2010 BUSINESS AND FINANCIAL REPORT
the energy behind our year

KEY ACCOMPLISHMENTS AT A GLANCE

Safety: To be a safety leader

- Safety lead/lag ratio target exceeded (ratio of safety observations to incidents).
- Lost-time injuries reduced 50% over 2010.
- Safe Workplace Observation Program (SWOP) reporting reached 6,883 SWOPs.
- Hydro's Work Protection Code implemented and 100% of required personnel trained.

Environment: To be an environmental leader

- Churchill Falls completed 100% of its Environmental Management System targets and milestones.
- takeCHARGE energy efficiency programs resulted in almost seven gigawatt hours of energy savings from Hydro retail customers and its own facilities.

Business Excellence: Through operational excellence, provide exceptional value to all consumers of our energy

- Implemented new asset management plan and structure.
- Hydro achieved almost 98% winter availability for key electricity generating assets.
- Hydro achieved overall customer satisfaction rating of 92%, up from 91% in 2009.
- Long-term plan started in Churchill Falls for the renewal of production assets.
- The White Rose Growth Project – North Amethyst field commenced production from the first of its subsea wells.
- Completed drilling of two onshore exploration wells in Parsons Pond, reaching a record depth of 3,160 metres.
- Arrangements concluded to develop the Muskrat Falls generating facility, the Labrador-Island Transmission Link and the Maritime Link, including execution of a Term Sheet with Emera.
- Initialled the Lower Churchill Impacts and Benefits Agreement and Upper Churchill Redress with the Innu Nation of Labrador.

People: To ensure a highly skilled and motivated team of employees who are committed to Nalcor Energy's success and future direction

- Signed collective agreements with International Brotherhood of Electrical Workers Locals 1615 (Hydro) and 2351 (Churchill Falls).
- Achieved 3.74 Employee Opinion Score, exceeding the target score of 3.65.
- Employee recognition programs resulted in 2,400 peer recognitions and 11 employees presented with prestigious President's Awards.
- Rolled out new Code of Conduct and Business Ethics policy across the company.

Community: To be a valued corporate citizen in Newfoundland and Labrador

- Awarded over $40,000 in scholarships to Newfoundland and Labrador youth.
- Nalcor and Hydro made major financial commitments to the Libra House emergency shelter, Ronald McDonald House Newfoundland and Labrador, provincial winter games and many other charitable organizations.
- Employees donated more than $50,000 to charitable organizations, supported by the company's Employee Matching and Volunteer Contribution Programs.

KEY FINANCIAL HIGHLIGHTS

Years ended December 31 (millions of dollars)	2010	2009
Revenues	620.1	572.6
Net income	77.5	60.0
Capital assets, net	2,237.9	2,095.5
Long-term debt	1,136.7	1,141.6
Shareholder's equity	1,265.4	1,142.0
Dividends	-	-
Capital Expenditures	196.3	178.1
Debt to capital	42.5%	46.7%
Return on capital employed	8.7%	7.7%
Funds from operations to debt	13.6%	10.2%

Vision: Our vision is to build a strong economic future for successive generations of Newfoundlanders and Labradorians.

Values: At Nalcor Energy, our employees share a set of values that shape how we do business every day. Our core values set common direction on how to make decisions with a sense of pride and leadership. We recognize that it is not only what we achieve, but how we achieve it that truly makes us proud of our accomplishments. We believe our core values develop a culture based on high standards and expectations. We feel empowered to challenge the norms and seize new opportunities while working towards our corporate vision.

Nalcor Energy is a proud, diverse energy company, whose people are committed to building a bright future for Newfoundland and Labrador, unified by our 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

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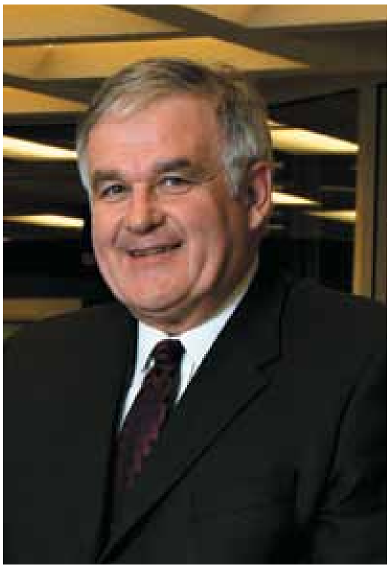
MESSAGE FROM THE CHAIR



2010 was a year of important milestones for Nalcor Energy, from first oil from the White Rose Growth Project — North Amethyst field to finalizing an agreement that will result in significant growth of our renewable energy portfolio. Our safety performance also improved over 2009.

Nalcor's Board of Directors is committed to continuing to build a strong and sustainable company — one that is well-positioned to meet our vision to build a strong economic future for successive generations of Newfoundlanders and Labradorians.

The Board continues to focus on our business excellence and growth initiatives. This is exemplified by the decision to proceed with Phase 1 of the Lower Churchill Project, Muskrat Falls, plus the Labrador-Island Transmission Link and the Maritime Transmission Link, including the execution of a Term Sheet with Emera.

As Nalcor pursues new opportunities in the energy sector, one of the Board's roles is to establish acceptable levels of risk. Prudent risk management is a key component of Nalcor's business operations and decisions are considered using a risk management framework whereby business risks are continually assessed and practices refined. In 2010, the Board approved a five-year Enterprise Risk Management plan for Nalcor, which includes the endorsement of a framework that will be consistent with the ISO/CSA 3100 Risk Management – Principles and Guidelines Standard.

Reinforcing the company's strong governance foundation remains a priority for the Board. Throughout the year, the Board reviewed Nalcor's future operations plans and provided guidance through the Audit, Corporate Governance, Compensation and, Safety, Health and Environment Committees.

In 2010, the Board adopted the Code of Business Conduct and Ethics for employees to reinforce the company's commitment to professional and ethical business practices. Nalcor's reputation rests on the confidence and trust customers, government and the public have that Nalcor's employees and directors will conduct themselves to the highest standards of integrity and professionalism. The Code guides how those relationships are managed through sound business practices and respectable behaviour. While reaching business goals is critical to success, how they are achieved is equally important.

On March 30, 2011, I stepped down as Chair of the Board of Directors. I thank my colleagues for their hard work and support over the last three years. I thank our management team and all Nalcor employees for their efforts. The Nalcor team is highly capable, energized and committed to the goals and priorities of the company. To our Shareholder, the Province of Newfoundland and Labrador, the Board thanks you for your confidence and continued support.

The next few years will be exciting for Nalcor, but not without its challenges and risks; and the Board is committed to providing sound governance and leadership.

John Ottenheimer

Chair, Board of Directors

MESSAGE FROM THE CEO

Nalcor Energy's corporate strategy sets the stage for performance and guides our direction year over year. Our long-term vision has proven to be a successful guide for our company. Each year we set challenging, yet achievable targets to leverage our strengths and grow our business for Newfoundlanders and Labradorians.

Our corporate strategy focuses on five key areas. We want to improve our safety, environmental and operational performance, grow a team of skilled employees and contribute to our communities in a meaningful way. Through our corporate goals, we drive performance excellence from both our lines of business and our functional support teams.

