
Accounts receivable		150.2	125.0
Current portion of regulatory assets	6	2.2	2.2
Inventory		75.2	62.1
Current portion of sinking funds	7	65.4	-
Prepaid expenses		7.5	5.6
Derivative assets		0.2	0.1
		921.9	218.6
Property, plant and equipment	4	3,218.0	2,435.0
Petroleum and natural gas properties	5	552.6	376.0
Regulatory assets	6	62.2	62.8
Other long-term assets	7	305.1	354.5
Long-term investments	8	4,477.4	-
Total assets		9,537.2	3,446.9
LIABILITIES			
Current liabilities			
Short-term borrowings	10	41.0	125.0
Accounts payable and accrued liabilities	11	438.4	198.1
Current portion of long-term debt	10	82.2	8.2
Current portion of regulatory liabilities	6	214.0	169.0
Derivative liabilities		1.5	-
Current portion of other liabilities	13	5.8	8.6
		782.9	508.9
Long-term debt	10	6,047.9	1,125.9
Regulatory liabilities	6	40.3	33.2
Class B limited partnership units	12	73.0	-
Employee future benefits	13	81.4	73.6
Other liabilities	14	178.2	140.4
		7,203.7	1,882.0
SHAREHOLDER'S EQUITY			
Share capital	15	122.5	122.5
Contributed capital	15	1,141.8	435.8
		1,264.3	558.3
Accumulated other comprehensive income	15	10.6	43.6
Retained earnings		1,058.6	963.0
		1,069.2	1,006.6
Total equity		2,333.5	1,564.9
Total liabilities and shareholder's equity		9,537.2	3,446.9

Commitments and contingencies (Note 23)

Subsequent events (Note 25)

See accompanying notes

On Behalf of the Board

Ed Martin
Director

Gerald Shortall
Director

CONSOLIDATED STATEMENT OF INCOME & RETAINED EARNINGS

For the year ended December 31 (millions of Canadian dollars)	Notes	2013	2012
Revenue			
Energy sales	16	756.0	710.4
Other revenue	16	28.8	15.7
		784.8	726.1
Expenses			
Fuels		190.9	182.4
Power purchased		63.2	60.8
Operating costs	17	215.4	206.9
Net finance expense	20	72.5	73.6
Amortization and depletion		87.7	79.3
Other income and expense		3.9	0.4
Regulatory adjustments	6	55.6	30.0
		689.2	633.4
Net income		95.6	92.7
Retained earnings at beginning of year		963.0	870.3
Retained earnings at end of year		1,058.6	963.0

See accompanying notes

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31 (millions of Canadian dollars)	Notes	2013	2012
Net income		95.6	92.7
Other comprehensive (loss) income			
Change in fair value of available for sale financial instruments		(5.0)	8.4
Change in fair value of derivatives designated as cash flow hedges	19	(12.3)	-
Amounts recognized in net income		(15.7)	(11.2)
Comprehensive income		62.6	89.9

See accompanying notes

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31 (millions of Canadian dollars)	Notes	2013	2012
Cash provided by (used in)			
Operating activities			
Net income		95.6	92.7
Adjusted for items not involving a cash flow			
Amortization and depletion		87.7	79.3
Regulatory adjustments	6	55.6	30.0
Accretion		4.4	2.7
Increase in employee future benefits	13	9.5	9.5
(Gain) loss on disposal of property, plant and equipment		(0.9)	3.4
Change in fair value of cash flow hedges	19	(12.3)	-
Other		1.6	0.4
		241.2	218.0
Changes in non-cash working capital balances	21	200.1	81.8
		441.3	299.8
Financing activities			
Long-term debt issued	10	5,001.3	-
Increase in restricted cash		(525.5)	-
Issuance of Class B limited partnership units	12	67.7	-
Contributions from shareholder	15	706.0	45.3
Decrease in deferred credits	14	(0.9)	(4.1)
(Decrease) increase in short-term borrowings		(84.0)	125.0
(Decrease) increase in long-term payables		(8.0)	37.5
		5,156.6	203.7
Investing activities			
Additions to property, plant and equipment	4	(814.8)	(361.1)
Additions to petroleum and natural gas properties	5	(194.7)	(88.3)
Increase in long-term investments	8	(4,477.4)	-
Increase in other long-term assets		(42.9)	(69.6)
Proceeds on disposal of property, plant and equipment		4.0	5.4
Decrease in short-term investments		9.8	3.5
		(5,516.0)	(510.1)
Net increase (decrease) in cash		81.9	(6.6)
Cash position at beginning of year		12.1	18.7
Cash position at end of year		94.0	12.1
Cash position is represented by			
Cash		87.4	12.1
Cash equivalents		6.6	-
		94.0	12.1

Supplementary cash flow information (Note 21)

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS

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

1.1 SUBSIDIARIES

Nalcor holds interests in the following subsidiaries:

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

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

A 100.0% interest in Nalcor Energy – Bull Arm Fabrication Inc. (Bull Arm Fabrication), 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 deepwater 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 hydro electric 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. Labrador-Island Link Holding Corporation (LIL Holdco) holds 100.0% of the Class A limited partnership units.

A 100.0% interest in Labrador-Island Link General Partner Corporation (LIL GP) and LIL Holdco, 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.

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

1.2 JOINTLY CONTROLLED ENTITIES

Nalcor holds interests in the following jointly controlled entities:

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

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.

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

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 BASIS OF PRESENTATION

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP).

2.2 PRINCIPLES OF CONSOLIDATION

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

Effective June 18, 1999, Hydro, Churchill Falls and Hydro-Québec entered into a shareholders' agreement which provided, among other matters, that certain of the strategic operating, financing and investing policies of Churchill Falls be subject to approval jointly by representatives of Hydro and Hydro-Québec on the Board of Directors of Churchill Falls. Although Hydro 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 over Twin Falls. This investment is accounted for by the proportionate consolidation 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 USE OF ESTIMATES AND JUDGMENTS

Preparation of these consolidated financial statements requires the use of estimates and assumptions that affect the amounts reported and disclosed in these consolidated financial statements and related notes. Key areas where management has made complex or subjective judgments include the fair value and recoverability of assets, the reported amounts of revenue and expenses, litigation, environmental and asset retirement obligations, amortization and depletion, property, plant and equipment, the valuation of oil and gas reserves and related depletion and other employee future benefits. Management has also applied significant judgment in determining whether to consolidate Nalcor's interests in variable interest entities. 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.

2.4 RATES AND REGULATIONS

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% (2012 - 7.4%) +/- 15 basis points. Hydro applies various accounting policies that differ from enterprises that do not operate in a rate regulated environment. Generally these policies result in the deferral and amortization of costs or credits which 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 disclosed in Note 6.

2.5 CASH AND CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

Cash and cash equivalents and short-term investments consist primarily of Government of Canada Treasury Bills, Banker's Acceptances (BAs) and term deposits drawn on Canadian Schedule 1 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 12 months are classified as short-term investments. The short-term investments bear interest rates of 1.12% to 1.33% (2012 - 1.26% to 1.35%) per annum. Cash and cash equivalents and short-term investments are measured at fair value.

2.6 INVENTORY

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

2.7 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 in progress 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.

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

Nalcor, Oil and Gas and Bull Arm Fabrication

Amortization is calculated on a straight-line basis over service lives ranging from four to 30 years.

Hydro

Construction in progress includes the costs incurred in engineering and construction of new generation, transmission and distribution facilities.

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

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

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 station assets are used to step up voltages of electricity from generation to transmission and to step down voltages for distribution.

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

Other Assets

Other assets include telecontrol, computer software, buildings, vehicles, furniture, tools and equipment which are carried at cost less accumulated amortization. Amortization is calculated on a straight-line basis over estimated useful lives ranging from five to 55 years. Amortization methods, useful lives and residual values are reviewed at each reporting date.

Churchill Falls

Amortization is calculated on a straight-line basis over the following estimated useful lives:

Hydroelectric generation plant	45 to 100 years
Transmission and terminals	30 to 65 years
Service facilities and other	7 to 45 years

Twin Falls

Amortization is calculated on a straight-line basis over the estimated useful lives of 33 years.

Amortization methods, useful lives and residual values are reviewed at each reporting date.

Lower Churchill Project

Since the assets associated with the Lower Churchill Project are under construction, there is no amortization recognized until the assets are put into service.

2.8 CAPITALIZED INTEREST

Interest is charged to construction in progress until the project is complete at rates equivalent to the embedded cost of debt. Capitalized interest cannot exceed actual interest incurred.

2.9 IMPAIRMENT OF LONG-LIVED ASSETS

Nalcor reviews the carrying value of its oil and gas properties and development projects at the end of each accounting period. Nalcor reviews the carrying value of its other 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.

2.10 PETROLEUM AND NATURAL GAS PROPERTIES

Nalcor employs the full cost method of accounting for oil and gas interests whereby all costs related to the acquisition, exploration for and development of petroleum and natural gas reserves are capitalized. Such costs include land acquisition costs, geological and geophysical costs, carrying charges of non-producing properties, drilling of productive and non-productive wells, the cost of petroleum and natural gas production equipment and administrative costs directly related to exploration and development activities.

Under the full cost method, capitalized costs, together with estimated future capital costs associated with proved reserves, are depleted and depreciated using the unit-of-production method based on estimated gross proved reserves at future prices and costs as determined by independent reservoir engineers.

Costs of acquiring and evaluating unproved properties and certain costs associated with major development projects are not subject to depletion until proved reserves are attributable to the property, production commences or impairment occurs. The carrying value of petroleum and natural gas properties is assessed annually or as circumstances dictate.

Impairment losses are recognized when the carrying value exceeds the sum of:

- the undiscounted future net cash flows from production of proved reserves based on forecast prices and costs;
- the costs of unproved properties, less impairment; and
- the costs of major development projects, less impairment.

The amount of impairment loss is the amount by which the carrying value exceeds the sum of:

- the fair value of proved and probable reserves; and
- the cost, less impairment, of unproved properties and major development projects.

2.11 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 at fair value, with a corresponding increase to property, plant and equipment. Accretion of asset retirement obligations is included in net income through amortization and depletion. Differences between the recorded asset retirement obligation and the actual retirement costs incurred are recorded as a gain or loss in the settlement period.

2.12 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.

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 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 10.0% of the accrued benefit obligation is amortized over the expected average remaining service life of the employee group.

2.13 REVENUE RECOGNITION

Electricity Sales

Revenue is recognized on the accrual basis, as power deliveries are made. 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 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 kilowatt hours (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 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 7.0% per annum (2012 - 7.0%).

In the absence of a signed agreement with Hydro-Québec related to the 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.

Oil Sales

Revenue from the sale of crude oil is recognized under the accrual method when the significant risks and rewards of ownership have passed and collection is reasonably assured. The transfer of risks and rewards is considered to have occurred when title to the product passes to the customer.

Revenue from properties in which Oil and Gas has an interest with other producers is recognized on the basis of the net working interest using the entitlement method. Under this method, crude oil produced and sold below or above Oil and Gas' net working interest results in an underlift or overlift position. Underlift or overlift positions are measured at market value and recorded as an asset or liability respectively.

Other Revenue

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

Lease Revenue

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

2.14 FOREIGN CURRENCY TRANSLATION

Foreign currency transactions are translated into their Canadian dollar (CAD) 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 and reflected in income when fuel is used.

2.15 FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

Financial Instruments

Financial assets and financial liabilities are recognized on the balance sheet 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. Nalcor 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.

Nalcor 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
Derivatives	Held for trading
Sinking funds – investments in same Hydro issue	Held to maturity
Sinking funds – other investments	Available for sale
Investments	Held to maturity
Reserve fund	Available for sale
Long-term receivables	Loans and receivables
Short-term borrowings	Other financial liabilities
Accounts payable and accrued liabilities	Other financial liabilities
Long-term debt	Other financial liabilities
Long-term payables	Other financial liabilities
Class B limited partnership units	Other financial liabilities

Each of these financial instruments is measured at amortized cost, except for cash and cash equivalents, short-term investments, sinking funds – other investments, reserve fund, 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 Nalcor to manage market risk. Nalcor's policy is not to utilize derivative instruments for speculative purposes. Nalcor 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. Nalcor 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. Nalcor had no derivatives designated as hedges at December 31, 2013 (2012 – $nil).

2.16 FUTURE ACCOUNTING CHANGES – INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

The Canadian Accounting Standards Board (AcSB) amended the introduction to Part 1 of the Canadian Institute of Chartered Professional Accountants (CICPA) Handbook – Accounting to allow qualifying entities with rate-regulated activities to defer the adoption of IFRS to January 1, 2015. Nalcor is a qualifying entity and has chosen to avail of the deferral option for the year ended December 31, 2013.

Although IFRS and Canadian GAAP are based on a similar conceptual framework, there are a number of differences in recognition, measurement and disclosure. The areas with the highest potential impact on Nalcor are property, plant and equipment, regulatory assets and liabilities and petroleum and natural gas properties. In January 2014, the IASB issued an interim standard *IFRS 14 Regulatory Deferral Accounts*, which will be applicable to rate-regulated entities who have not yet converted to IFRS. The purpose of the interim standard is to enhance the comparability of financial reporting by entities that are engaged in rate-regulated activities. The interim standard is effective for first-time adopters of IFRS for a period beginning on or after January 1, 2016 with early adoption permitted.

Nalcor continues 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 and the accounting elections made.

3. RESTRICTED CASH

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. PROPERTY, PLANT AND EQUIPMENT

(millions of Canadian dollars)	Cost	Contributions In Aid of Construction	Accumulated Amortization	Net Book Value
			2013	
Electric – generation	**1,546.8**	**2.4**	**404.2**	**1,140.2**
Electric – transmission and distribution	**709.5**	**19.3**	**111.4**	**578.8**
Development projects	**1,361.6**	**-**	**-**	**1,361.6**
Other	**223.5**	**24.1**	**62.0**	**137.4**
	3,841.4	**45.8**	**577.6**	**3,218.0**

(millions of Canadian dollars)			2012	
Electric – generation	1,501.0	2.4	371.7	1,126.9
Electric – transmission and distribution	672.8	18.5	92.9	561.4
Development projects	618.0	-	-	618.0
Other	202.5	23.1	50.7	128.7
	2,994.3	44.0	515.3	2,435.0

As at December 31, 2013 the cost of assets under construction and therefore excluded from costs subject to amortization was $1,384.5 million (2012 – $661.2 million).