Driven by Safety

Nalcor's relentless commitment to safety is the true passion of our lines of business. Our pursuit of safety excellence encompasses the safety of our employees, contractors and the general public.

Safety reporting continued to increase in 2010. We also achieved a 50 per cent reduction in lost-time injuries, and the severity of these injuries dropped almost 50 per cent — to a rate below the previous five-year average. I believe this can be attributed to how deeply safety has become rooted in our organization — how safety has become personal to everyone from our leaders to front-line workers and their families. We are making progress throughout Nalcor to build a world-class safety culture. We have seen encouraging results from the safety culture survey that demonstrates we are headed in the right direction, but I believe there is still room for improvement and we will continue pushing for zero harm.

Building for the Future

Nalcor manages and operates a large asset base and our current operations and growth plans are anchored in our asset management framework. In 2010, we implemented a new organizational plan and a dedicated office for asset management, which are essential components for Nalcor to continue meeting the demands of our customers and stakeholders.

In 2010, we also celebrated a historical milestone. The White Rose Growth Project — North Amethyst field, in which Nalcor has a five per cent working interest, commenced production from the first of its subsea wells. We will continue to re-invest a portion of our oil and gas revenues in onshore and offshore exploration based on our tolerance for risk, prudent planning and accepted industry principles. These investments are being made for the long-term benefit of our province.

Our People: The Energy Behind our Energy

Our employees are vital to our success. That is true of all businesses, but it is especially important in an energy company like ours, with a valuable, wide base of assets that must be managed over a long period by highly-skilled workers.

In the fall of 2010, we reached four-year agreements with both our International Brotherhood of Electrical Workers Locals 1615 and 2351, representing employees from our Hydro and Churchill Falls lines of business. Their members, the majority of our front-line employees, are critical to the success of our operations and we value their continued commitment.

Leadership training continues to be an area of focus for Nalcor. Just as it is critical to maintain our physical assets, we also need to support and grow our people. The talent and dedication of our employees is something I take pride in.

As we grow, our employees know the importance of not only building a strong company, but also strong communities. Through our Community Investment Program, Nalcor and Hydro continued to give back to our communities supporting a variety of groups and organizations. We also increased our focus on our employees volunteer efforts and donations throughout the year.

Powering our Province

In 2010 we announced our decision to proceed with the Phase 1 of the Lower Churchill Project, Muskrat Falls, plus the Labrador-Island Transmission Link and the Maritime Transmission Link, including the execution of a Term Sheet with Emera. Nalcor completed substantial work and analysis on the project and we are confident this is the least-cost, long-term option for meeting our growing provincial electricity demand. With the displacement of oil-fired electricity from the Holyrood Generating Station, the province will be powered by 98 per cent stable, clean renewable energy — a claim that can be made by few areas around the world.

For 40 years, the Holyrood plant has played a critical role in meeting the island's electricity needs, and it will continue to do so until around 2020 when it will no longer generate electricity or emissions. The plant is the workplace for over 100 employees who have been dedicated to providing power for the province. As we transition to electricity from the lower Churchill development, we are committed to working with our staff in Holyrood to ensure that any impacts are minimized. Together we will reach solutions that work for our employees and the company.

The Province's Energy Plan was clear that we would seek long-term rate stability for electricity consumers and acquire a secure and environmentally-friendly source of electricity. The development of Muskrat Falls accomplishes this. It will provide long-term rate stability, avoiding the volatility of oil-fired power generated at Holyrood.

In addition, the economic benefits to the province from the project are substantial. During construction, the Muskrat Falls development will see significant employment, more than 75 per cent of which will take place directly in Labrador. The Benefits Strategy for the Project provides first consideration to members of Labrador's Innu Nation, then qualified residents of Labrador and then people from other areas of the province. We are committed to using the Benefits Strategy to guide and ensure the successful development of the Lower Churchill Project in the best interest of our province.

Looking Ahead

I thank the Board of Directors, our Shareholder, particularly the Department of Natural Resources. On March 30, 2011, Mr. John Ottenheimer stepped down as Chair of the Board of Directors. I thank him for his contribution to our company and the province. I look forward to 2011 as we continue to build on our accomplishments in 2010.

Ed Martin
President and CEO

CORPORATE PROFILE

Nalcor Energy's business includes the development, generation, transmission and sale of electricity; the exploration, development, production and sale of oil and gas; industrial fabrication; 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 which facilitates the prudent management of its assets while continuing an unwavering focus on the safety of its workers and the public.

Nalcor has five lines of business: Newfoundland and Labrador Hydro, Churchill Falls, Lower Churchill Project, Oil and Gas and Bull Arm Fabrication.

Newfoundland and Labrador Hydro

As the province's main electricity provider, Hydro is focused on providing a safe, reliable and cost-effective electricity supply to meet current electricity needs and accommodate future growth. Hydro's primary business is to generate and deliver electricity in Newfoundland and Labrador to utility, industrial, residential and commercial customers in over 200 communities across the province.

Churchill Falls

Nalcor's flagship operation in Churchill Falls is one of the largest underground hydroelectric powerhouses in the world with a rated capacity of 5,428 megawatts. 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 through a long-term power purchase agreement with additional sales to Hydro and Twin Falls Power Corporation to meet the needs of residential and industrial customers on the Labrador Interconnected electricity system.

Churchill Falls focuses on safety excellence, delivering reliable electricity to customers and ensuring future generations benefit from this world-class resource through long-term asset management.

Oil and Gas

Nalcor is currently a partner in three developments in the Newfoundland and Labrador offshore oil and gas industry: the Hebron oil field, the province's fourth offshore oil project; the White Rose Growth Project; and the Hibernia Southern Extension. Nalcor is also the majority owner and operator of an onshore exploration program on the province's west coast.

Lower Churchill Project

The Lower Churchill Project is the most attractive undeveloped hydroelectric project in North America and is a key component of the province's energy warehouse. The Project's two proposed installations at Muskrat Falls and Gull Island will have a combined capacity of over 3,000 megawatts and can provide 16.7 terawatt hours of electricity per year. The clean, stable, renewable electricity provides the opportunity for the province to meet its own domestic and industrial needs in an environmentally-sustainable way, and also export electricity to other jurisdictions where the demand for clean, renewable energy continues to grow.

Bull Arm Fabrication

The Bull Arm Fabrication site is 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 world-class facility spans over 2,560 hectares and has integrated and comprehensive infrastructure to support fabrication and assembly in three project areas simultaneously, in three separate theatres: Topsides Fabrication and Assembly; Drydock Fabrication and Construction; and the Deepwater Site.

NEWFOUNDLAND AND LABRADOR HYDRO

Hydro ensures there is a safe, reliable and cost-effective electricity supply to meet current demand and future growth for Newfoundland and Labrador.

For more than 50 years, Hydro employees have been keeping the lights on for Newfoundlanders and Labradorians. It is no small feat operating diverse electricity assets spread across a broad geographic area, including hydroelectric plants, a large oil-fired plant, gas turbines, 22 isolated diesel systems and thousands of kilometres of transmission and distribution lines. Hydro also maintains the communication and control systems that manage these assets.

To ensure a safe and reliable electricity system, Hydro makes significant investments annually in the provincial electricity grid — investing over $55 million in 2010. The company maintains the operation of its electricity infrastructure through routine maintenance, and replacing or upgrading aging assets. These investments are made in concert with Hydro's comprehensive, long-term asset management strategy.

A key corporate measure of performance and reliability for Hydro's generating assets is availability during the winter season. In 2010, the island generating facilities achieved almost 98 per cent winter availability. Strategic investments, combined with ongoing replacement of aging insulators and wood pole management program directly benefited consumers. This was evident in September, when hurricane Igor caused destruction across much of the island of Newfoundland. Although the magnitude of Igor's impact was substantial, Hydro's assets and customers were minimally impacted.

In an effort to eliminate electrical contacts by heavy equipment operators and members of the public, the most significant public exposure related to Hydro's electricity facilities, the company continued to educate the public about the hazards of electrical contacts. In 2010, Hydro, in conjunction with Newfoundland Power, developed a power line hazards information booklet for employers that work around power lines. Hydro also continued its public safety campaign Back it Up and website, HydroSafety.ca, which helps people make safer decisions at work and home.

Hydro forecasts provincial electricity requirements and advances the long-term, least-cost option to meet

these requirements. In 2015, the island of Newfoundland will reach a capacity deficit and reserve capacity will fall below the minimum level set by Hydro to ensure an adequate electricity supply to meet firm demand on the island. Hydro evaluated the options for new generation sources to avoid this deficit and the development of Muskrat Falls with a transmission link from Labrador to the island was determined to be the least-cost, long-term option for electricity consumers.

The company is also investigating renewable energy sources for diesel communities. In late 2010, the Government of Newfoundland and Labrador announced $2.5 million to further study small-scale hydroelectric projects for some Labrador coastal communities. Over the next two years, Hydro will complete further analysis of potential hydro generation sites in this region.

2010 was also the first full year of activity for the takeCHARGE energy efficiency program, which provides rebates for ENERGY STAR® windows, insulation and thermostat upgrades and commercial lighting. Hydro also launched its Industrial Energy Efficiency Program, providing a customized approach to energy savings for industrial customers, and took steps to create energy savings in its own facilities. Hydro's energy conservation programs resulted in almost seven gigawatt hours of energy savings from Hydro retail customers and its own facilities in 2010.

Over the past six years, Hydro has maintained a consistently high customer satisfaction rating, and was 92 per cent in 2010. Bills that are easy to read, concern for public safety, and friendly and courteous employees were noted as the top three strengths for customer satisfaction in 2010. This feedback helps Hydro focus on those areas most important to customers to ensure a high level of customer satisfaction.

Hydro's commitment to its customers extends beyond customer service and into the community. Hydro's Community Investment Program is part of its commitment to help sustain vibrant and healthy communities. An example is Hydro's investment of $180,000 to Libra House, an emergency crisis shelter in Happy Valley-Goose Bay for women and children. Hydro, and its parent company Nalcor, also awarded over $40,000 in scholarships in 2010 to help young people pursue higher education.

The Churchill Falls Generating Station is one of the largest underground powerhouses in the world. On average, every year, the facility generates over 34 terawatt hours of energy. This power is used by millions of consumers in North America.

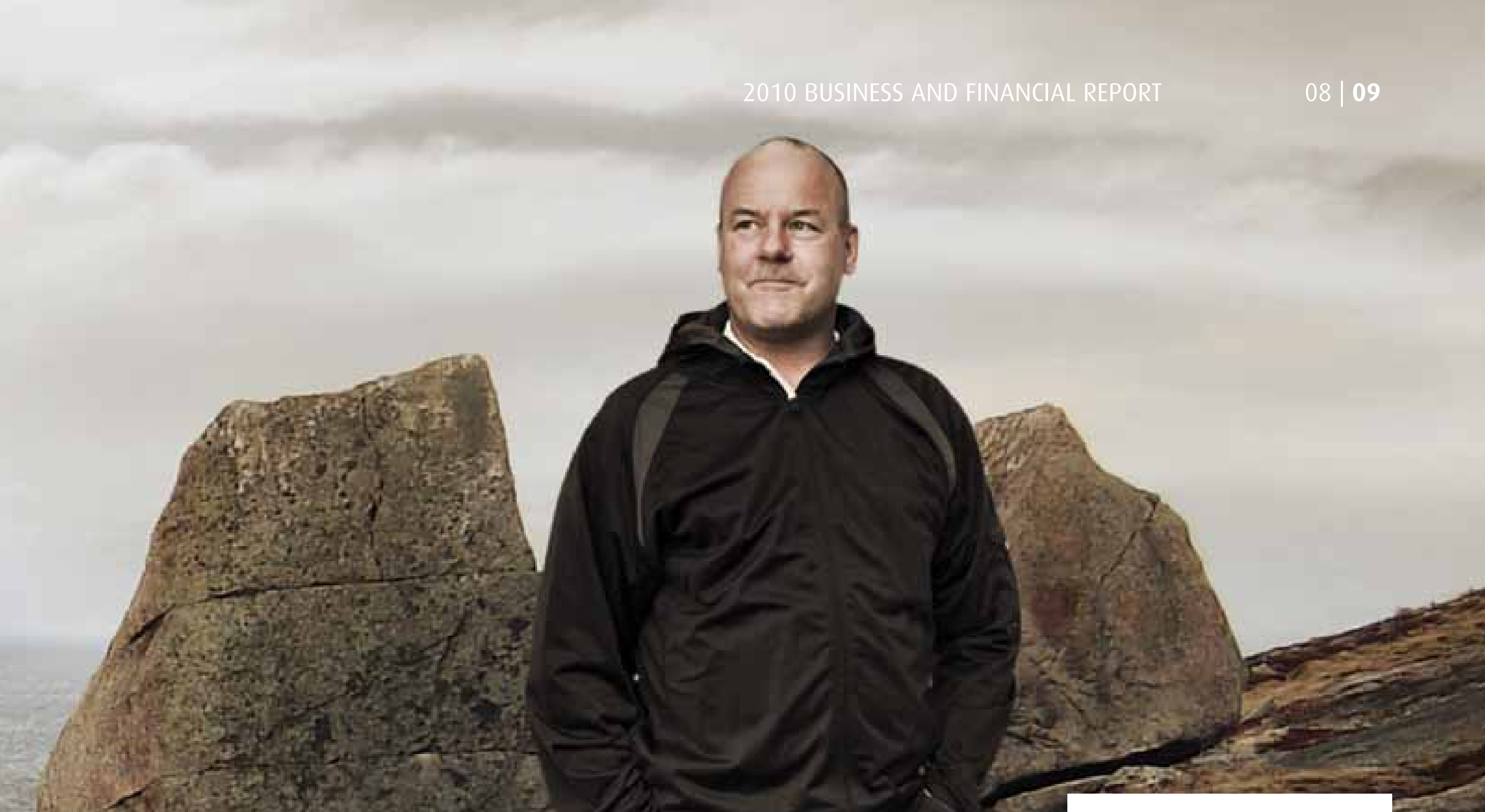
In 2011, Churchill Falls will celebrate 40 years of electricity generation. The commitment of Churchill Falls today continues to be a focus on safety excellence, asset management and environmental stewardship. This dedication ensures future generations benefit from this resource.