Included in Development projects is $1,353.0 million related to the Lower Churchill Project (2012 – $609.3 million). Phase 1 of the Project, which was sanctioned in December 2012, will result in the development of the 824 MW Muskrat Falls site, with power being transmitted over a new transmission line (the Labrador-Island Link) to be constructed from Labrador across the Strait of Belle Isle to the Avalon Peninsula on the island of Newfoundland, and the development of a new transmission system (the Maritime Link) from Newfoundland to Nova Scotia, for the provision of power to Emera in Nova Scotia and the provision of market access to Nalcor. Nalcor will also obtain transmission access in Nova Scotia and New Brunswick into New England from Emera. Nalcor will own and finance 100.0% of Muskrat Falls and the Labrador Transmission Assets. Nalcor and Emera, through the LIL LP will finance the Labrador-Island Link. The Maritime Link will be 100.0% owned and financed by Emera.

5. PETROLEUM AND NATURAL GAS PROPERTIES

(millions of Canadian dollars)	**2013**	2012
Petroleum and natural gas properties	**631.3**	434.0
Less: accumulated depletion	**78.7**	58.0
	552.6	376.0

There were no internal costs directly related to acquisition, exploration and development activities capitalized in 2013 (2012 – $0.1 million).

As at December 31, 2013, $302.2 million (2012 – $187.1 million) of accumulated costs of petroleum and natural gas properties were not subject to depletion.

Oil and Gas properties include Nalcor's acquisition costs and proportionate share of exploration and development costs. Nalcor has a 4.9% working interest in the Hebron oil field, a 5.0% working interest in the White Rose Growth Project, and a 10.0% working interest in the Hibernia Southern Extension. Nalcor also has an average working interest of 99.0% in two onshore exploration permits in Parson's Pond on the Great Northern Peninsula.

6. REGULATORY ASSETS AND LIABILITIES

(millions of Canadian dollars)	2013	2012	Remaining Recovery Settlement Period (years)
Regulatory assets			
Foreign exchange losses	**60.5**	62.6	28.0
Deferred energy conservation costs	**3.9**	2.4	n/a
Total regulatory assets	**64.4**	65.0	
Less: current portion	**2.2**	2.2	
	62.2	62.8	
Regulatory liabilities			
Rate stabilization plan (RSP)	**253.8**	201.7	n/a
Deferred purchased power savings	**0.5**	0.5	13.5
Total regulatory liabilities	**254.3**	202.2	
Less: current portion	**214.0**	169.0	
	40.3	33.2	

6.1 REGULATORY ADJUSTMENTS RECORDED IN THE CONSOLIDATED STATEMENT OF INCOME

(millions of Canadian dollars)	2013	2012
RSP recovery	**58.9**	60.4
Rural rate adjustment	**11.4**	7.0
RSP fuel deferral	**(35.3)**	(49.3)
RSP interest	**17.1**	13.2
Amortization of deferred foreign exchange losses	**2.1**	2.1
Deferred foreign exchange losses on fuel	**-**	(0.4)
Employee future benefit actuarial losses	**(1.7)**	(2.3)
Amortization of deferred major extraordinary repairs	**-**	0.6
Deferred energy conservation	**(1.5)**	(1.4)
Insurance proceeds	**4.6**	0.2
Deferred purchased power savings	**-**	(0.1)
	55.6	30.0

Hydro has operations that are regulated by the PUB.

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 sections describe each of the circumstances in which rate regulation affects the accounting for a transaction or event.

6.2 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 variations, which will be recovered or refunded at a rate of 25.0% 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. A portion of the RSP balance totaling $134.4 million has been set aside with $115.3 million to be refunded to retail customers, $10.9 million to be used to phase in Island Industrial rate increases and $8.2 million subject to a future regulatory ruling. This balance is mainly due to fuel savings at the Holyrood Thermal Generating Station (HTGS) as a result of the shutdown of a portion of the pulp and paper industry in the Province in 2007.

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 2013, $35.3 million was deferred (2012 – $49.3 million) as an RSP fuel deferral and $58.9 million (2012 – $60.4 million) was recovered through rates and included in energy sales.

Hydro's rural rates on the Island Interconnected and Isolated Systems are primarily based upon rates ordered by the PUB. Therefore, when a rural rate electricity adjustment has been approved by the PUB, Hydro's rural customers are charged the approved rate change. In 2013, Hydro recognized in regulatory adjustments, a rural rate adjustment that reduces income and increases the RSP liability by $11.4 million (2012 – $7.0 million). In the absence of rate regulation, the rural rate adjustment would have been recorded in income.

Hydro is required to charge or pay interest on balances accumulating in the RSP at a rate equal to Hydro's weighted average cost of capital. As a result, Hydro recognized in regulatory adjustments an RSP interest expense of $17.1 million in 2013 (2012 – $13.2 million).

6.3 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. 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 40-year period. This amortization of $2.1 million (2012 – $2.1 million) is included in regulatory adjustments.

6.4 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 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 were amortized over a five-year period. In the absence of rate regulation, Canadian GAAP would require that Hydro expense the boiler tube repairs in the year incurred. In 2013, there was amortization of $nil (2012 – $0.6 million) as a regulatory adjustment.

6.5 DEFERRED ENERGY CONSERVATION COSTS

Pursuant to Order No. P.U. 35 (2013), Hydro received approval to defer costs associated with an electrical conservation program for residential, industrial and commercial sectors. 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 2013, Hydro recognized $1.5 million (2012 – $1.4 million) in regulatory adjustments. Discharge of the balance will be dealt with as part of the General Rate Application currently before the PUB.

6.6 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. The remaining unamortized savings in the amount of $0.5 million (2012 – $0.5 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.

6.7 PROPERTY, PLANT AND EQUIPMENT

The PUB permits major inspections and overhauls to be included in the cost of capital and amortized over the average expected period of the next major inspection. In 2013, $3.5 million (2012 – $6.8 million) was recognized as property, plant and equipment. In the absence of rate regulation, Canadian GAAP would require that Hydro include the major inspections as operating costs in the year incurred.

6.8 FOREIGN EXCHANGE GAINS AND LOSSES

Hydro purchases a significant amount of fuel for HTGS in US dollars (USD). The RSP allows Hydro to defer variances in fuel prices (including foreign exchange fluctuations). During 2013, Hydro deferred, in regulatory adjustments, foreign exchange losses on fuel purchases of $nil (2012 – loss of $0.4 million). In the absence of rate regulation, Canadian GAAP would require that Hydro include gains and losses on foreign currencies in net finance expense in the period incurred.

6.9 INSURANCE PROCEEDS

Pursuant to Order No. P.U. 13 (2012), Hydro records net insurance proceeds in excess of $50,000 against the capital costs of the related assets. During 2013, Hydro recorded, in regulatory adjustments, net insurance proceeds of $4.6 million (2012 – $0.2 million) with an offset against costs of the related assets. In the absence of rate regulation, Canadian GAAP would require Hydro to include insurance proceeds in net income.

6.10 EMPLOYEE FUTURE BENEFITS

Pursuant to Order No. P.U. 13 (2012), Hydro defers the amortization of employee future benefit actuarial losses. During 2013, Hydro recorded, in regulatory adjustments, a deferral of actuarial gains and losses of $1.7 million (2012 – $2.3 million). In the absence of rate regulation, Canadian GAAP would require Hydro to include employee future benefits gains and losses in net income.

7. OTHER LONG-TERM ASSETS

(millions of Canadian dollars)		2013	2012
Long-term receivables	(a)	**16.7**	0.8
Sinking funds	(b)	**237.9**	302.8
Reserve fund	(c)	**50.5**	50.9
		305.1	354.5

(a) The majority of the balance relates to a $15.0 million long-term advance to a supplier in relation to construction of the Muskrat Falls hydroelectric plant. The balance of $0.2 million (2012 – $0.2 million) includes the non-current portion of receivables associated with customer time payment plans and the long-term portion of employee purchase programs. The remaining balance of $1.5 million (2012 – $0.6 million) relates to differences between the AEB in the Churchill Falls Power contract and energy delivered accumulating over the four-year period from September 2012 to August 2016.

(b) As at December 31, 2013, sinking funds include $267.6 million (2012 – $263.3 million) related to repayment of Hydro's long-term debt and $35.7 million (2012 – $39.5 million) related to funding of Nalcor's long-term payable under the Upper Churchill Redress Agreement (UCRA).

Sinking fund investments consist of bonds, debentures, promissory notes and coupons issued by, or guaranteed by, the Government of Canada, provincial governments or Canadian Schedule 1 Chartered banks, and have maturity dates ranging from 2014 to 2041.

Sinking fund investments in Hydro debentures, which are intended to be held to maturity, are deducted from debt while all other sinking fund investments are shown separately on the consolidated balance sheet as assets. Annual contributions to the various sinking funds are in accordance with bond indenture terms, and are structured to ensure the availability of adequate funds at the time of expected bond redemption. Effective yields range from 1.17% to 9.86% (2012 – 1.38% to 9.86%).

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

(millions of Canadian dollars)	2013	2012
Balance at beginning of year	**302.8**	247.0
Contributions	**8.4**	48.1
Earnings	**14.7**	12.6
Redemptions	**(1.8)**	(2.0)
Valuation adjustment	**(20.8)**	(2.9)
Balance at end of year	**303.3**	302.8
Current portion of sinking funds	**65.4**	-
	237.9	302.8

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

(millions of Canadian dollars)	2014	2015	2016	2017	2018
Sinking fund instalments	8.1	8.1	8.1	6.7	6.7

(c) In 2007, pursuant to the terms of the 1999 shareholders' agreement, Churchill Falls commenced the creation of a $75.0 million segregated reserve fund to contribute towards the funding of capital expenditures related to Churchill Falls' existing facilities and their replacement. A summary of Nalcor's 65.8% share of the reserve fund is as follows:

(millions of Canadian dollars)	2013	2012
Balance at beginning of year	50.9	45.4
Contribution	-	5.3
Net interest	-	0.3
Mark-to-market adjustment	(0.4)	(0.1)
Balance at end of year	50.5	50.9

8. LONG-TERM INVESTMENTS

As at December 31, 2013, long-term investments consist of structured deposit notes of $1,807.3 million (2012 – $nil) related to Muskrat Falls, $396.7 million (2012 – $nil) related to Transco and $2,273.4 million (2012 – $nil) related to the LIL Partnership. These notes were acquired on December 20, 2013.

Structured deposit notes are issued by a Schedule 1 bank, and have maturity dates ranging from 2016 to 2017. Funds held in these notes can be accessed in accordance with procedures set out in the Labrador-Island Link Project Finance Agreement and Muskrat Falls/LTA Project Finance Agreement. Effective yields range from 1.59% to 1.62% (2012 – nil).

(millions of Canadian dollars)	2013	2012
Long-term investments at beginning of year	-	-
Contributions	4,749.6	-
Redemptions	(274.5)	-
Earnings	2.3	-
Long-term investments at end of year	4,477.4	-

9. JOINT VENTURE

The following amounts represent Nalcor's proportionate share of Churchill Falls' assets and liabilities at December 31 and its proportionate interest in Churchill Falls' operations for the year then ended.

(millions of Canadian dollars)	2013	2012
Current assets	37.6	39.9
Long-term assets	434.0	383.2
Current liabilities	19.4	20.5
Long-term liabilities	16.4	15.6
Revenues	76.8	73.5
Expenses	56.8	48.6
Net income	20.0	24.9
Cash provided by (used in)		
Operating activities	40.8	33.1
Financing activities	(0.2)	(2.5)
Investing activities	(32.3)	(23.8)

Income tax expense in the amount of $0.1 million (2012 - $0.1 million) related to Twin Falls has been included in expenses.

10. DEBT

10.1 SHORT-TERM BORROWINGS

Nalcor maintains a $250.0 million (2012 – $100.0 million) unsecured demand operating credit facility with its banker and at year end there were no amounts drawn on this facility (2012 – $nil). Borrowings in CAD may take the form of Prime Rate Advances, BAs and Letters of Credit. Borrowings in USD may take the form of Base Rate Advances, LIBOR Advances and Letters of Credit. The facility also provides coverage for overdrafts on Nalcor's bank accounts, with interest calculated at the Prime Rate. At year end, the drawings on the facility were four irrevocable letters of credit. One was issued to the Department of Fisheries and Oceans (DFO), two were issued to the Newfoundland Labrador Offshore Petroleum Board, and one was issued to Newfoundland Transshipment. The letter of credit issued to DFO in the amount of $0.3 million was in connection with the operation of hydroelectric assets on the Exploits River. The remaining letters of credit totalled $4.8 million and relate to Oil and Gas to ensure compliance with regulations relating to petroleum and natural gas exploration and production activities.

Hydro maintains a $50.0 million CAD or USD equivalent unsecured demand operating credit facility with its banker and at year end there were no amounts drawn on this facility (2012 – $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 one letter of credit outstanding, reducing the availability of the credit facility by $0.3 million (2012 – $18.9 million).

Churchill Falls maintains a $10.0 million CAD or USD equivalent unsecured demand operating credit facility with its banker and at year end there were no amounts drawn on this facility (2012 – $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, 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.

Oil and Gas maintains a $5.0 million unsecured credit facility. As at December 31, 2013, there were no amounts drawn on this facility (2012 – $3.7 million). Oil and Gas has issued one irrevocable letter of credit in the amount of $0.3 million to secure its share of a joint obligation to complete a fish habitat compensation and monitoring program for the Hibernia South Extension, as required under the Fisheries Act.

Short-term borrowings consist of promissory notes in Hydro totalling $41.0 million. As at December 31, 2012, there were $52.0 million of promissory notes in Hydro and BAs in Nalcor totalling $73.0 million.

10.2 LONG-TERM DEBT

Details of long-term debt are as follows:

(millions of Canadian dollars)	Face Value	Coupon Rate %	Year of Issue	Year of Maturity	**2013**	2012
Hydro						
V *	125.0	10.50	1989	2014	**125.0**	124.8
X *	150.0	10.25	1992	2017	**149.5**	149.4
Y *	300.0	8.40	1996	2026	**294.0**	293.8
AB *	300.0	6.65	2001	2031	**306.1**	306.3
AD *	125.0	5.70	2003	2033	**123.7**	123.7
AE	225.0	4.30	2006	2016	**224.4**	224.2
LIL LP						
Tranche A	725.0	3.76	2013	2033	**725.3**	-
Tranche B	600.0	3.86	2013	2045	**600.1**	-
Tranche C	1,075.0	3.85	2013	2053	**1,075.2**	-
Muskrat Falls/Transco						
Tranche A	650.0	3.63	2013	2029	**650.3**	-
Tranche B	675.0	3.83	2013	2037	**675.1**	-
Tranche C	1,275.0	3.86	2013	2048	**1,275.3**	-
Total debentures	6,225.0				**6,224.0**	1,222.2
Less: sinking fund investments in own debentures					**93.9**	88.1
					6,130.1	1,134.1
Less: payments due within one year					**82.2**	8.2
					6,047.9	1,125.9

* Sinking funds have been established for these issues.