With the Churchill Falls generating plant and related infrastructure approaching 40 years of operation, rigorous asset management is critical to keep the aging assets in quality operating condition. This will ensure quality service for the long-term and that assets are fully functional well beyond the expiry of the Power Purchase agreement in 2041.

The company's strategy is focused on continued performance through comprehensive planning and strategic investment. Churchill Falls has completed a long-term asset plan for capital investment based on thorough assessments of asset condition, operating and maintenance experience, and other key inputs. The strategy reflects the plant's operating requirements. In 2011, Churchill Falls will develop and refresh its five-year capital plan and complete planned asset investments.

2010 marked an important achievement for Churchill Falls as the company made its final debt repayment for the original $1 billion construction costs in 1969. The company will now focus funds on capital improvements to upgrade the facility and ensure its continued safe and reliable operation.

On the environmental front, for the past 10 years, ISO 14001 Certified Environmental Management Systems (EMS) have governed the environmental activities of the Churchill Falls operations. Each year, the company identifies opportunities for continual improvement of its environmental performance and establishes targets and milestones to accomplish this work. In 2010, for a third consecutive year, Churchill Falls successfully completed 100 per cent of its EMS targets and milestones.



While generation of reliable electricity is essential year round at Churchill Falls, November to March is a critical operating period. In 1998, Churchill Falls entered into a Guaranteed Winter Availability Contract (GWAC) with Hydro-Québec to supplement revenue from the 1969 Power Contract. The GWAC requirements are in addition to the original requirements of the Power Contract and the power used to supply customers in Labrador. In 2010, Churchill Falls achieved a five-month average of 95 per cent of maximum additional revenue. This was less than one year after repairs were made as a result of significant damage to two generating units from a cable fire in late-2008.

Under the terms of the 1969 Power Contract, a significant amount of the energy from the Churchill Falls facility is sold 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 the 25-year period beginning in 2016. This will mean, for the remainder of the Contract, power will be sold to Hydro-Québec for less than five per cent of its recent commercial value.

In 2009, Churchill Falls (Labrador) Corporation (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 Québec 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 change in circumstances since the original contract was signed has resulted in a gross inequity in the distribution of contractual benefits. CF(L)Co believes this situation, combined with the obligation under the Québec Civil Code to act in good faith throughout the term of a contract, obliges Hydro-Québec to renegotiate the terms of the contract to re-establish the equilibrium of benefits. Court has set a trial date of fall 2013.

OIL AND GAS

On May 31, 2010, the White Rose Growth Project — North Amethyst field, in which Nalcor Energy has a five per cent working interest, commenced production from the first of its subsea wells. First oil at North Amethyst is a significant achievement for Nalcor and the province, and establishes the company as an emerging state-owned upstream oil and gas player in the Atlantic continental margin.

Nalcor has a working interest in two other offshore developments — the Hebron oil field, holding a 4.9 per cent working interest, and the Hibernia Southern Extension, with a 10 per cent working interest in the subsea tie-back project. Nalcor also has an average of 67 per cent gross working interest in three onshore exploration permits in the Parsons Pond area, on the island's West Coast.

In addition to the economic value provided through equity ownership, Nalcor's joint venture participation provides knowledge, insight and influence that ensures alignment between the provincial interest and project partners. Throughout the life of each project, Nalcor will work through its rights under joint venture agreements to pursue issues of interest to the company and the province, and establish work plans and budgets that preserve key project milestones and economic value.

In 2010, Nalcor completed the drilling of two onshore exploration wells in the Parsons Pond area — Seamus and Finnegan, and completed testing of the Seamus well. Nalcor encountered natural gas during drilling on both wells and gathered one of the most extensive datasets that exists in the province's onshore, drilling to a record depth of 3,160 metres. In February 2011, Nalcor and its partners announced their intention not to drill the planned third well. Analysis of both well and seismic data indicated that similar results were most likely and that limited additional information about this area's oil potential would be revealed. Nalcor achieved its main objective in this program, to gain valuable information from this basin to enable further insight and assessment of the geology and petroleum potential of the area.

The program was completed without any major safety incidents and Nalcor maintained the highest environmental standards, taking the necessary precautions to protect the environment in the drilling areas.

Oil and gas exploration represents the first piece of the petroleum value chain that, when successful, can lead to significant discoveries. The availability of quality well and seismic data is a critical step to exploration and is required to understand the prospectivity of the province's onshore and offshore basins.

In late 2010, Nalcor announced it is undertaking a regional oil seep mapping and interpretation study of offshore Newfoundland and Labrador. The data acquired is valuable in detecting natural seepage and discovering potential new exploration areas. Seep detection is a cost-effective tool to assist in analyzing the prospectivity for both under-explored and mature offshore basins, and to help focus future exploration efforts. The study will cover all offshore areas of Newfoundland and Labrador, linking into southwest Greenland. Where natural oil seeps are found, seismic data gathering can be targeted, reducing the geologic uncertainty and reducing overall exploration risk.

Nalcor's goal is to maximize the benefits of the oil and gas opportunities and resources in the province. The company's strategy includes re-investment of a portion of its revenues from oil and gas investments in onshore and offshore exploration based on tolerance for risk, prudent planning and accepted industry principles. Nalcor's exploration activities are focused on facilitating and advancing oil and gas exploration in Newfoundland and Labrador, and hopefully, increased exploration activity will ultimately lead to the next major resource discoveries.

The province's oil and gas industry is experiencing a period of expansion; however, more investment in the industry is needed to arrest the inevitable decline of current production. Nalcor's investment will help determine the resource potential available in the province and ensure it is harnessed for the future benefit of Newfoundlanders and Labradorians.

LOWER CHURCHILL PROJECT

The Churchill River in Labrador is a significant source of renewable, clean electricity. The energy from the Muskrat Falls and Gull Island generating sites will meet Newfoundland and Labrador's electricity needs and enable the province to benefit from the export of power.

In 2010, Nalcor Energy progressed the Lower Churchill Project, reaching several milestones. Like any project of this magnitude, there are many components to be addressed: Aboriginal affairs, environmental assessment, engineering, financing and market access.

In November 2010, Nalcor announced its decision to proceed with Phase One of the Lower Churchill Project, Muskrat Falls, the Labrador-Island Transmission Link and the Maritime Transmission Link to Nova Scotia, including the execution of a Term Sheet with Emera. Nalcor and Emera expect final legal agreements will be signed by the end of 2011.

The Muskrat Falls generation facility and the Labrador-Island Transmission Link have been identified by Hydro as providing the least-cost alternative for meeting provincial electricity demand and long-term rate stability. Not only will the project meet the province's own electricity needs, the Maritime Transmission Link provides Nalcor with access to markets outside the province to monetize electricity that is not required to meet domestic demand.