Hydro's 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 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 2013 was $3.7 million (2012 – $3.7 million).

On November 29, 2013, the Project Trust entered into the IT Project Finance Agreement (IT PFA) with the Labrador-Island Link Funding Trust (Funding Trust). Under the terms and conditions of the IT PFA, the 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 Funding Trust is to issue long-term debentures to the public, which debt is guaranteed by the federal 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.

The role of the collateral agent is to act on behalf of the lending parties, including the 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 PFA with the Funding Trust and Transco. Under the terms and conditions of the PFA, the 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 Funding Trust is to issue long-term debentures to the public, which debt is guaranteed by the Federal 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. The Company draws 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 hydroelectric 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)	2014	2015	2016	2017	2018
Long-term debt repayment	125.0	-	225.0	150.0	-

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

(millions of Canadian dollars)	**2013**	2012
Trade payables	**378.2**	146.3
Accrued interest	**37.9**	28.7
Due to related parties	**20.6**	17.4
Other payables	**1.7**	5.7
	438.4	198.1

12. CLASS B LIMITED PARTNERSHIP UNITS

Debt and equity instruments issued by the LIL LP are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

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.

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:

(millions of Canadian dollars)	Units	2013	Units	2012
Class B limited partnership units at beginning of year		-		-
Units issued	25	67.7	-	-
Accrued interest		5.3		-
Class B limited partnership units at end of year	25	73.0	-	-

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 $7.3 million (2012 – $6.8 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 2013, cash payments to beneficiaries for its unfunded other employee future benefits were $3.1 million (2012 – $3.0 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.

(millions of Canadian dollars)	2013	2012
Accrued benefit obligation		
Balance at beginning of year	119.9	114.3
Current service cost	5.2	4.6
Interest cost	4.9	5.0
Actuarial gain	(8.4)	(1.0)
Benefits paid	(3.1)	(3.0)
Balance at end of year	118.5	119.9

(millions of Canadian dollars)	2013	2012
Plan deficit	118.5	119.9
Unamortized actuarial loss	(31.8)	(42.6)
Unamortized past-service cost	(0.1)	(0.2)
Regulatory adjustments	(5.2)	(3.5)
Accrued benefit liability at end of year	81.4	73.6

(millions of Canadian dollars)	2013	2012
Component of benefit cost		
Current service cost	5.2	4.6
Interest cost	4.9	5.0
Actuarial gain/loss	(8.4)	(1.0)
	1.7	8.6
Difference between actuarial gain or loss and amount recognized	10.8	3.9
Benefit expense	12.5	12.5

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

	2013	2012
Discount rate – benefit cost	4.00%	4.55%
Discount rate – accrued benefit obligation	5.00%	4.00%
Rate of compensation increase	3.50%	3.50%

Assumed health care trend rates:

	2013	2012
Initial health care expense trend rate	6.00%	6.00%
Cost trend decline to	4.50%	4.50%
Year that rate reaches the rate it is assumed to remain at	2020	2020

A 1.0% change in assumed health care trend rates would have had the following effects:

Increase	2013	2012
Current service and interest cost	2.5	2.3
Accrued benefit obligation	22.4	23.1

Decrease	2013	2012
Current service and interest cost	(1.7)	(1.7)
Accrued benefit obligation	(17.1)	(17.5)

14. OTHER LIABILITIES

(millions of Canadian dollars)		2013	2012
Long-term payables	(a)	78.3	82.4
Deferred credits	(b)	66.8	28.0
Asset retirement obligations	(c)	33.1	30.0
		178.2	140.4

(a) Long-Term Payables

The long-term payables consist of a payable to the Innu Nation under the Upper Churchill Redress Agreement (UCRA), a payable to the Innu Nation under an Impact and Benefits Agreement (IBA), a payable to Hydro-Quebec related to the AEB and a penalty payment regarding the Hebron Oil and Gas project.

(millions of Canadian dollars)	**2013**	2012
Balance at beginning of year	**90.5**	45.1
Payments	**(8.1)**	-
Additions and revisions	**0.2**	43.2
Accretion	**3.9**	2.2
Balance at end of year	**86.5**	90.5
Less: current portion	**(8.2)**	(8.1)
	78.3	82.4

Under the UCRA, Nalcor is required to pay to the Innu Nation $2.0 million annually escalating by 2.5% annually until 2041. Currently, $2.2 million (2012 – $2.1 million) of the amount is current and is recorded in accounts payable and accrued liabilities. Nalcor has sinking funds in the amount of $35.7 million (2012 – $40.0 million) to fund these future obligations.

Under the IBA, Nalcor is required to make annual payments to the Innu Nation that commenced on sanction of the Muskrat Falls hydroelectric plant. The Muskrat Falls hydroelectric plant was sanctioned in December 2012 and the first IBA payment was made at that time. The IBA requires annual payments of $5.0 million escalating by the annual consumer price index from sanction until first commercial power. The present value of the payments using a discount rate of 3.7% is $36.8 million (2012 – $40.4 million). The current portion of the payable at December 31, 2013, is $5.0 million (2012 – $5.0 million).

In September 2012, the joint venture partners in the Hebron project executed the Benefits Agreement Drilling Equipment Set (DES) Settlement Agreement. This Agreement allowed the Hebron partners to adjust the Hebron Benefits Agreement such that the Hebron Project DES could be constructed at a geographic location outside of Newfoundland and Labrador in exchange for a one-time payment to the Province. The total payment was agreed to be $150.0 million payable on June 30, 2016. Nalcor's proportionate 4.9% share of the undiscounted payment will be $7.3 million. The payable is recorded at its present value of $6.7 million (2012 – $6.4 million) using a discount rate of 2.6%.

The long-term payable to Hydro-Québec as at December 31, 2013 is the accumulation of differences between energy delivered and the AEB billed during the four-year period from September 1, 2008 to August 31, 2012. Monthly repayments commenced in September 2012 and will terminate on August 31, 2016. The current portion of $1.0 million (2012 – $1.0 million) is included in accounts payable and accrued liabilities. The long-term portion is $1.6 million (2012 – $2.6 million).

(b) Deferred Credits

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

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 $65.0 million (2012 – $28.0 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.

The following is a schedule of the deferred credits for the year:

(millions of Canadian dollars)	Hydro Wind Credits	Oil and Gas Program Funding	Deferred Energy Sales	Bull Arm Lease Revenue	Total
Balance at January 1, 2012	3.5	6.9	-	0.9	11.3
Additions	-	2.3	28.0	0.5	30.8
Amortization	(1.6)	(4.4)	-	(0.9)	(6.9)
Balance at December 31, 2012	1.9	4.8	28.0	0.5	35.2
Additions	-	1.5	37.0	1.4	39.9
Amortization	(1.2)	(2.1)	-	(0.5)	(3.8)
Balance at December 31, 2013	0.7	4.2	65.0	1.4	71.3
Less: current portion	(0.7)	(2.4)	-	(1.4)	(4.5)
	-	1.8	65.0	-	66.8

(c) Asset Retirement Obligations

Nalcor has recognized liabilities associated with the retirement of portions of the HTGS, disposal of polychlorinated biphenyls (PCB) and retirement obligations associated with Nalcor's net interest in petroleum and natural gas properties. The reconciliation of the beginning and ending carrying amount of asset retirement obligations is as follows:

(millions of Canadian dollars)	2013	2012
Obligations at beginning of year	31.4	24.8
Liabilities incurred	0.3	1.4
Accretion	1.2	1.0
Revisions	2.0	4.3
Settlements	(0.5)	(0.1)
Obligations at end of year	34.4	31.4
Less: current portion	1.3	1.4
	33.1	30.0

The estimated total undiscounted cash flows required to settle the HTGS obligations at December 31, 2013, are $32.1 million (2012 – $32.1 million). Payments to settle the liability are expected to occur between 2020 and 2024. The fair value of the asset retirement obligations was determined using the present value of future cash flows discounted at the Company's credit adjusted risk-free rate of 2.8% (2012 – 2.8%). Hydro has recorded $22.6 million (2012 – $21.8 million) related to HTGS obligations.

The estimated total undiscounted cash flows required to settle the PCB obligations at December 31, 2013, are $3.3 million (2012 – $3.6 million). Payments to settle the liability are expected to occur between 2014 and 2025. The fair value of the asset retirement obligations was determined using the present value of future cash flows discounted at the Company's credit adjusted risk-free rates ranging between 3.1% and 5.7% (2012 – 3.1% and 5.5%). Hydro has recorded $1.5 million (2012 – $2.1 million) related to PCB obligations.

Oil and Gas asset retirement obligations result from net ownership interests in petroleum and natural gas properties and related well sites. The total undiscounted estimated cash flows required to settle the obligations at December 31, 2013, are $14.5 million (2012 – $10.7 million). Payments to settle the liabilities are expected to occur between 2020 and 2030. The fair value of the decommissioning liabilities was determined using the present value of future cash flows discounted at rates ranging from 4.5% to 5.9% (2012 – 4.7% to 6.3%).

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

15. SHAREHOLDER'S EQUITY

15.1 SHARE CAPITAL

(millions of Canadian dollars)	**2013**	2012
Common shares of par value $1 each		
Authorized: unlimited		
Issued and outstanding: 122,500,000	**122.5**	122.5

15.2 CONTRIBUTED CAPITAL

(millions of Canadian dollars)	**2013**	2012
Total contributed capital	**1,141.8**	435.8

On February 3, 2010, the Province established the Churchill Falls (Labrador) Corporation Trust (the Trust) with Churchill Falls as the beneficiary. The purpose of this trust is to fund the external costs and expenses incurred in relation to the motion filed by Churchill Falls seeking a modification to the pricing terms of the Power Contract. During 2013, the Trust contributed $1.7 million (2012 – $0.3 million).

In addition, during 2013, the Province contributed capital in the amount of $704.3 million (2012 – $45.0 million) in relation to Nalcor's capital investments.

15.3 ACCUMULATED OTHER COMPREHENSIVE INCOME

(millions of Canadian dollars)	**2013**	2012
Balance at beginning of year	**43.6**	46.4
Other comprehensive (loss) income		
Change in fair value of available for sale financial instruments	**(5.0)**	8.4
Change in fair value of derivatives designated as cash flow hedges	**(12.3)**	-
Amounts recognized in net income	**(15.7)**	(11.2)
Balance at end of year	**10.6**	43.6

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16. REVENUE

For the year ended December 31 (millions of Canadian dollars)	2013	2012
Electricity sales	662.6	627.5
GWAC revenue	21.2	16.0
Oil sales	75.5	68.7
Royalties	(3.3)	(1.8)
Total energy sales	756.0	710.4
Lease revenue	16.6	5.2
Government funding	2.2	4.4
Preferred dividends	3.2	3.4
Other	6.8	2.7
Total other revenue	28.8	15.7

17. OPERATING COSTS

For the year ended December 31 (millions of Canadian dollars)	2013	2012
Salaries and benefits	116.2	109.9
Maintenance and materials	30.7	29.0
Transmission rental	20.5	19.7
Professional services	17.9	14.6
Oil and gas production and exploration costs	11.3	14.8
Insurance	4.9	4.5
Other operating costs	13.9	14.4
Total	215.4	206.9

18. CAPITAL MANAGEMENT

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

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

A summary of the consolidated capital structure is outlined below:

(millions of Canadian dollars)	**2013**		2012	
Debt				
Long-term debt	**6,047.9**		1,125.9	
Short-term borrowings	**41.0**		125.0	
Current portion of long-term debt	**82.2**		8.2	
Sinking funds	**(267.6)**		(263.3)	
	5,903.5	**71.7%**	995.8	38.9%
Equity				
Share capital	**122.5**		122.5	
Contributed capital	**1,141.8**		435.8	
Accumulated other comprehensive income	**10.6**		43.6	
Retained earnings	**1,058.6**		963.0	
	2,333.5	**28.3%**	1,564.9	61.1%
Total debt and equity	**8,237.0**	**100.0%**	2,560.7	100.0%

Nalcor's unsecured demand operating facility has covenants restricting the issuance of debt such that the unconsolidated debt to total capitalization ratio cannot exceed 70.0%. The covenants further stipulate that the debt service coverage ratio should at all times be greater than 1.5 on an unconsolidated basis. As at December 31, 2013, Nalcor was in compliance with these covenants.

18.1 HYDRO

Hydro's unsecured demand operating facility has covenants restricting the issuance of debt such that the debt to total capitalization ratio cannot exceed 70.0%. The covenants further stipulate that the debt service coverage ratio should at all times be greater than 1.5. As at December 31, 2013, Hydro was in compliance with these covenants.

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

For the regulated portion of Hydro's operations, a capital structure comprised of 75.0% debt and 25.0% 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 the PUB.

Legislation stipulates that the total of the short-term loans issued by Hydro and outstanding at any time shall not exceed a limit as fixed by the Lieutenant-Governor in Council. Short-term loans are those loans issued with a term not exceeding two years. The current limit is set at $300.0 million. There was $41.0 million outstanding as at December 31, 2013 (2012 – $52.0 million). Issuance of long-term and short-term debt by Hydro is further restricted by Bill C-24, an amendment to the Newfoundland and Labrador Hydro Act of 1975. The Bill effectively limits Hydro's total borrowings, which includes both long- and short-term debt, to $1.6 billion at any point in time.

18.2 OIL AND GAS

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

18.3 BULL ARM FABRICATION

Bull Arm Fabrication's objective when managing capital is to maintain its ability to continue as a going concern. The focus of the capital management policy is to provide flexibility to ensure cash continues to be available to satisfy capital requirements. Prior to January 2009, net earnings received were payable to the Province. From January 2009 to December 2012, earnings were retained by Bull Arm Fabrication and reported in retained earnings. In 2013, Bull Arm Fabrication implemented its approved dividend policy of paying dividends to Nalcor when cash balances exceed $1 million, an amount which would provide coverage for approximately 12 months of operating expenses assuming no cash inflows.

18.4 CHURCHILL FALLS

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

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

18.5 MUSKRAT FALLS

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

18.6 TRANSCO

Long-term capital includes long-term debt, share capital, contributed capital and retained earnings. Transco's objectives when managing capital are to maintain its ability to continue as a going concern and to ensure timely payment of its contractual obligations as they relate to the construction of the Labrador Transmission Assets. Transco's future requirements for capital are

expected to increase commensurate with progress on the construction. During this time, proceeds from the construction facility and contributed capital will be sufficient to fund the development of the Labrador Transmission Assets.

18.7 LIL LP

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

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

19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

19.1 FAIR VALUE

The estimated fair values of financial instruments as at 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 Hydro might receive or incur in actual market transactions.

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

Establishing Fair Value

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

Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
(millions of Canadian dollars)		**December 31, 2013**		December 31, 2012	
Financial assets					
Cash and cash equivalents	1	**94.0**	**94.0**	12.1	12.1
Restricted cash	1	**525.5**	**525.5**	-	-
Short-term investments	1	**1.7**	**1.7**	11.5	11.5
Accounts receivable	1	**150.2**	**150.2**	125.0	125.0
Derivative assets	2	**0.2**	**0.2**	0.1	0.1
Sinking funds – investments in same Hydro issue	2	**93.9**	**105.1**	88.1	107.3
Sinking funds – other investments	2	**303.3**	**303.3**	302.8	302.8
Reserve fund	2	**50.5**	**50.5**	50.9	50.9
Long-term investments	2	**4,477.4**	**4,476.2**	-	-
Long-term receivable	2	**16.7**	**16.8**	0.8	0.8
Financial liabilities					
Accounts payable and accrued liabilities	1	**438.4**	**438.4**	198.1	198.1
Short-term borrowings	1	**41.0**	**41.0**	125.0	125.0
Derivative liabilities	2	**1.5**	**1.5**	-	-
Long-term debt including amount due within one year (before sinking funds)	2	**6,224.0**	**6,626.6**	1,222.2	1,668.6
Class B limited partnership units	3	**73.0**	**73.0**	-	-
Long-term payables	2	**78.3**	**83.2**	82.4	82.6

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

19.2 RISK MANAGEMENT

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

Credit Risk

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

Credit risk on cash and cash equivalents is considered to be minimal, as Nalcor's cash deposits are held by a Canadian Schedule 1 Chartered Bank with a rating of A+ (Standard and Poor's). Credit risk on short-term investments is minimized by limiting holdings to high-quality, investment-grade securities issued by the Federal and Provincial governments, as well as Bankers' Acceptances and term deposits issued by Canadian Schedule 1 Chartered Banks.

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

	Issuer Credit Rating	Fair Value of Portfolio %	Issuer Credit Rating	Fair Value of Portfolio %
		2013		2012
Provincial Governments	AA- to AAA	3.29%	AA- to AAA	4.71%
Provincial Governments	A- to A+	38.31%	A- to A+	52.75%
Provincially owned utilities	AA- to AAA	16.47%	AA- to AAA	-
Provincially owned utilities	A- to A+	39.09%	A- to A+	37.31%
Schedule 1 Canadian banks	AA- to AAA	0.98%	AA- to AAA	-
Schedule 1 Canadian banks	A- to A+	1.86%	A- to A+	1.64%
Provincially owned utilities	BBB+	-	BBB+	3.59%
		100.00%		100.00%

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

	Issuer Credit Rating	Fair Value of Portfolio %	Issuer Credit Rating	Fair Value of Portfolio %
		2013		2012
Provincial Governments	AA- to AAA	8.94%	AA- to AAA	13.19%
Canadian Schedule 1 or 2 banks	AA- to AAA	16.70%	AA- to AAA	12.70%
Provincial Governments	A- to A+	21.25%	A- to A+	20.86%
Provincially owned utilities	AA- to AAA	9.09%	AA- to AAA	-
Provincially owned utilities	A- to A+	6.06%	A- to A+	13.39%
Canadian Schedule 1 banks	A- to A+	37.96%	A- to A+	39.86%
		100.00%		100.00%

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

	Issuer Credit Rating	Fair Value of Portfolio %	Issuer Credit Rating	Fair Value of Portfolio %
		2013		2012
Canadian Schedule 1 bank	AA-	100.00%	AA-	-
		100.00%		-

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

Nalcor's exposure to credit risk on its energy sales and associated accounts receivable is determined by the credit quality of its customers. Nalcor's three largest customers pre-date the credit policies outlined in the Financial Risk Management Policy. These customers account for 72.6% (2012 – 74.9%) of total energy sales and 50.2% (2012 – 57.9%) of accounts receivable. These customers are all rate regulated entities and/or companies with investment grade credit ratings.

Nalcor does not have any significant amounts that are past due and uncollectable, for which a provision has not been recognized at December 31, 2013.

Liquidity Risk

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

Short-term liquidity for Nalcor and its subsidiaries is mainly provided through cash and cash equivalents on hand, funds from operations and a $250.0 million (2012 – $100.0 million) demand operating credit facility which Nalcor maintains with its banker. In addition, Hydro has access to a $300.0 million promissory note program and a $50.0 million (2012 – $50.0 million) unsecured demand operating credit facility. Oil and Gas and Churchill Falls also maintain demand operating facilities of $5.0 million (2012 – $5.0 million) and $10.0 million (2012 – $10.0 million), respectively. Churchill Falls maintains a $16.0 million minimum cash balance.

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

Long-term liquidity risk for Nalcor is managed by the issuance of a portfolio of debentures with maturity dates ranging from 2014 to 2033. Sinking funds have been established for these issues, with the exception of the issue maturing in 2016. For Churchill Falls, long-term liquidity risk is managed by maintenance of the reserve fund in accordance with the June 1999 shareholders' agreement and a dividend management policy that meets long-term liquidity requirements associated with Churchill Falls' capital expenditure program.

The following are contractual maturities of Nalcor's financial liabilities, including principal and interest as at December 31, 2013:

(millions of Canadian dollars)	<1 Year	1-3 Years	3-5 Years	>5 Years	Total
Accounts payable and accrued liabilities	438.4	-	-	-	438.4
Short-term borrowings	41.0	-	-	-	41.0
Long-term debt	125.0	225.0	150.0	5,725.0	6,225.0
Interest	273.8	533.5	493.7	5,192.3	6,493.3
Long-term payables	7.2	16.1	22.0	92.4	137.7
	885.4	774.6	665.7	11,009.7	13,335.4

Market Risk

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

Interest Rates

Changes in prevailing interest rates will impact the fair value of financial assets and liabilities classified as held for trading or available for sale, which includes Nalcor's cash and cash equivalents, short-term investments, sinking funds and reserve fund. Expected future cash flows associated with those financial instruments can also be impacted. The impact of a 0.5% change in interest rates on net income and other comprehensive income associated with cash and cash equivalents, debt and short-term debt was negligible throughout 2013 due to the short time period to maturity.

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

	Net Income		Other Comprehensive Income	
(millions of Canadian dollars)	0.5% decrease	0.5% increase	0.5% decrease	0.5% increase
Interest on sinking funds	(0.1)	0.1	8.1	(22.9)
Interest on reserve fund	-	-	0.9	(0.9)
Interest on long-term investments	(0.2)	0.2	-	-
Interest on short-term investments	(0.1)	0.1	-	-
	(0.4)	0.4	9.0	(23.8)

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

Foreign Currency and Commodity Exposure

Nalcor's primary exposure to both foreign exchange and commodity price risk arises from its purchases of No. 6 fuel for consumption at the HTGS, USD denominated electricity sales, rental revenues and the sale of crude oil. These exposures are addressed in accordance with the board-approved Financial Risk Management Policy. Tactics used to address these exposures include the use of forward rate agreements and fixed price commodity swaps.

During 2013, total electricity sales denominated in USD were $54.7 million (2012 – $33.8 million). In 2013, Hydro mitigated foreign exchange risk on these sales through the use of foreign currency forward contracts. In January of 2013, Hydro entered into a series of 12 monthly foreign exchange forward contracts with a notional value of $23.0 million USD to hedge foreign exchange risk on a portion of Hydro's planned USD electricity sales for the year. These contracts had an average exchange rate of $1.01 CAD per USD. In April of 2013, Hydro entered into a series of 10 monthly foreign exchange forward contracts with a notional value of $14.4 million USD to hedge foreign exchange risk on a portion of Hydro's planned USD electricity sales for the year. These contracts had an average exchange rate of $1.03 CAD per USD. In 2013, Management elected not to implement commodity price hedges aimed at addressing electricity price risk due to low market pricing conditions. During 2013, $0.1 million in gains from these derivative contracts was included in other income and expense (2012 – $0.1 million in gains).

In December of 2013, Hydro entered into a series of 12 monthly foreign exchange forward contracts with a notional value of $38.5 million USD to hedge foreign exchange risk on a portion of Hydro's planned USD electricity sales to the end of 2014. These contracts have an average exchange rate of $1.08 CAD per USD. Hydro also entered into a series of 12 electricity price forward contracts with a notional value of $14.2 million USD. The average price of these contracts were USD $38.74 per MWh (on peak) and USD $28.42 per MWh (off peak). At December 31, 2013, a loss of $0.3 million from these derivative contracts was recognized in other income and expense.

These forward contracts impact other income and expense with totals of $0.2 million in losses for 2013 (2012 – $0.1 million gain).

During 2013, total oil sales denominated in USD were $73.0 million (2012 – $69.2 million). While Oil and Gas had exposure to fluctuations in the USD/CAD exchange rate on those sales, a significant portion of Oil and Gas' planned capital expenditures for 2013 were denominated in USD, which mitigated this exposure. In January 2013, Oil and Gas entered into a series of 11 commodity price swaps with a notional value of $25.3 million USD to mitigate price exposure on 36.0% of remaining budgeted production for the year. During 2013, $0.8 million in losses from these contracts were included in other income and expense (2012 – gain of $0.2 million).

In December 2013, Oil and Gas entered into a series of 12 commodity price swaps with a notional value of $31.9 million USD to mitigate commodity price exposure on energy sales. These contracts provide Oil and Gas with an average fixed price of $106.75 per barrel on approximately 36.0% of the estimated production for 2014.

During 2013, total rental revenues of $16.1 million (2012 – $4.9 million) for Bull Arm Fabrication were denominated in USD. In January 2013, Bull Arm Fabrication entered into a series of 22 monthly foreign exchange forward contracts with a notional value of $10.1 million USD to hedge foreign exchange risk on rental revenue. These contracts had an average exchange rate of $1.01 CAD per USD on 44.0% of the budgeted USD lease revenue for 2013, and 44.0% of the expected (as of January 2013) USD lease revenue in 2014. As of December 31, 2013, 12 of these hedge contracts remained outstanding.

19.3 HEDGE ACCOUNTING

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

20. NET FINANCE EXPENSE

For the year ended December 31 (millions of Canadian dollars)	2013	2012
Finance income		
Interest on sinking funds	20.6	18.8
Interest on reserve fund	1.4	1.6
Other interest income	3.0	1.6
	25.0	22.0
Finance expense		
Interest on long-term debt	94.9	90.5
Interest on Class B limited partnership units	5.3	-
Accretion	4.4	2.7
Debt guarantee fee	3.7	3.7
Other	1.0	1.4
	109.3	98.3
Interest capitalized during construction	(11.8)	(2.7)
	97.5	95.6
Net finance expense	72.5	73.6

21. SUPPLEMENTARY CASH FLOW INFORMATION

For the year ended December 31 (millions of Canadian dollars)	2013	2012
Accounts receivable	(25.2)	38.6
Inventory	(13.1)	2.0
Prepaid expenses	(1.9)	(0.8)
Accounts payable and accrued liabilities	240.3	42.0
Changes to non-cash working capital balances	200.1	81.8
Income taxes paid	0.1	0.1
Interest received	3.4	3.3
Interest paid	91.6	92.0

22. 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 designation of segments has been based on a combination of regulatory status and management accountability. The segments' accounting policies are the same as those described in Note 2 of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	Hydro Regulated	Churchill Falls	Oil and Gas	Energy Marketing	Corporate and Other Activities	Phase 1 Lower Churchill Project	Bull Arm	Inter-Segment	Total
(millions of Canadian dollars)					2013				
Revenue									
Energy sales	543.1	76.5	72.2	68.2	-	-	-	(4.0)	756.0
Other revenue	2.3	0.3	6.1	-	0.2	-	16.6	3.3	28.8
	545.4	76.8	78.3	68.2	0.2	-	16.6	(0.7)	784.8
Expenses									
Fuels	190.9	-	-	-	-	-	-	-	190.9
Power purchased	59.4	-	-	7.7	-	-	-	(3.9)	63.2
Operations and administration	114.7	42.3	19.2	26.8	11.3	0.2	0.9	-	215.4
Net finance expense	73.5	(1.5)	(0.5)	0.3	0.8	-	(0.1)	-	72.5
Amortization	51.7	14.2	21.3	-	0.4	-	0.1	-	87.7
Other income and expense	(0.9)	1.8	0.8	0.2	-	1.8	0.2	-	3.9
Regulatory adjustments	55.6	-	-	-	-	-	-	-	55.6
	544.9	56.8	40.8	35.0	12.5	2.0	1.1	(3.9)	689.2
Net income (loss) from operations	0.5	20.0	37.5	33.2	(12.3)	(2.0)	15.5	3.2	95.6
Preferred dividends	-	3.2	-	-	-	-	-	(3.2)	-
Net income (loss)	0.5	23.2	37.5	33.2	(12.3)	(2.0)	15.5	-	95.6
Capital expenditures	80.6	32.3	195.3	-	6.4	694.9	-	-	1,009.5
Total assets	1,954.0	472.4	580.3	5.7	317.2	6,320.4	3.6	(116.4)	9,537.2

	Hydro Regulated	Churchill Falls	Oil and Gas	Energy Marketing	Corporate and Other Activities	Phase 1 Lower Churchill Project	Bull Arm	Inter-Segment	Total
(millions of Canadian dollars)					2012				
Revenue									
Energy sales	520.7	73.0	66.9	53.6	0.2	-	-	(4.0)	710.4
Other revenue	2.1	0.5	4.5	-	-	-	5.2	3.4	15.7
	522.8	73.5	71.4	53.6	0.2	-	5.2	(0.6)	726.1
Expenses									
Fuels	182.4	-	-	-	-	-	-	-	182.4
Power purchased	57.0	0.1	-	7.7	-	-	-	(4.0)	60.8
Operations and administration	109.5	42.0	20.4	24.7	9.3	-	1.0	-	206.9
Net finance expense	74.0	(1.6)	(0.3)	0.1	1.4	-	-	-	73.6
Amortization	47.5	12.7	18.7	-	0.3	-	0.1	-	79.3
Other income and expense	5.3	(4.6)	(0.1)	(0.1)	-	-	(0.1)	-	0.4
Regulatory adjustments	30.0	-	-	-	-	-	-	-	30.0
	505.7	48.6	38.7	32.4	11.0	-	1.0	(4.0)	633.4
Net income (loss) from operations	17.1	24.9	32.7	21.2	(10.8)	-	4.2	3.4	92.7
Preferred dividends	-	3.4	-	-	-	-	-	(3.4)	-
Net income (loss)	17.1	28.3	32.7	21.2	(10.8)	-	4.2	-	92.7
Capital expenditures	77.6	30.1	88.8	-	5.6	247.3	-	-	449.4
Total assets	1,906.4	456.2	392.7	3.5	252.5	443.3	13.6	(21.3)	3,446.9

All of Nalcor's physical assets are located in the province and all revenues are generated in Canada.