In 2010, Nalcor, the Government of Newfoundland and Labrador, Innu Nation and Innu Band Councils initialled the Lower Churchill Impacts and Benefits Agreement (IBA) and Upper Churchill Redress Agreement. In March 2011, the federal government and Innu Nation reached a financial agreement, marking a significant step forward in reaching a land claims agreement for the Innu; and a step towards the ratification process for the IBA.

In early 2010, Nalcor, the provincial and federal governments, and Labrador's three Aboriginal groups, established the Labrador Aboriginal Training Partnership, contributing $30 million to support training initiatives of Aboriginal groups who are currently under-represented in the workforce. There is a need for a skilled labour force for the Lower Churchill Project and other major projects in the province. This partnership will help build stronger, more sustainable communities throughout Labrador.

Significant progress was also made in the environmental assessment (EA) process for the generation project — consisting of Muskrat Falls and Gull Island. In 2009, following consultations throughout the province, Nalcor submitted the Environmental Impact Statement for the Lower Churchill Hydroelectric Generation Project. In January 2011, the Joint Review Panel, an independent body appointed by both provincial and federal governments to carry out the EA process, announced it would proceed to public panel hearings for the generation project. The 45-day public hearings, administered by the Panel, commenced on March 3 and recommendations are expected in 2011.

Significant engineering work has also been completed for the generation project and Labrador-Island Transmission Link. In late 2010, Nalcor selected SNC-Lavalin for the engineering, procurement and construction management for the Muskrat Falls generating facility and the Labrador-Island Transmission Link. The contract aligns with the Project's Benefits Strategy, which ensures Newfoundlanders and Labradorians are the primary beneficiaries of the Lower Churchill Project.

In addition to the Maritime Transmission Link, Nalcor also continues to advance market access to the Hydro-Québec transmission system for exporting excess power. As a result of a refusal of Nalcor's 2006 application to Hydro-Québec TransÉnergie to export power across the Québec transmission system, Nalcor filed complaints with the Régie de l'énergie (Régie) based on the principles of open access and non-discrimination. In May 2010, following the hearings, the Régie ruled solely in favour of Hydro-Québec, Nalcor appealed the decision. In April 2011, the Régie upheld the May 2010 decision to deny transmission access across the Québec transmission system to Newfoundland and Labrador. Nalcor is reviewing this decision and assessing its options. This decision has no implications for Phase One of the Lower Churchill Project, however, is one of the key considerations for Phase Two, Gull Island.

The benefits of the Lower Churchill Project for the province are significant. In 2011, Nalcor will continue to progress both Phase One, Muskrat Falls, and Phase Two, Gull Island, of the Lower Churchill Project.

BULL ARM FABRICATION

The Bull Arm Fabrication site, the largest industrial fabrication site in Atlantic Canada, is an important asset for industrial development in Newfoundland and Labrador. The site has played a key role in advancing the province's fabrication capability through participation in major projects, including the Hibernia, Terra Nova and White Rose oil projects.

Throughout 2010, Bull Arm Fabrication continued its focus on safety and maintenance, asset management and environmental stewardship. A cornerstone of Nalcor Energy and its lines of business is a commitment to asset management. During the year, Bull Arm Fabrication took steps to ensure the continued performance of the Bull Arm site through its asset management processes and strategic investment. Maintaining assets at the Bull Arm site is critical to ensure the continued success of the site over the longer-term.

In 2010, Bull Arm Fabrication entered into lease finalization discussions with ExxonMobil Canada Properties (ExxonMobil Canada) for the Bull Arm site. When the lease is finalized and Hebron activities begin, the plan is for ExxonMobil Canada to use the site from 2011 to 2017 for construction, integration and commissioning of the Gravity Base Structure for the Hebron project, the province's fourth offshore oil project. These negotiations are focused on establishing lease arrangements that will facilitate the success of the Hebron project and support the long-term success of the Bull Arm site.

Extensive preparations took place throughout 2010 at the Bull Arm site to ensure it is ready to accommodate the Hebron project. Ongoing maintenance and site clean-up were a priority, and two public auctions were held in 2010 to remove excess materials from the site. In addition to the sale of goods through the auction, Bull Arm Fabrication donated surplus materials to local communities, schools and fire departments. Donations made to volunteer fire departments in Sunnyside, Norman's Cove, Swift Current and North Harbour included

an ambulance, bunker suits and various safety and health-related equipment.

Like all Nalcor companies, Bull Arm Fabrication is committed to supporting its neighbouring communities and is proud to contribute to local events, schools and organizations throughout the year. In August 2010, employees joined the Town of Southern Harbour for a clean-up of Bottom Beach. Close to 30 people, including Nalcor volunteers and members of the community, demonstrated their commitment to environmental conservation and preserving the beauty of Newfoundland's coastline.

While Nalcor will obtain value from the Bull Arm site during the lease period with ExxonMobil Canada, the company is also driving to enhance the asset during and beyond the lease period.

Over the next seven years, Nalcor will establish and implement processes to monitor key lease obligations related to asset management and environmental protection.

Nalcor is focused on utilization of the Bull Arm site during the short to medium-term for the Hebron project. 2011 will be a transition year at the Bull Arm site when ExxonMobil Canada is scheduled to assume operations of the site for the duration of the Hebron construction period. Nalcor is committed to working cooperatively with ExxonMobil Canada and ensuring a smooth transition of site operatorship.

In addition to managing the lease with ExxonMobil Canada for the Hebron project, Nalcor will also continue to advance its long-term strategy for Bull Arm Fabrication. The strategy will position the site to maximize the benefits to the province from future construction and fabrication projects in Newfoundland and Labrador and around the world.

OTHER ENERGY ACTIVITIES

In addition to Nalcor Energy's five lines of business, the company is involved in other energy activities and opportunities, including energy marketing, non-regulated electricity generation, wind energy and research and development.

Energy Marketing

In 2009, Nalcor established an energy marketing team to sell electricity from existing and future developments and build expertise in competitive energy markets in Canada and the United States. The current portfolio includes recall power not required by Hydro to meet demand in Labrador. In 2010, Nalcor's energy marketing focus was maximizing the value of current assets, building reputation and expertise and positioning the team to meet Nalcor's longer-term energy marketing needs.

Nalcor's energy 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. Nalcor will continue to develop its energy marketing capability and pursue opportunities to increase overall value of its current portfolio.

Exploits Generation

Since December 2008, Nalcor has managed and operated the hydroelectric facilities on the Exploits River on behalf of the provincial government. Nalcor's focus at Exploits Generation is to ensure a smooth transition of the hydroelectric assets. Key elements of this transition are a commitment to safety, the environment and operational performance of these assets. Significant progress was achieved across all these areas in 2010.

Exploits Generation employees worked throughout the year with no recordable safety incidents or injuries — a safety milestone also achieved by several other areas across Nalcor. As well, gap analyses were completed and actions identified for the implementation of Nalcor's Work Protection Code, ISO 14001 Environmental Management System and asset management plan. In conjunction with ongoing analysis and capital reinvestment planning, these activities will lay the foundation for long-term success of the facility.

In 2010, Nalcor continued execution of the highly successful Exploits River Salmon Management Program. This past year saw record returns of Atlantic salmon, with over 45,000 adult salmon passing through the fish ladder at Bishop's Falls.

Menihek Generation

In 2010, Nalcor's continued safety training and environmental management work with its operating contractor resulted in a full year of no recordable safety incidents or injuries. The company also completed all of its environmental initiatives for 2010 identified in the 2008 environmental audit for Menihek.

Nalcor applies the ISO 14001 Environmental Management System (EMS) to its Hydro and Churchill Falls subsidiaries to drive continual improvement of the company's environmental performance. Nalcor is also committed to the use of the EMS for its other lines of business. In 2010, a gap analysis was completed for Menihek operations and actions were identified for the implementation of Nalcor's EMS.

Wind-Hydrogen-Diesel Energy Project

While the province has an abundance of renewable resources, many coastal isolated communities rely on diesel-fueled generation systems for electricity generation. In its efforts to reduce reliance on fuel-fired generation, Nalcor has built one of the first projects in the world to integrate generation from wind, hydrogen and diesel in an isolated electricity system. The Wind-Hydrogen-Diesel Energy Project in Ramea is a research and development project that uses renewable energy sources to supplement the diesel requirements of the island community.

This unique project has attracted attention from around the world, and in 2010, Nalcor, in conjunction with the North Atlantic Hydrogen Association, hosted an international conference. Following a one-day wind-hydrogen workshop, participants travelled to Ramea for a tour and demonstration of the Energy Project.

In 2010, Nalcor completed the construction of the Project; individually commissioned all equipment and continued to design and build the Energy Management System. This system will automatically control and monitor the equipment to safely and reliably deliver electricity to customers in Ramea. In 2011, final commissioning will be completed and Nalcor will embark on the demonstration phase of the Project. This multi-year phase involves studying the operation of the facility, analyzing collected data and considering issues around the role this technology can play in an isolated electricity system.

MANAGEMENT'S DISCUSSION & ANALYSIS

The following discussion and analysis is the responsibility of management and is as of April 1, 2011.

Nalcor Energy maintains appropriate systems of internal control, policies, and procedures that provide management with reasonable assurance that assets are safeguarded and that its financial information is reliable. The Board of Directors carries out its responsibility for review of this disclosure principally through its Audit Committee, comprised exclusively of independent directors. The Audit Committee has reviewed and approved this Management's Discussion and Analysis (MD&A). This MD&A should be read in conjunction with the Consolidated Financial Statements of Nalcor Energy (Nalcor, or the Corporation) for the years ended and included in this Business and Financial Report, as well as the notes, for the respective years.

Certain statements in this MD&A are forward-looking statements subject to risks and uncertainties. Statements containing words such as "could", "expect", "may", "anticipate", "believe", "intend", "estimate", "plan" and similar expressions constitute forward-looking statements. These statements are based on certain factors and assumptions, including: foreign exchange rates, expected growth, results of operations, performance and business prospects and opportunities. While Nalcor considers these factors and assumptions to be reasonable based on information currently available, they may prove to be incorrect. A number of factors could cause actual results to differ materially from those in the forward-looking statements, including, but not limited to: fluctuations in supply and demand in electricity markets, changes in capital markets, changes in currency and exchange rates, unexpected environmental conditions, fluctuations in future fuel and electricity prices, changes in oil reserves and government or regulatory policy changes. Nalcor assumes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or any other reason.

SECTION 1: CORPORATE OVERVIEW AND STRATEGY

Nalcor Energy (Nalcor or the Corporation) is a Crown corporation that was established in 2007. Nalcor's legal structure at December 31, 2010, included four wholly-owned subsidiaries, Newfoundland and Labrador Hydro (Hydro), Nalcor Energy - Oil and Gas Inc. (Oil and Gas), Nalcor Energy - Bull Arm Fabrication Inc. (Bull Arm Fabrication or Bull Arm) and Gull Island Power Corporation (GIPCo). Hydro holds investments in two entities: 65.8% of Churchill Falls (Labrador) Corporation (Churchill Falls) and 51% of Lower Churchill Development Corporation (LCDC). Churchill Falls holds a 33.3% investment in Twin Falls Power Corporation (Twin Falls).

Nalcor's business includes the development, generation, transmission and sale of electricity; the exploration, development, production and sale of oil and gas; industrial fabrication; and energy marketing. Nalcor has implemented a corporate-wide framework and organizational design which facilitates prudent, safe management and stewardship of its assets.

Nalcor's reporting segments allow senior management to evaluate the operational performance and assess the overall contribution of each segment to Nalcor's long-term objectives. The following summary describes the operations included in each of the Corporation's reportable segments.

Hydro Regulated

Hydro Regulated is the regulated portion of Hydro that generates, transmits and distributes electricity to customers throughout Newfoundland and Labrador. Hydro Regulated ensures there is a safe, reliable and cost-effective electricity supply available to meet current demand and future growth. Hydro Regulated's operations consist of sales of electricity to three primary customer groups:

- Newfoundland Power, an investor-owned utility that distributes electricity to over 243,000 customers on the island portion of the province, with Hydro Regulated supplying 93% of their energy requirements comprising 76.8% of regulated revenue (2009 - 77.6%).
- Over 36,000 residential and commercial customers in rural Newfoundland and Labrador comprising 14.4% of regulated revenue (2009 - 13.7%).
- Major industrial customers primarily in the pulp and paper, mining and oil refining industries comprising 4.5% of regulated revenue (2009 - 4.7%).

Hydro Regulated is regulated by the Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB). Rates are set through periodic general rate applications using a cost of service (COS) methodology whereby Hydro Regulated is entitled to recover, through customer rates, all reasonable and prudent costs incurred in providing electricity service to its customers including a return on rate base.

In 2009, the Government of Newfoundland and Labrador (Government) issued an Order in Council which provided Hydro Regulated with the ability to earn a rate of return equal to the rate approved from time to time by the PUB for Newfoundland Power, effective following the next general rate application. Currently, Hydro Regulated earns a return on rate base equal to 4.47% for the purpose of determining its cost of capital. This level of return is based on a previous PUB decision which established the return on equity (ROE) at a rate equal to the long-term marginal cost of debt. Hydro Regulated has not yet filed a general rate application to reflect the new ROE. The ability to earn a comparable ROE to Newfoundland Power and most regulated utilities across Canada, in conjunction with the $100 million in equity received in 2009, provides a foundation for improved future financial performance.

Hydro Regulated's generating assets, with a total capacity of 1,637 megawatts (MW), consist of nine hydroelectric plants (939 MW), one oil-fired plant (490 MW), four gas turbines (150 MW) and 25 diesel plants (58 MW). In addition, Hydro Regulated has entered into a number of power purchase agreements with non-utility generators to supplement its own generation capacity.

Hydro Regulated's business strategy is to manage its assets in a manner that optimizes total cost of operation and maintenance while delivering safe, reliable service.