23. 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. Beginning in 2015, Churchill Falls is required to make this horsepower available to Hydro at rates that are commercially reasonable pursuant to the 1999 shareholders' agreement.

At the expiry of the sublease, certain assets of Twin Falls will revert to Churchill Falls. Management is currently evaluating the extent of its responsibility, if any, for any potential related environmental or decommissioning liabilities.

(b) The results of an Environmental Site Assessment conducted at the Twin Falls plant 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 further monitoring be carried out. Monitoring was performed throughout 2010 with no remediation required. However, the 2010 sampling did indicate some increase in PCB concentrations in sediment and fish flesh in specific locations, and an increased frequency of monitoring was recommended. Further sampling was conducted in 2013, however, the consultant's report is not yet available.

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

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

2014	$19.5 million
2015	$19.7 million
2016	$19.9 million
2017	$ 20.1 million
2018	$ 20.3 million

(d) 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 currently considers Nalcor's exposure to such claims and litigation, to the extent not covered by insurance policies or otherwise provided for, to be $0.3 million (2012 – $0.3 million).

One of Hydro's industrial customers commenced legal proceedings in 1997, claiming approximately $22.0 million (2012 – $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 $2,424.6 million as at December 31, 2013 (2012 – $531.8 million). In addition, Oil and Gas has committed to fund its share of all exploration and development projects.

(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	390 kW	2010	Continual
Wind	27 MW	2008	20 years
Wind	27 MW	2009	20 years

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

(millions of Canadian dollars)	2014	2015	2016	2017	2018
Power purchases	24.5	24.3	24.5	24.8	25.1

(g) Nalcor has issued four irrevocable letters of credit. One was issued to DFO, two were issued to the Newfoundland Labrador Offshore Petroleum Board and one was issued to Newfoundland Transshipment. The letter of credit issued to DFO in the amount of $0.3 million was in connection with the operation of the hydroelectric assets on the Exploits River. The remaining letters of credit totalled $4.8 million and relate to Oil and Gas to ensure compliance with regulations relating to petroleum and natural gas exploration and production activities.

Hydro has issued one letter of credit to DFO in the amount of $0.3 million as a performance guarantee in relation to the Fish Habitat Compensation Agreement.

Churchill Falls has issued three 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.

Oil and Gas has issued one irrevocable letter of credit in the amount of $0.3 million to secure its share of a joint obligation to complete a fish habitat compensation and monitoring program for the Hibernia South Extension, as required under the Fisheries Act.

(h) 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 instalments of $25,000 per commercial implementation of the resulting product. As at December 31, 2013, there have been no commercial implementations.

(i) On February 23, 2010, Churchill Falls filed a motion against Hydro-Québec in the Québec Superior Court. The Motion is seeking a modification to the pricing terms of the 1969 Power Contract as of November 30, 2009. The trial took place during the autumn of 2013. It is anticipated that the court will issue its decision on the matter in 2014.

(j) 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, $3.8 million (2012 – $1.8 million) has been received and $0.8 million (2012 - $0.2 million) has been accrued as due from the Trust.

(k) In July 2013, Hydro-Québec filed a Motion for Declaratory Judgment in Quebec Superior Court relating to the interpretation of the 1969 Power Contract between Churchill Falls and Hydro-Quebec. The Motion, and its possible outcomes are presently under consideration by Churchill Falls' legal advisors.

(l) The LIL LP is required to make mandatory distributions in accordance with the LIL LP Agreement. The amount of periodic distributions will be determined by the LIL GP and are expected to commence upon in-service of the LIL.

(m) As part of the Lower Churchill Project Funding Agreements, Nalcor and certain subsidiaries have pledged specific future and current assets as security to the collateral agent. Nalcor has also provided guarantees in accordance with financing agreements dated November 30, 2013.

(n) Under the terms of the Newfoundland and Labrador Development Agreement (NLDA), the LIL GP has certain responsibilities and provisions of duty to which it must comply in its role as the General Partner. Any failure of the LIL GP to comply with the NLDA will result in Nalcor indemnifying Emera NL for any losses sustained.

24. 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	Jointly controlled subsidiary of Churchill Falls
The Trust	Created by the Province with Churchill Falls as the beneficiary
LIL LP	Partnership in which Nalcor holds 75 Class A Partnership Units
PUB	Agency of the Province

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

(a) Hydro has entered into a long-term power contract with Churchill Falls for the purchase of $6.1 million (2012 – $6.1 million) of the power produced by Churchill Falls.

(b) Hydro is required to contribute to the cost of operations of the PUB as well as the cost of hearings and application costs. During 2013, Hydro incurred $0.6 million (2012 – $1.5 million) in costs related to the PUB of which $0.2 million (2012 – $0.6 million) was included in accounts payable and accrued liabilities.

(c) The debt guarantee fee payable to the Province for 2013 was $3.7 million. It was paid to the Province in April 2013 (2012 – $3.7 million).

(d) The Petroleum Exploration Enhancement Program (PEEP) was established as part of the Newfoundland and Labrador Energy Plan. PEEP is designed to boost new petroleum exploration in Western Newfoundland through the acquisition and assessment of seismic data. Funding for PEEP is provided by the Province and the program is administered by Oil and Gas. Total funding received under PEEP was $4.5 million over five years. There was no funding provided in 2013 or 2012 and $1.6 million (2012 – $1.8 million) is included in deferred revenue.

(e) The Offshore Geoscience Data Project (OGDP) was established as part of the Newfoundland and Labrador Energy Plan. OGDP is designed to boost new offshore petroleum exploration in Newfoundland through the acquisition and assessment of seismic data. Funding for OGDP is provided by the Province and the program is administered by Oil and Gas. Total funding received under OGDP was $14.3 million over four years. In 2013, funding of $1.5 million was received from the Province (2012 – $2.3 million). Currently, $2.6 million is recorded as deferred revenue (2012 – $3.0 million).

(f) Prior to January 1, 2009, the Provincial Minister of Finance was authorized to invest any surplus from Bull Arm Fabrication's operations. Each year, the surplus or deficit from operations was credited or charged to the distribution payable to the Province; however, there are no set terms of payment. The balance contains the accumulated results of operations of Bull Arm Fabrication since inception up to January 1, 2009, less any distributions paid to the Province. Effective January 1, 2009, earnings are to be retained and are reflected in retained earnings. As at December 31, 2013, $0.8 million (2012 – $0.8 million) of distribution payable to the Province are included in accounts payable and accrued liabilities.

(g) Nalcor, as the operator of the Exploits assets, has a net payable to the Province of $18.8 million (2012 – $17.4 million) which is included in accounts payable and accrued liabilities. Nalcor operates these assets on behalf of the Province on a cost recovery basis.

(h) 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, 2013, $5.6 million (2012 – $6.2 million) was payable.

(i) Hydro received contributions in aid of construction from the Province related to wind feasibility studies. As at December 31, 2013, $0.7 million (2012 – $1.9 million) has been recorded in deferred credits.

(j) In relation to Nalcor's financial obligations with respect to the UCRA, the Province provided funding in the amount of $35.7 million which is recorded as other long-term assets. This funding will be used to offset payments to the Innu Nation.

25. SUBSEQUENT EVENTS

(a) In January of 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 with an average fixed price of $1.09 CAD per USD. Combined with the hedges in place as of December 31, 2013, 100.0% of the expected USD lease revenue for 2014 is hedged, at a weighted average price of $1.07 CAD per USD.

(b) Subsequent to year end, Nalcor entered into new commitments totalling $200.9 million related to the Muskrat Falls Project.

(c) In March 2014, Nalcor incorporated a wholly owned subsidiary, Nalcor Energy Marketing.

Appendix 3

Newfoundland and Labrador Hydro Consolidated Financial Statements

NEWFOUNDLAND AND LABRADOR HYDRO
CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2013

DIRECTORS

TERRANCE STYLES*
Business Owner

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

KEN MARSHALL
President - Atlantic Region
Rogers Cable

GERALD SHORTALL
Chartered Accountant
Corporate Director

OFFICERS

TERRANCE STYLES*
Chairperson

ED MARTIN
President and Chief Executive Officer

GILBERT BENNETT
Vice President, Lower Churchill Project

ROB HENDERSON
Vice President, Newfoundland and Labrador Hydro

PAUL HUMPHRIES
Vice President, System Operations and Planning

DERRICK STURGE
Vice President, Finance and Chief Financial Officer

GERARD McDONALD
Vice President, Human Resources and Organizational Effectiveness

JOHN MacISAAC
Vice President, Project Execution and Technical Services

WAYNE CHAMBERLAIN
General Counsel and Corporate Secretary

PETER HICKMAN
Assistant Corporate Secretary

SCOTT PELLEY
Corporate Treasurer

S. KENT LEGGE**
General Manager, Finance and Corporate Services

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*Resigned February 28, 2014
**Resigned January 31, 2014

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of Newfoundland and Labrador Hydro, which comprise the consolidated balance sheet as at December 31, 2013, 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 Consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our 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, 2013 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte LLP

Chartered Accountants
March 25, 2014

NEWFOUNDLAND AND LABRADOR HYDRO
CONSOLIDATED BALANCE SHEET

As at December 31 (millions of dollars)	Notes	2013	2012
ASSETS			
Current assets			
Cash and cash equivalents		**18.3**	11.8
Short-term investments		**0.7**	0.5
Accounts receivable		**104.0**	102.3
Current portion of regulatory assets	4	**2.2**	2.2
Inventory		**75.2**	62.1
Prepaid expenses		**4.5**	3.9
Derivative assets		**0.2**	-
Current portion of sinking funds	5	**65.4**	-
		270.5	182.8
Property, plant and equipment	3	**1,845.0**	1,805.5
Regulatory assets	4	**62.2**	62.8
Other long-term assets	5	**254.4**	315.0
		2,432.1	2,366.1
LIABILITIES			
Current liabilities			
Short-term borrowings	7	**41.0**	52.0
Accounts payable and accrued liabilities		**118.4**	92.3
Current portion of long-term debt	7	**82.2**	8.2
Deferred credits	19	**0.7**	1.9
Current portion of regulatory liabilities	4	**214.0**	169.0
Current portion of asset retirement obligations	9	**0.4**	0.3
Derivative liabilities		**0.4**	-
		457.1	323.7
Long-term debt	7	**1,046.6**	1,125.9
Regulatory liabilities	4	**40.3**	33.2
Asset retirement obligations	9	**24.7**	24.6
Long-term payables	8	**1.6**	2.6
Employee future benefits	10	**75.3**	69.3
		1,645.6	1,579.3
SHAREHOLDER'S EQUITY			
Share capital	11	**22.5**	22.5
Contributed capital	11	**118.4**	116.7
		140.9	139.2
Accumulated other comprehensive income	11	**25.5**	42.8
Retained earnings		**620.1**	604.8
		645.6	647.6
		786.5	786.8
		2,432.1	2,366.1

Commitments and contingencies (Note 18)

See accompanying notes

On behalf of the Board:

DIRECTOR

DIRECTOR

NEWFOUNDLAND AND LABRADOR HYDRO
CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

For the year ended December 31 (millions of dollars)	Notes	**2013**	2012
Revenue			
Energy sales		**682.3**	641.9
Other revenue		**5.9**	6.0
		688.2	647.9
Expenses			
Fuels		**190.9**	182.4
Power purchased		**63.2**	60.8
Operating costs	12	**185.0**	177.2
Net finance expense	15	**72.3**	72.5
Amortization		**65.9**	60.2
Other (income) and expense		**1.1**	0.6
Regulatory adjustments	4	**55.6**	30.0
		634.0	583.7
Net income		**54.2**	64.2
Retained earnings at beginning of year		**604.8**	570.9
Dividends		**38.9**	30.3
Retained earnings at end of year		**620.1**	604.8

See accompanying notes

NEWFOUNDLAND AND LABRADOR HYDRO
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31 (millions of dollars)	Notes	**2013**	2012
Net income		**54.2**	64.2
Other comprehensive loss			
Change in fair value of available for sale financial instruments		**(5.0)**	8.4
Amount recognized in net income		**(12.3)**	(12.0)
Comprehensive income		**36.9**	60.6

See accompanying notes

NEWFOUNDLAND AND LABRADOR HYDRO
CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31 (millions of dollars)	Notes	**2013**	2012
Cash provided by (used in)			
Operating activities			
Net income		**54.2**	64.2
Adjusted for items not involving a cash flow			
Amortization		**65.9**	60.2
Accretion of long-term debt		**0.5**	0.5
(Gain) loss on disposal of property, plant and equipment		**(0.8)**	3.4
Employee future benefits	10	**7.7**	8.6
Regulatory adjustments		**55.6**	30.0
Other		**0.7**	1.3
		183.8	168.2
Changes in non-cash working capital balances	16	**10.7**	(62.9)
		194.5	105.3
Financing activities			
Dividends paid to Nalcor		**(38.9)**	(30.3)
Increase in contributed capital		**1.7**	0.3
(Decrease) increase in short-term borrowings	7	**(11.0)**	52.0
(Increase) decrease in long-term receivables		**(0.9)**	0.8
Decrease in deferred credits		**(1.2)**	(1.6)
Decrease in long-term payable		**(1.0)**	(3.6)
		(51.3)	17.6
Investing activities			
Additions to property, plant and equipment	3	**(112.9)**	(107.7)
Increase in sinking fund	5	**(27.6)**	(26.1)
(Increase) decrease in short-term investments		**(0.2)**	9.1
Increase in reserve fund		**-**	(5.6)
Proceeds on disposition of property, plant and equipment		**4.0**	3.5
		(136.7)	(126.8)
Net increase (decrease) in cash position		**6.5**	(3.9)
Cash position at beginning of year		**11.8**	15.7
Cash position at end of year		**18.3**	11.8
Cash position is represented by:			
Cash		**18.3**	11.8
		18.3	11.8

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 (the Province). The principal activity of Hydro is the generation, transmission and sale of electricity. Hydro's operations include both regulated and non-regulated activities. Hydro's head office is located in St. John's, Newfoundland and Labrador.

Hydro holds interests in the following subsidiary 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

2.1 Basis of Presentation

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP).

2.2 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-Quebec 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-Quebec 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-Quebec, 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.)

2.3 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 of property, plant, and equipment and other employee future benefits. Actual results may differ materially from these estimates, including changes as a result of future decisions made by the Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB).

2.4 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 range on rate of return on rate base is 7.4% (2012 - 7.4%) +/- 15 basis points. 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 customer 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 these consolidated financial statements are more fully disclosed in Note 4.

2.5 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 (BAs). 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 12 months are classified as short-term investments. The short-term investments bear interest rates of 1.12% to 1.30% (2012 - 1.34% to 1.35%) per annum. Cash and cash equivalents and short-term investments are measured at fair value.

2.6 Inventory

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

2.7 Property, Plant and Equipment

Property, plant and equipment is recorded at cost, which comprises materials, labour, contracted services and other costs directly related to construction 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 in progress 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.

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

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

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

Hydro

Electricity Generation, Transmission and Distribution

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 embedded cost of debt.

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

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

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 which are carried at cost less accumulated amortization. Amortization is calculated on a straight-line basis over estimated useful lives ranging from 5 to 55 years.

Churchill Falls

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

Hydroelectric generation plant	45 to 100 years
Transmission and terminals	30 to 65 years
Service facilities and other	7 to 45 years

Twin Falls

Amortization is calculated on a straight-line basis over the estimated useful lives of 33 years.

Amortization methods, useful lives and residual values are reviewed at each reporting date.

2.8 Capitalized Interest

Interest is charged to construction in progress until the project is complete at rates equivalent to the embedded cost of debt. Capitalized interest cannot exceed actual interest incurred.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

2.9 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.

2.10 Asset Retirement Obligations

The fair value of future expenditures required to settle 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 obligations and the actual retirement costs incurred are recorded as a gain or loss in the settlement period.

2.11 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 cumulative net actuarial gains and losses over 10% of the accrued benefit obligation is amortized over the expected average remaining service life of the employee group.

2.12 Revenue Recognition

Revenue is recognized on the accrual basis, as power and energy deliveries are made. Sales within the Province are primarily at rates approved by the PUB, whereas sales to certain major industrial customers and export sales are either at rates under the terms of the applicable contracts, or at market rates.

A power contract with Hydro-Quebec (Power Contract), dated May 12, 1969, 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 kilowatt hour (kWh) to 2.0 mills per kWh upon renewal in 2016.

Churchill Falls receives revenues from Hydro-Quebec, under a guaranteed winter availability contract (GWAC) through 2041. The GWAC provides for the sale of 682 MW of guaranteed seasonal availability to Hydro-Quebec 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 measured over a four-year period and then either recovered from or refunded to Hydro-Quebec 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 (2012 - 7%).

In the absence of a signed agreement with Hydro-Quebec related to the 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.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

2.13 Foreign Currency Translation

Foreign currency transactions are translated into their CAD 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.

2.14 Financial Instruments and Hedging Activities

Financial Instruments

Financial assets and financial liabilities are recognized on the consolidated 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
Derivative assets	Held for trading
Sinking funds - investments in same Hydro issue	Held to maturity
Sinking funds - other investments	Available for sale
Reserve fund	Available for sale
Long-term receivables	Loans and receivables
Accounts payable and accrued liabilities	Other financial liabilities
Short-term borrowings	Other financial liabilities
Derivative liabilities	Held for trading
Long-term debt	Other financial liabilities
Long-term payable	Other financial 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 instruments 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 had no cash flow hedges or fair value hedges in place at December 31, 2013 (2012 - $nil).

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

2.15 Future Accounting Changes – International Financial Reporting Standards (IFRS)

The Canadian Accounting Standards Board (AcSB) amended the introduction to Part 1 if the Canadian Institute of Chartered Professional Accountants (CICPA) Handbook – Accounting to allow qualifying entities with rate-regulated activities to defer the adoption of IFRS to January 1, 2015. Hydro is a qualifying entity and has chosen to avail of the deferral option for the year ended December 31, 2013.

Although IFRS and Canadian GAAP are based on a similar conceptual framework, there are a number of differences in recognition, measurement and disclosure. The areas with the highest potential impact on Hydro are property, plant and equipment, regulatory assets and liabilities. In January 2014, the IASB issued interim standard *IFRS 14 Regulatory Deferral Accounts*, which will be applicable to rate-regulated entities who have not yet converted to IFRS. The purpose of the interim standard is to enhance the comparability of financial reporting by entities that are engaged in rate-regulated activities. The interim standard is effective for first-time adopters of IFRS for a period beginning on or after January 1, 2016 with early adoption permitted.

Hydro continues 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 and the accounting elections made.

3. PROPERTY, PLANT AND EQUIPMENT

(millions of dollars)	**Property Plant and Equipment in Service**	**Contributions in Aid of Construction**	**Accumulated Amortization**	**Construction in Progress**	**Net Book Value**
			2013		
Generation plant					
Hydroelectric	**1,367.2**	**2.4**	**379.2**	**6.3**	**991.9**
Thermal	**126.8**	**-**	**20.7**	**3.8**	**109.9**
Diesel	**40.2**	**-**	**4.4**	**2.5**	**38.3**
Transmission and distribution	**696.1**	**19.4**	**110.8**	**6.2**	**572.1**
Other	**212.8**	**24.1**	**59.4**	**3.5**	**132.8**
	2,443.1	**45.9**	**574.5**	**22.3**	**1,845.0**
(millions of dollars)			2012		
Generation plant					
Hydroelectric	1,349.6	2.4	356.5	6.6	997.3
Thermal	98.1	-	12.5	8.5	94.1
Diesel	37.9	-	2.7	0.3	35.5
Transmission and distribution	644.2	18.5	92.7	21.5	554.5
Other	189.3	23.1	48.4	6.3	124.1
	2,319.1	44.0	512.8	43.2	1,805.5

4. REGULATORY ASSETS AND LIABILITIES

(millions of dollars)	**2013**	2012	**Remaining Recovery Settlement Period (years)**
Regulatory assets			
Foreign exchange losses	**60.5**	62.6	28.0
Deferred energy conservation costs	**3.9**	2.4	n/a
Total regulatory assets	**64.4**	65.0	
Less current portion	**2.2**	2.2	
	62.2	62.8	
Regulatory liabilities			
Rate stabilization plan (RSP)	**253.8**	201.7	n/a
Deferred purchased power savings	**0.5**	0.5	13.5
Total regulatory liabilities	**254.3**	202.2	
Less current portion	**214.0**	169.0	
	40.3	33.2	

4.1 Regulatory Adjustments Recorded in the Consolidated Statement of Income

(millions of dollars)	**2013**	2012
RSP recovery	**58.9**	60.4
Rural rate adjustment	**11.4**	7.0
RSP fuel deferral	**(35.3)**	(49.3)
RSP interest	**17.1**	13.2
Amortization of deferred foreign exchange losses	**2.1**	2.1
Deferred foreign exchange losses on fuel	**-**	(0.4)
Employee future benefit actuarial losses	**(1.7)**	(2.3)
Amortization of major extraordinary repairs	**-**	0.6
Deferred energy conservation	**(1.5)**	(1.4)
Insurance proceeds	**4.6**	0.2
Deferred purchased power savings	**-**	(0.1)
	55.6	30.0

Hydro has operations that are regulated by the PUB.

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 sections describe each of the circumstances in which rate regulation affects the accounting for a transaction or event.

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

4.2 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 variations, which will be recovered or refunded at a rate of 25% 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. A portion of the RSP balance totaling $134.4 million has been set aside with $115.3 million to be refunded to retail customers, $10.9 million to be used to phase in Island Industrial rate increases and $8.2 million subject to a future regulatory ruling. This balance is mainly due to fuel savings at the Holyrood Thermal Generating Station (HTGS) as a result of the shutdown of a portion of the pulp and paper industry in the Province in 2007.

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 2013, $35.3 million was deferred (2012 - $49.3 million) as an RSP fuel deferral and $58.9 million (2012 - $60.4 million) was recovered through rates and included in energy sales.

Hydro's rural rates on the Island Interconnected and Isolated systems are primarily based upon rates ordered by the PUB. Therefore, when a rural rate electricity adjustment has been approved by the PUB, Hydro's rural customers are charged the approved rate change. In 2013, Hydro recognized in regulatory adjustments a rural rate adjustment that reduces income and increases the RSP liability by $11.4 million (2012 - $7.0 million). In the absence of rate regulation, the rural rate adjustment would have been recorded in income.

Hydro is required to charge or pay interest on balances accumulating in the RSP at a rate equal to Hydro's weighted average cost of capital. As a result, Hydro recognized in regulatory adjustments an RSP interest expense of $17.1 million in 2013 (2012 - $13.2 million).

4.3 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. 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 (2012 - $2.1 million), is included in regulatory adjustments.

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

4.4 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 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 were amortized over a five year period. In the absence of rate regulation, Canadian GAAP would require that Hydro expense the boiler tube repairs in the year incurred. In 2013, there was amortization of $nil (2012 - $0.6 million) as a regulatory adjustment.

4.5 Deferred Energy Conservation Costs

Pursuant to Order No. P.U. 35 (2013), Hydro received approval to defer costs associated with an electrical conservation program for residential, industrial, and commercial sectors. 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 2013, Hydro recognized $1.5 million (2012 - $1.4 million) in regulatory adjustments. Discharge of the balance will be dealt with as part of the General Rate Application currently before the PUB.

4.6 Deferred Purchased Power Savings

In 1997, Hydro interconnected communities in the area of L'Anse au Clair to Red Bay to the Hydro-Quebec 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. The remaining unamortized savings in the amount of $0.5 million (2012 - $0.5 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.

4.7 Property, Plant and Equipment

The PUB permits major inspections and overhauls to be included in the cost of capital and amortized over the average expected period of the next major inspection. In 2013, $3.5 million (2012 - $6.8 million) was recognized as property, plant and equipment. In the absence of rate regulation, Canadian GAAP would require that Hydro include the major inspections as operating costs in the year incurred.

4.8 Foreign Exchange Gains and Losses

Hydro purchases a significant amount of fuel for HTGS in USD. The RSP allows Hydro to defer variances in fuel prices (including foreign exchange fluctuations). During 2013, Hydro deferred, in regulatory adjustments, foreign exchange losses on fuel purchases of $nil (2012 - loss of $0.4 million). In the absence of rate regulation, Canadian GAAP would require that Hydro include gains and losses on foreign currencies in net finance expense in the period incurred.

4.9 Insurance Proceeds

Pursuant to Order No. P.U. 13 (2012), Hydro records net insurance proceeds in excess of $50,000 against the capital costs of the related assets. During 2013, Hydro recorded, in regulatory adjustments, net insurance proceeds of $4.5 million (2012 - $0.2 million) with an offset against costs of the related assets. In the absence of rate regulation, Canadian GAAP would require Hydro to include insurance proceeds in net income.

4.10 Employee Future Benefits

Pursuant to Order No. P.U. 13 (2012), Hydro defers the amortization of employee future benefit actuarial losses. During 2013, Hydro recorded in, regulatory adjustments a deferral of actuarial gains and losses of $1.7 million (2012 - $2.3 million). In the absence of rate regulation, Canadian GAAP would require Hydro include employee future benefits gains and losses in net income.

5. OTHER LONG-TERM ASSETS

(millions of dollars)		**2013**	2012
Long-term receivables	(a)	**1.7**	0.8
Sinking funds	(b)	**202.2**	263.3
Reserve fund	(c)	**50.5**	50.9
		254.4	315.0

(a) The balance of $1.7 million (2012 - $0.8 million) includes the non-current portion of receivables associated with customer time payment plans and the long-term portion of employee purchase programs of $0.2 million (2012 - $0.2 million). The remaining balance of $1.5 million (2012 - $0.6 million) relates to differences between the AEB in the Churchill Falls Power contract and energy delivered accumulating over the four-year period from September 2012 to August 2016.

(b) As at December 31, 2013, sinking funds include $202.2 million (2012 - $263.3 million) related to repayment of Hydro's long-term debt. Sinking fund investments consist of bonds, debentures, promissory notes and coupons issued by, or guaranteed by, the Government of Canada, provincial governments or Schedule 1 banks, and have maturity dates ranging from 2014 to 2033.

Hydro debentures, which are intended to be held to maturity, are deducted from debt while all other sinking fund investments are shown separately on the consolidated balance sheet as assets. Annual contributions to the various sinking funds are in accordance with bond indenture terms, and are structured to ensure the availability of adequate funds at the time of expected bond redemption. Effective yields range from 1.17% to 9.86% (2012 - 2.57% to 9.86%).

(millions of dollars)	**2013**	2012
Sinking funds at beginning of year	**263.3**	247.0
Contributions	**8.2**	8.2
Earnings	**13.6**	11.7
Valuation adjustment	**(17.5)**	(3.6)
Sinking funds at end of year	**267.6**	263.3
Current portion of sinking funds	**65.4**	-
	202.2	263.3

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

(millions of dollars)	2014	2015	2016	2017	2018
Sinking fund instalments	8.1	8.1	8.1	6.7	6.7

(c) Pursuant to the terms of the 1999 shareholders' agreement, in 2007, Churchill Falls commenced the creation of a $75.0 million segregated reserve fund to contribute towards the funding of capital expenditures related to Churchill Falls' existing facilities and their replacement. A summary of Hydro's 65.8% share of the reserve fund is as follows:

(millions of dollars)	**2013**	2012
Opening balance	**50.9**	45.4
Contribution	**-**	5.3
Net interest	**-**	0.3
Mark-to-market adjustment	**(0.4)**	(0.1)
Fair value of reserve fund	**50.5**	50.9

6. JOINT VENTURE

The following amounts represent Hydro's proportionate share of Churchill Falls' assets and liabilities at December 31 and its proportionate interest in Churchill Falls' operations for the year then ended:

(millions of dollars)	**2013**	2012
Current assets	**37.6**	39.9
Long-term assets	**434.0**	383.2
Current liabilities	**19.4**	20.5
Long-term liabilities	**16.4**	15.6
Revenues	**76.8**	73.5
Expenses	**56.8**	48.6
Net income	**20.0**	24.9
Cash provided by (used in)		
Operating activities	**40.8**	33.1
Financing activities	**(0.2)**	(2.5)
Investing activities	**(32.3)**	(23.8)

Income tax expense in the amount of $0.1 million (2012 - $0.1 million) related to Twin Falls has been included in expenses.