Churchill Falls

The Churchill Falls Generating Station is one of the largest underground powerhouses in the world with a rated capacity of 5,428 MW. A power contract with Hydro-Québec dated May 12, 1969, provides for the sale of the majority of the electricity from this facility [approximately 30 terawatt hours (TWh)] until 2041. Churchill Falls sells 300 MW annually, the maximum provided for under the power contract, to Hydro for use in Labrador and export sales (recall energy). Churchill Falls also sells 225 MW (approximately 1.8 TWh) to Twin Falls to service the mining industry in Labrador West. In addition, Churchill Falls earns revenues from Hydro-Québec under a Guaranteed Winter Availability Contract (GWAC). The GWAC was signed with Hydro-Québec in 1998 and provides additional revenue for the sale of up to 682 MW of seasonal availability to Hydro-Québec during the months of November through March until the end of the power contract in 2041.

The strategy for Churchill Falls focuses on safely operating and maintaining its assets to optimize long-term value while meeting all contractual obligations.

Nalcor, through its subsidiary, Hydro, holds a 65.8% interest in Churchill Falls, with Hydro-Québec holding the remainder. In 1999, as a result of the Shareholders' Agreement between Hydro, Hydro-Québec and Churchill Falls, Hydro commenced accounting for its investment in Churchill Falls as a joint venture (see Note 2 to the Consolidated Financial Statements) and includes 65.8% of the revenues, expenses, assets and liabilities of Churchill Falls in the consolidated accounts.

Energy Marketing

The revenue and earnings in this segment are derived primarily from electricity sales from the portion of the 300 MW recall energy not required to meet electricity needs in Labrador. On March 31, 2009, Nalcor,

through its subsidiary, Hydro, signed a Transmission Service Agreement with Hydro-Québec TransÉnergie (HQT) under HQT's Open Access Transmission Tariff for 265 MW of long-term electricity transmission capacity from Labrador through Québec to the Canada-United States border. Under this arrangement, electricity is sold on the Canadian side of the border to a third-party energy marketer. Nalcor also has arrangements to sell electricity directly into the Maritimes.

Oil and Gas

Oil and Gas is a partner in three developments in the Newfoundland and Labrador offshore oil and gas industry – the Hebron oil field, the province's fourth offshore oil project, currently in the pre-development stage; the White Rose Growth Project, which produced first oil from the North Amethyst field in May 2010; and the Hibernia Southern Extension Unit, which is expected to produce first oil in the latter half of 2011. Oil and Gas is also active in exploration, having acquired a working interest averaging approximately 67% in three onshore exploration permits in the Parsons Pond area on the Great Northern Peninsula. In 2010, Nalcor completed the drilling of two onshore exploration wells in the Parsons Pond area. In February 2011, Nalcor and its partners announced their intention not to drill the planned third well, as analysis of both well and seismic data indicated that limited additional information about this area's oil potential would be obtained. Oil and Gas will continue to assess additional growth opportunities.

Other

This business segment includes the Lower Churchill hydroelectric development, the most attractive undeveloped hydroelectric project in North America. Its two potential installations at Gull Island and Muskrat Falls will have a combined capacity of over 3,000 MW and can provide 16.7 TWh of electricity per year. The Bull Arm Fabrication site, Atlantic Canada's largest industrial fabrication site, is also included. This facility spans over 2,560 hectares and has an integrated and comprehensive infrastructure to support fabrication and assembly. Also included in this business segment are certain non-regulated activities of Hydro including sales to industrial customers in Labrador, the operations of the Menihek Generating Station as well as business development and corporate activities.

SECTION 2: PERFORMANCE

Financial Highlights

This section provides an overview of Nalcor's financial performance based on its audited Consolidated Financial Statements.

millions of dollars	2010	2009
Revenue	$ 620.1	$ 590.1
Expenses	542.6	530.1
Net income	$ 77.5	$ 60.0

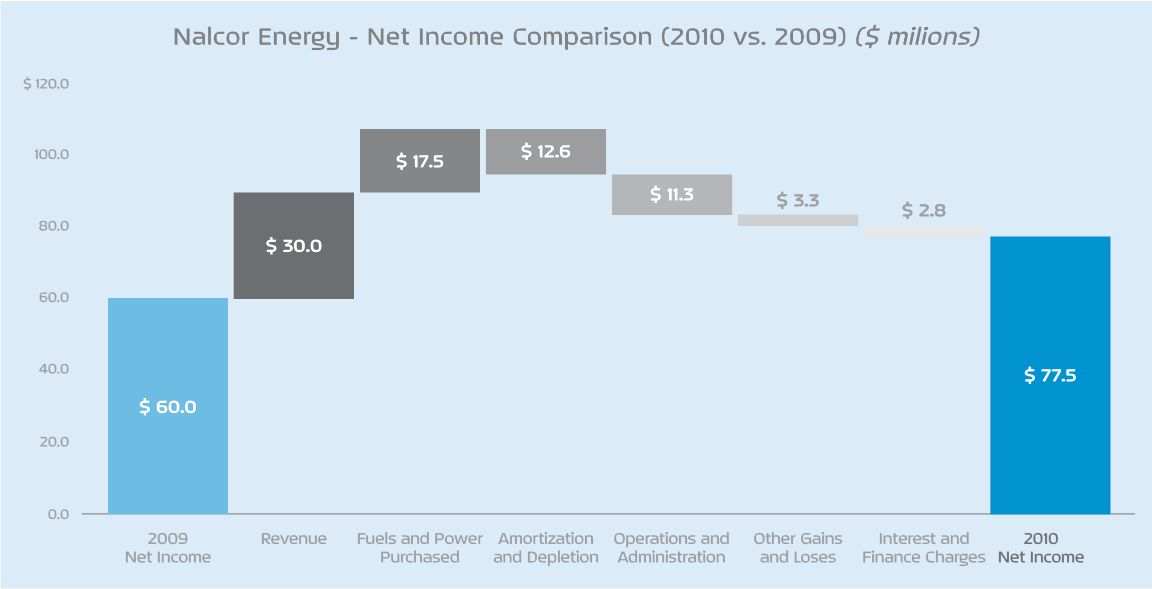
Key Financial Performance Indicators		
Cash flow from Operations	$ 146.4	$ 116.3
Return on Equity	6.4%	5.8%
Percentage Equity	57.5%	53.3%
Return on Capital Employed	8.7%	7.7%

Description of performance indicators

Cash flow from operations - Cash Flow from Operations before Working Capital Adjustments
Return on Equity (ROE) - Net Income/Average Equity
Return on Capital Employed (ROCE) - Net Income plus Interest/Average Debt plus Equity (adjusted for assets under development)
Certain comparative figures have been reclassified to comply with the current year's presentation

Overall net income for 2010 was $77.5 million, an increase of $17.5 million from the $60.0 million reported for 2009. The primary reasons for the increase in net income were an increase in Energy Marketing earnings of $14.9 million, and an increase in earnings from the Churchill Falls segment of $15.1 million. These increases were offset by a reduction in earnings from Hydro of $11.4 million and an increase in the loss from Other activities of $1.0 million. These items are outlined below and discussed in more detail in the Business Segment Review.