7. LONG-TERM DEBT

Details of long-term debt are as follows:

Series	**Face Value**	**Coupon Rate %**	**Year of Issue**	**Year of Maturity**		
(millions of dollars)					**2013**	2012
V *	125.0	10.50	1989	2014	**125.0**	124.8
X *	150.0	10.25	1992	2017	**149.5**	149.4
Y *	300.0	8.40	1996	2026	**294.0**	293.8
AB *	300.0	6.65	2001	2031	**306.1**	306.3
AD *	125.0	5.70	2003	2033	**123.7**	123.7
AE	225.0	4.30	2006	2016	**224.4**	224.2
Total debentures	1,225.0				**1,222.7**	1,222.2
Less sinking fund investments in own debentures					**93.9**	88.1
					1,128.8	1,134.1
Less: payments due within one year					**82.2**	8.2
					1,046.6	1,125.9

* Sinking funds have been established for these issues.

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 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 2013 was $3.7 million (2012 - $3.7 million).

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

Hydro uses promissory notes to fulfill its short-term funding requirements. As at December 31, 2013, there was $41.0 million in promissory notes outstanding (2012 - $52.0 million).

Hydro maintains a $50.0 million Canadian or US equivalent unsecured demand operating credit facility with its banker and at year end there were no amounts drawn on the facility (2012 - $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 one letter of credit outstanding, reducing the availability of the credit facility by $0.3 million (2012 - $18.9 million).

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

(millions of dollars)	2014	2015	2016	2017	2018
Long-term debt repayment	125.0	-	225.0	150.0	-

Churchill Falls maintains a $10.0 million Canadian or US equivalent unsecured demand operating credit facility with its banker and at year end there were no amounts drawn on the facility (2012 - $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 system and compliance with a certificate of approval for the transportation of special and hazardous wastes, granted by the Provincial Department of Environment and Conservation.

8. LONG-TERM PAYABLES

The long-term payable to Hydro-Quebec as at December 31, 2013 is the accumulation of differences between energy delivered and the AEB billed during the four-year period from September 1, 2008 to August 31, 2012. Monthly repayments commenced in September 2012 and will terminate on August 31, 2016. The current portion of $1.0 million (2012 - $1.0 million) is included in accounts payable and accrued liabilities. The long-term portion is $1.6 million (2012 - $2.6 million).

9. ASSET RETIREMENT OBLIGATIONS

(millions of dollars)	**2013**	2012
Asset retirement obligations at beginning of year	**24.9**	20.2
Liabilities incurred	**-**	0.3
Revisions	**(0.7)**	3.7
Accretion	**0.9**	0.8
Settlements	**-**	(0.1)
Asset retirement obligations at end of year	**25.1**	24.9
Less: current portion	**0.4**	0.3
	24.7	24.6

9. ASSET RETIREMENT OBLIGATIONS (cont'd.)

The total undiscounted estimated cash flows required to settle the HTGS obligations at December 31, 2013 are $32.1 million (2012 - $32.1 million). Payments to settle the liability are expected to occur between 2020 and 2024. The fair value of the asset retirement obligations was determined using the present value of future cash flows discounted at the Company's credit adjusted risk free rate of 2.8% (2012 - 2.8%). Hydro has recorded $22.6 million (2012 - $ 21.8 million) related to HTGS obligations.

The total undiscounted estimated cash flows required to settle the PCB obligations at December 31, 2013 are $3.3 million (2012 - $3.6 million). Payments to settle the liability are expected to occur between 2014 and 2025. The fair value of the asset retirement obligations was determined using the present value of future cash flows discounted at the Company's credit adjusted risk free rates ranging between 3.1% and 5.7% (2012 - 3.1% and 5.5%). Hydro has recorded $1.5 million (2012 - $ 2.1 million) related to PCB obligations.

A significant number of 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 obligation cannot be determined at this time. If it becomes possible to estimate the fair value of the cost of removing assets that Hydro is required to remove, an asset retirement obligation for those assets will be recognized at that time.

10. EMPLOYEE FUTURE BENEFITS

10.1 Pension Plan

Employees participate in the Province's Public Service Pension Plan, a multi-employer defined benefit plan. The employer's contributions of $5.7 million (2012 - $5.4 million) are expensed as incurred.

10.2 Other Benefits

Hydro provides group life insurance and health care benefits on a cost shared basis to retired employees, and in certain cases, their surviving spouses, in addition to a severance payment upon retirement. In 2013, cash payments to beneficiaries for its unfunded other employee future benefits were $2.9 million (2012 - $2.8 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.

(millions of dollars)	**2013**	2012
Accrued benefit obligation		
Balance at beginning of year	**109.1**	108.1
Current service cost	**4.1**	3.8
Interest cost	**4.5**	4.7
Actuarial gain	**(9.1)**	(4.7)
Benefits paid	**(2.7)**	(2.8)
Balance at end of year	**105.9**	109.1
Plan deficit	**105.9**	109.1
Unamortized actuarial loss	**(25.2)**	(36.1)
Unamortized past-service cost	**(0.2)**	(0.2)
Regulatory adjustments	**(5.2)**	(3.5)
Accrued benefit liability at end of year	**75.3**	69.3

10. EMPLOYEE FUTURE BENEFITS (cont'd.)

10.2 Other Benefits (cont'd.)

(millions of dollars)	**2013**	2012
Components of benefit cost		
Current service cost	**4.1**	3.8
Interest cost	**4.5**	4.7
Actuarial gain	**(9.1)**	(4.7)
	(0.5)	3.8
Difference between actuarial gain or loss and amount recognized	**11.2**	7.6
Benefit expense	**10.7**	11.4

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

	2013	2012
Discount rate – benefit cost	**4.00%**	4.55%
Discount rate – accrued benefit obligation	**5.00%**	4.00%
Rate of compensation increase	**3.50%**	3.50%

Assumed health care trend rates:

	2013	2012
Initial health care expense trend rate	**6.00%**	6.00%
Cost trend decline to	**4.50%**	4.50%
Year that rate reaches the rate it is assumed to remain at	**2020**	2020

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

Increase	**2013**	2012
Current service and interest cost	**2.1**	2.0
Accrued benefit obligation	**20.0**	20.6

Decrease	**2013**	2012
Current service and interest cost	**(1.5)**	(1.5)
Accrued benefit obligation	**(15.3)**	(15.7)

11. SHAREHOLDER'S EQUITY

11.1 Share Capital

(millions of dollars)	**2013**	2012
Common shares of par value $1 each		
Authorized: 25,000,000		
Issued and outstanding 22,503,942	**22.5**	22.5

11. SHAREHOLDER'S EQUITY (cont'd.)

11.2 Contributed Capital

(millions of dollars)	**2013**	2012
Total contributed capital	**118.4**	116.7

On February 3, 2010, the Province established the Churchill Falls (Labrador) Corporation Trust (the Trust) with Churchill Falls as the beneficiary. The purpose of this Trust is to fund the external costs and expenses incurred in relation to the motion filed by Churchill Falls seeking a modification to the pricing terms of the 1969 Power Contract. During 2013, the Trust contributed capital of $1.7 million (2012 - $0.3 million).

11.3 Accumulated Other Comprehensive Income

(millions of dollars)	**2013**	2012
Balance at beginning of year	**42.8**	46.4
Other comprehensive loss	**(17.3)**	(3.6)
Balance at end of year	**25.5**	42.8

12. OPERATING COSTS

(millions of dollars)	**2013**	2012
Salaries and benefits	**104.5**	100.1
Maintenance and materials	**30.4**	28.8
Transmission rental	**20.5**	19.7
Professional services	**13.6**	12.4
Rental and royalty	**3.7**	4.3
Other operating costs	**12.3**	11.9
Total	**185.0**	177.2

13. CAPITAL MANAGEMENT

A summary of the capital structure is outlined below:

(millions of dollars)	**2013**		2012	
Debt				
Long-term debt	**1,046.6**		1,125.9	
Short-term borrowings	**41.0**		52.0	
Current portion of long-term debt	**82.2**		8.2	
Sinking funds	**(267.6)**		(263.3)	
	902.2	**53.4%**	922.8	54.0%
Equity				
Share capital	**22.5**		22.5	
Contributed capital	**118.4**		116.7	
Accumulated other comprehensive income	**25.5**		42.8	
Retained earnings	**620.1**		604.8	
	786.5	**46.6%**	786.8	46.0%
Total debt and equity	**1,688.7**	**100.0%**	1,709.6	100.0%

13. CAPITAL MANAGEMENT (cont'd.)

13.1 Hydro

Hydro's principal business requires ongoing access to capital in order to maintain assets to ensure the continued delivery of safe and reliable service to its customers. Therefore, Hydro's primary objective when managing capital is to ensure ready access to capital at a reasonable cost, to minimize its cost of capital within the confines of established risk parameters, and to safeguard Hydro's ability to continue as a going concern.

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

Hydro's unsecured demand operating facility has covenants restricting the issuance of debt such that the debt to total capitalization ratio cannot exceed 70%. The covenants further stipulate that the debt service coverage ratio should at all times be greater than 1.5. As at December 31, 2013, Hydro was in compliance with these covenants.

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

For the regulated portion of Hydro's operations a capital structure comprised of 75% debt and 25% 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 the PUB.

Legislation stipulates that the total of the short-term loans issued by Hydro and outstanding at any time shall not exceed a limit as fixed by the Lieutenant-Governor in Council. Short-term loans are those loans issued with a term not exceeding two years. The current limit is set at $300.0 million. There was $41.0 million outstanding as at December 31, 2013 (2012 - $52.0 million). Issuance of long-term and short-term debt by Hydro is further restricted by Bill C-24, an amendment to the Newfoundland and Labrador Hydro Act of 1975. The Bill effectively limits Hydro's total borrowings, which includes both long and short-term debt, to $1.6 billion at any point in time.

13.2 Churchill Falls

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

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

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

14.1 Fair Value

The estimated fair values of financial instruments as at December 31, 2013 and 2012 are based on relevant market prices and information available at the time. Fair value estimates are based on valuation techniques which are significantly affected by the assumptions used including the amount and timing of future cash flows and discount rates reflecting various degrees of risk. As such, the fair value estimates below are not necessarily indicative of the amounts that Hydro might receive or incur in actual market transactions.

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

Establishing Fair Value

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

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

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

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

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

		Carrying Value	**Fair Value**	Carrying Value	Fair Value
(millions of dollars)	Level	**2013**		2012	
Financial assets					
Cash and cash equivalents	1	**18.3**	**18.3**	11.8	11.8
Short-term investments	1	**0.7**	**0.7**	0.5	0.5
Accounts receivable	2	**104.0**	**104.0**	102.3	102.3
Sinking funds – investments in same Hydro issue	2	**93.9**	**105.1**	88.1	107.3
Sinking funds – other investments including amount due within one year	2	**267.6**	**267.6**	263.3	263.3
Long-term receivable	2	**1.7**	**1.8**	0.8	0.8
Derivative assets	2	**0.2**	**0.2**	-	-
Reserve fund	2	**50.5**	**50.5**	50.9	50.9
Financial liabilities					
Accounts payable and accrued liabilities	2	**118.4**	**118.4**	92.3	92.3
Short-term borrowings	1	**41.0**	**41.0**	52.0	52.0
Derivative liabilities	2	**0.4**	**0.4**	-	-
Long-term debt including amount due within one year (before sinking funds)	2	**1,222.7**	**1,545.5**	1,222.2	1,668.6
Long-term payable	2	**1.6**	**1.7**	2.6	2.8

The fair value of cash and cash equivalents and short-term investments approximates their carrying values due to their short-term maturity.

There were no financial assets or liabilities valued using Level 3 of the fair value hierarchy as at December 31, 2013 and 2012.

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

14.2 Risk Management

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

Credit Risk

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

Credit risk on cash and cash equivalents is minimal, as Hydro's cash deposits are held by a Canadian Schedule 1 Chartered Bank with a rating of A+ (Standard and Poor's).

Credit risk on short-term investments is minimized by limiting holdings to high-quality, investment grade securities issued by Federal and Provincial governments, as well as Bankers' Acceptances and term deposits issued by Canadian Schedule 1 Chartered Banks.

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

	Issuer Credit Rating	**Fair Value of Portfolio (%)**	**Issuer Credit Rating**	**Fair Value of Portfolio (%)**
	2013		2012	
Provincial Governments	**AA- to AAA**	**2.72%**	AA- to AAA	4.07%
Provincial Governments	**A- to A+**	**38.84%**	A- to A+	55.95%
Provincially owned utilities	**AA- to AAA**	**13.99%**	AA- to AAA	-
Provincially owned utilities	**A- to A+**	**41.34%**	A- to A+	33.96%
Schedule 1 Canadian banks	**AA- to AAA**	**1.07%**	AA- to AAA	-
Schedule 1 Canadian banks	**A- to A+**	**2.04%**	A- to A+	1.89%
Provincially owned utilities	**BBB+**	**-**	BBB+	4.13%
		100.00%		100.00%

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

14.2 Risk Management (cont'd.)

Credit Risk (cont'd.)
Credit exposure on the reserve fund is mitigated by adhering to an investment policy which restricts the holdings to long-term debt instruments issued or guaranteed by the Government of Canada or any province of Canada. Investment in the long-term debt instruments of Canadian banks are also permitted, provided the bank is rated A or higher by Standard and Poor's. With the exception of Government of Canada, holdings of any one issuer are limited to 10% of the total principal amount of the portfolio. The following credit risk table provides information on credit exposures according to issuer type and credit rating for the reserve fund:

	Issuer Credit Rating	**Fair Value of Portfolio (%)**	**Issuer Credit Rating**	**Fair Value of Portfolio (%)**
	2013		2012	
Provincial Governments	**AA- to AAA**	**8.94%**	AA- to AAA	13.19%
Canadian Schedule 1 or 2 banks	**AA- to AAA**	**16.70%**	AA- to AAA	12.70%
Provincial Governments	**A- to A+**	**21.25%**	A- to A+	20.86%
Provincially owned utilities	**AA- to AAA**	**9.09%**	AA- to AAA	-
Provincially owned utilities	**A- to A+**	**6.06%**	A- to A+	13.39%
Canadian Schedule 1 banks	**A- to A+**	**37.96%**	A- to A+	39.86%
		100.00%		100.00%

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

Hydro's exposure to credit risk on its energy sales and associated accounts receivable is determined by the credit quality of its customers. Hydro's three largest customers account for 81.8% (2012 - 89.9%) of total energy sales and 68.8% (2012 - 58.6%) of accounts receivable. These customers are comprised of rate regulated entities and/or organizations with investment grade credit ratings.

Hydro does not have any significant amounts that are past due and uncollectable, for which a provision has not been recognized at December 31, 2013.

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

Short-term liquidity is mainly provided through cash and cash equivalents on hand, funds from operations, and a $300.0 million promissory note program. In addition, Hydro maintains a $50.0 million (2012 - $50.0 million) unsecured demand operating facility with its primary banker in order to meet any requirements beyond those forecasted for a given period. Churchill Falls also maintains a $16.0 million minimum cash balance.

Long-term liquidity risk for Hydro 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 the exception of the issue maturing in 2016.

For Churchill Falls, long-term liquidity risk is managed by maintenance of the reserve fund in accordance with the June 1999 shareholders' agreement and a dividend management policy that meets long-term liquidity requirements associated with Churchill Falls capital expenditure program.

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

14.2 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, 2013:

(millions of dollars)	**<1 Year**	**1-3 Years**	**3-5 years**	**> 5 Years**	**Total**
Accounts payable and accrued liabilities	118.4	-	-	-	118.4
Short-term borrowings	41.0	-	-	-	41.0
Long-term payable	-	1.6	-	-	1.6
Long-term debt including amount due within one year	125.0	225.0	150.0	725.0	1,225.0
Interest	83.3	152.6	112.8	536.4	885.1
	367.7	379.2	262.8	1,261.4	2,271.1

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

Interest Rates
Changes in prevailing interest rates will impact the fair value of financial assets and liabilities classified as held for trading or available-for-sale, which includes Hydro's cash and cash equivalents, short-term investments, sinking funds and reserve fund. Expected future cash flows associated with those financial instruments can also be impacted. The impact of a 0.5% change in interest rates on net income and other comprehensive income associated with cash and cash equivalents, short-term investments and debt and short-term debt was negligible throughout 2013 due to the short time period to maturity.

The table below shows the impact of a 50 basis point change in interest rates on net income and other comprehensive income associated with the sinking funds at the balance sheet date:

	Net Income		**Other Comprehensive Income**	
(millions of dollars)	**0.5% Decrease**	**0.5% Increase**	**0.5% Decrease**	**0.5% Increase**
Interest on sinking fund	-	-	5.3	(21.2)
Interest on reserve fund	-	-	0.6	(0.6)
	-	-	5.9	(21.8)

Foreign Currency and Commodity Exposure
Hydro's primary exposure to both foreign exchange and commodity price risk arises from its purchases of No. 6 fuel for consumption at the HTGS and USD denominated electricity sales. These exposures are addressed in accordance with the board-approved Financial Risk Management Policy. Tactics include the use of forward rate agreements and fixed price commodity swaps.

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

14.2 Risk Management (cont'd.)

Market Risk (cont'd.)
During 2013, total electricity sales denominated in USD were $54.7 million (2012 - $33.8 million). In 2013, Hydro mitigated foreign exchange risk on these sales through the use of foreign currency forward contracts. In January of 2013, Hydro entered into a series of 12 monthly foreign exchange forward contracts with a notional value of $23.0 million USD to hedge foreign exchange risk on a portion of Hydro's planned USD electricity sales for the year. These contracts had an average exchange rate of $1.01 CAD per USD. In April of 2013, Hydro entered into a series of ten monthly foreign exchange forward contracts with a notional value of $14.4 million USD to hedge foreign exchange risk on a portion of Hydro's planned USD electricity sales for the year. These contracts had an average exchange rate of $1.03 CAD per USD. In 2013, Management elected not to implement commodity price hedges aimed at addressing electricity price risk due to depressed market pricing conditions. During 2013, $0.1 million in gains from these derivative contracts was included in other income and expense (2012 - $0.1 million in gains).

In December of 2013, Hydro entered into a series of 12 monthly foreign exchange forward contracts with a notional value of $38.5 million USD to hedge foreign exchange risk on a portion of Hydro's planned USD electricity sales to the end of 2014. These contracts have an average exchange rate of $1.08 CAD per USD. Hydro also entered into a series of 12 electricity price forward contracts with a notional value of $14.2 million USD. The average price of these contracts was USD $38.74 per MWh (On Peak) and USD $28.42 per MWh (Off Peak). At December 31, 2013, $0.3 million in losses from these derivative contracts was recognized in other income and expense.

These forward contracts impact other income and expense by a net $0.2 million in losses for 2013 (2012 - $0.1 million gain).

15. NET FINANCE EXPENSE

(millions of dollars)	**2013**	2012
Finance income		
Interest on sinking fund	**19.4**	18.0
Interest on reserve fund	**1.5**	1.6
Other interest income	**(0.1)**	0.9
	20.8	20.5
Finance expense		
Interest on long-term debt	**90.5**	90.5
Accretion	**0.5**	0.5
Debt guarantee fee	**3.7**	3.7
Other	**0.6**	1.0
	95.3	95.7
Interest capitalized during construction	**(2.2)**	(2.7)
	93.1	93.0
Net finance expense	**72.3**	72.5

16. SUPPLEMENTARY CASH FLOW INFORMATION

(millions of dollars)	**2013**	2012
Accounts receivable	**(1.7)**	(6.0)
Inventory	**(13.1)**	1.3
Prepaid expenses	**(0.6)**	(0.7)
Accounts payable and accrued liabilities	**26.1**	(57.5)
Changes in non-cash working capital balances	**10.7**	(62.9)
Interest received	**2.4**	1.9
Interest paid	**91.1**	91.4
Income taxes paid	**0.1**	0.1

17. SEGMENT INFORMATION

Hydro operates in four business segments. Hydro Regulated activities encompass sales of electricity to customers within the Province. Churchill Falls operates a hydroelectric generating facility and sells electricity primarily to Hydro-Quebec. 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)			**2013**			
Revenue						
Energy sales	**543.1**	**76.5**	**66.7**	**-**	**(4.0)**	**682.3**
Other revenue	**2.3**	**0.3**	**-**	**-**	**3.3**	**5.9**
	545.4	**76.8**	**66.7**	**-**	**(0.7)**	**688.2**
Expenses						
Fuels	**190.9**	**-**	**-**	**-**	**-**	**190.9**
Power purchased	**59.4**	**-**	**7.7**	**-**	**(3.9)**	**63.2**
Operations and administration	**114.7**	**42.3**	**27.1**	**0.9**	**-**	**185.0**
Net finance expense	**73.5**	**(1.5)**	**0.3**	**-**	**-**	**72.3**
Amortization	**51.7**	**14.2**	**-**	**-**	**-**	**65.9**
Other income and expense	**(0.9)**	**1.8**	**0.2**	**-**	**-**	**1.1**
Regulatory adjustments	**55.6**	**-**	**-**	**-**	**-**	**55.6**
	544.9	**56.8**	**35.3**	**0.9**	**(3.9)**	**634.0**
Net income (loss) from operations	**0.5**	**20.0**	**31.4**	**(0.9)**	**3.2**	**54.2**
Preferred dividends	**-**	**3.2**	**-**	**-**	**(3.2)**	**-**
Net income (loss)	**0.5**	**23.2**	**31.4**	**(0.9)**	**-**	**54.2**
Capital expenditures	**80.6**	**32.3**	**-**	**-**	**-**	**112.9**
Total assets	**1,954.0**	**472.4**	**5.7**	**-**	**-**	**2,432.1**

17. SEGMENT INFORMATION (cont'd.)

Segments	Hydro Regulated	Churchill Falls	Energy Marketing	Other	Inter-segment	Total
(millions of dollars)			2012			
Revenue						
Energy sales	520.7	73.0	52.2	-	(4.0)	641.9
Other revenue	2.1	0.5	-	-	3.4	6.0
	522.8	73.5	52.2	-	(0.6)	647.9
Expenses						
Fuels	182.4	-	-	-	-	182.4
Power purchased	57.0	0.1	7.7	-	(4.0)	60.8
Operations and administration	109.5	42.0	25.1	0.6	-	177.2
Net finance expense	74.0	(1.6)	0.1	-	-	72.5
Amortization	47.5	12.7	-	-	-	60.2
Other income and expense	5.3	(4.6)	(0.1)	-	-	0.6
Regulatory adjustments	30.0	-	-	-	-	30.0
	505.7	48.6	32.8	0.6	(4.0)	583.7
Net income (loss) from operations	17.1	24.9	19.4	(0.6)	3.4	64.2
Preferred dividends	-	3.4	-	-	(3.4)	-
Net income (loss)	17.1	28.3	19.4	(0.6)	-	64.2
Capital expenditures	77.6	30.1	-	-	-	107.7
Total assets	1,906.4	456.2	3.5	-	-	2,366.1

18. COMMITMENTS AND CONTINGENCIES

(a) 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 $0.2 million (2012 - $0.3 million).

(b) One of Hydro's industrial customers commenced legal proceedings in 1997, claiming approximately $22.0 million (2012 - $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.

(c) Outstanding commitments for capital projects total approximately $25.4 million (2012 - $18.5 million).

18. COMMITMENTS AND CONTINGENCIES (cont'd.)

(d) 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	390 kW	2010	Continual
Wind	27 MW	2008	20 years
Wind	27 MW	2009	20 years

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

(millions of dollars)	2014	2015	2016	2017	2018
Power purchases	24.5	24.3	24.5	24.8	25.1

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

(f) Hydro has received funding, in the amount of $3.0 million, from the Atlantic Canada Opportunities Agency (ACOA) in relation to a wind-hydrogen-diesel research development project in the community of Ramea. This funding is repayable in annual installments of $25,000 per commercial implementation of the resulting product. As at December 31, 2013 there have been no commercial implementations.

(g) 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 took place during the autumn of 2013. It is anticipated that the court will issue its decision on the matter in 2014. In July 2013, Hydro-Quebec filed a Motion for Declaratory Judgment in Quebec Superior Court relating to the interpretation of the 1969 Power Contract between Churchill Falls and Hydro-Quebec. The Motion, and its possible outcomes are presently under consideration by Churchill Falls' legal advisors.

(h) 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. Beginning in 2015, Churchill Falls is required to make this horsepower available to Hydro at rates that are commercially reasonable pursuant to the 1999 shareholders' agreement.

At the expiry of the sublease, certain assets of Twin Falls will revert to Churchill Falls. Management is currently evaluating the extent of its responsibility, if any, for any potential related environmental or decommissioning liabilities.

18. COMMITMENTS AND CONTINGENCIES (cont'd.)

(i) 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 further monitoring be carried out. Monitoring was performed throughout 2010 with no remediation required. However, the 2010 sampling did indicate some increase in PCB concentrations in sediment and fish flesh in specific locations, and an increased frequency of monitoring was recommended. Further sampling was conducted in 2013, however, the consultant's report is not yet available.

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

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

2014	$19.5 million
2015	$19.7 million
2016	$19.9 million
2017	$20.1 million
2018	$20.3 million

(k) Hydro has entered into a Power Purchase Agreement with Muskrat Falls Corporation (Muskrat Falls) for the purchase of energy capacity from the Muskrat Falls Plant. The supply period under the agreement is 50 years and commences at date of commissioning.

(l) In 2013, Hydro entered into the Transmission Funding Agreement (TFA) with Labrador-Island Link Operating Corporation (LIL Opco), in which Hydro has committed to make payments which will be sufficient for LIL Opco to recover all costs associated with rent payments under the LIL Lease and the payment, operating and maintenance costs incurred by LIL Opco. Hydro will be required to begin mandatory payments associated with the TFA upon commissioning of the LIL assets. The term of the TFA is anticipated to continue until the service life of the LIL assets has expired.

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)	100% shareholder of Hydro
The Province	100% shareholder of Nalcor
Churchill Falls	Jointly controlled subsidiary of Hydro
Twin Falls	Jointly controlled subsidiary of Churchill Falls
Trust	Created by the Province with Churchill Falls as the beneficiary
Nalcor Energy – Bull Arm Fabrication	Wholly owned subsidiary of Nalcor
Nalcor Energy – Oil and Gas	Wholly owned subsidiary of Nalcor
PUB	Agency of the Province
Labrador-Island Link Limited Partnership	Partnership in which Nalcor owns 75 Class A Units
Muskrat Falls	Wholly owned subsidiary of Nalcor

19. RELATED PARTY TRANSACTIONS (cont'd.)

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

(a) Hydro has entered into a long-term power contract with Churchill Falls for the purchase of $6.1 million (2012 - $6.1 million) of the power produced by Churchill Falls.

(b) Hydro is required to contribute to the cost of operations of the PUB as well as the cost of hearings and applications costs. During 2013, Hydro incurred $0.6 million (2012 - $1.5 million) in costs related to the PUB of which $0.2 million (2012 - $0.6 million) was included in accounts payable and accrued liabilities.

(c) As at December 31, 2013, Hydro has a payable to related parties of $1.8 million (2012 - $2.3 million) and a receivable from related parties for $2.3 million (2012 - $0.7 million). This payable/receivable consists of various intercompany operating costs and power purchases.

(d) 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, 2013, $5.6 million (2012 - $6.2 million) was payable.

(e) Hydro received contributions in aid of construction from the Province related to wind feasibility studies. As at December 31, 2013, $0.7 million (2012 - $1.9 million) has been recorded in deferred credits.

(f) On February 3, 2010, the Province established the Trust with Churchill Falls as the beneficiary. The purpose of this Trust is to fund the external costs and expenses in relation to the motion filed by Churchill Falls seeking a modification to the pricing terms of the 1969 Power Contract. To date, $3.8 million (2012 - $1.8 million) has been received and $0.8 million (2012 - $0.2 million) has been accrued as due from the Trust.

(g) The debt guarantee fee for 2013 was $3.7 million. It was paid to the Province in April 2013 (2012 - $3.7 million).