- **Revenue**: Revenue was $620.1 million, an increase of $30.0 million in 2010 compared to 2009, primarily due to increased revenue from Energy Marketing activities and Oil and Gas sales.
- **Fuels**: Fuel expense was $140.4 million compared to $155.2 million in 2009, a decrease of $14.8 million, primarily due to fuel price adjustments resulting from the Rate Stabilization Plan (RSP).
- **Power purchased**: Power purchased costs were $44.4 million, a decrease of $2.7 million in 2010 over 2009 costs of $47.1 million, primarily due to reduced purchases from non-utility generators.
- **Amortization and depletion**: Amortization and depletion was $67.5 million, an increase of $12.6 million over 2009. The increase was primarily the result of the inclusion of



depletion expense of $10.6 million in Oil and Gas commensurate with first oil production. In addition, increasing levels of property, plant and equipment and marginally higher amortization levels each year as a result of the sinking fund method of amortization resulted in higher amortization expense.

- **Operations and administration**: Operations and administration costs were $182.6 million, an increase of $11.3 million over 2009, primarily the result of increased transmission rental costs of $5.4 million, salary related costs of $4.3 million and Oil and Gas production costs of $3.2 million.
- **Other gains and losses**: Other gains and losses include $3.4 million in losses from electricity price swaps offset by gains of $0.8 million related to foreign exchange forward contracts.
- **Interest and finance charges**: Interest was $105.1 million, an increase of $2.8 million compared to $102.3 million in 2009. This increase is primarily related to additional interest expense due to the balance in the RSP.
- **Capital expenditures**: Capital expenditures were $196.3 million, an increase of $18.2 million over 2009 levels as depicted below:

millions of dollars	2010	2009
Oil and Gas	$ 82.8	$ 82.6
Hydro Regulated	55.5	54.1
Churchill Falls (65.8%)	9.9	3.7
Other	48.1	37.7
	$ 196.3	$ 178.1

The primary reason for the increased expenditures relate to the increased capital program in Churchill Falls and expenditures related to the Lower Churchill Project.

Cash flow from operations for 2010 was $146.4 million, up from $116.3 million, an increase of $30.1 million due to increased cash generated from Oil and Gas and Energy Marketing activities. ROE improved due to the increase in earnings compared with a slight increase

in equity. Nalcor's percentage of equity improved due to debt repayments and equity injections from the Government. Return on capital employed (ROCE) improved largely due to the impact of increased earnings on an average capital employed base that increased marginally from the previous year.

Business Segment Review

In 2010, Nalcor reported its financial results in five business segments: Hydro Regulated, Churchill Falls, Energy Marketing, Oil and Gas and Other. These business segments include the five lines of business of Nalcor and are differentiated on the basis of regulatory status and management accountability. The 2010 financial results by business segment are shown in the following table:

Segment Earnings

millions of dollars	2010	2009
Hydro Regulated	$ 6.5	$ 17.9
Churchill Falls	26.8	11.7
Energy Marketing	48.9	34.0
Oil and Gas	(2.5)	(2.4)
Other	(2.2)	(1.2)
Total	$ 77.5	$ 60.0

Hydro Regulated

The operations of Hydro Regulated are influenced by many external factors, primarily, the domestic economy, weather patterns and fuel costs. During 2010, warmer weather and continued contraction in the pulp and paper industry resulted in a reduction in demand for electricity.

The demand for electricity is met through a combination of hydroelectric generation, thermal generation and power purchases including wind generation. In addition, Hydro Regulated utilizes the RSP both as a means to smooth rate impacts for island electricity consumers and also to protect Hydro Regulated's net income from variations in the Holyrood Thermal Generating Station fuel costs. Fuel costs fluctuate as a result of variations in energy sales, fuel prices and hydraulic production from the levels that were in effect when revenue rates were set in 2007. Resulting variations are deferred into the RSP to be collected from, or refunded to, electricity consumers in the annual RSP rate adjustment.

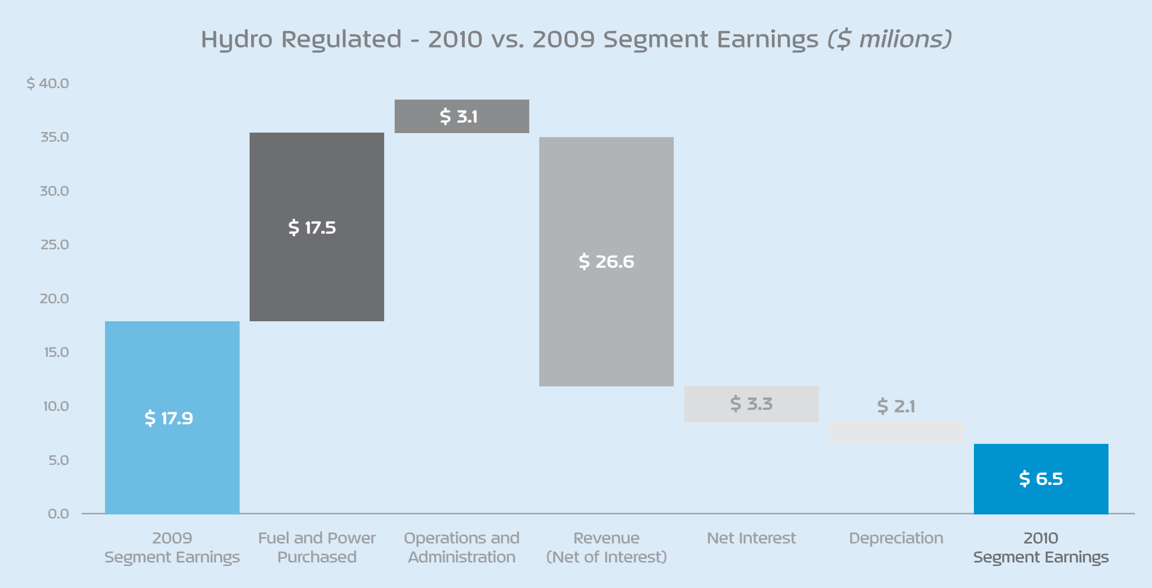
Net income for 2010 was $6.5 million, a decrease of $11.4 million over the 2009 net income of $17.9 million. The factors affecting the 2010 decreased earnings are depicted in the following chart:

Revenue by major customer category is outlined below:

millions of dollars	2010	2009
Newfoundland Power	$ 334.6	$ 358.7
Rural customers	62.7	63.3
Industrial customers	19.8	21.8
Interest, finance and other income	18.4	18.6
Total revenue	$ 435.5	$ 462.4

Total revenue from Newfoundland Power decreased overall by $24.1 million due to decreased sales and a reduction in RSP recovery. Electricity sales to Newfoundland Power decreased by 95 gigawatt hours (GWh), mainly as a result of a warmer than normal winter resulting in a decrease in revenue of $8.1 million. In addition, there was $16.0 million less revenue recovered from customers through the RSP due to the reduction in demand and RSP rate differences.

Sales to industrial customers decreased by 25.2 GWh. This reduction in energy requirement resulted in a $4.7 million reduction in revenue. On the island, sales to the pulp and paper industrial sector were down due to a reduction in electricity demand from the industry. Secondary sales to CFB Goose Bay increased by 37 GWh resulting in an increase in revenue of $2.7 million over 2009 levels. Activity at CFB



Goose Bay in 2009 was decreased due to extended boiler maintenance which resulted in reduced sales.

Electricity rates for Hydro Regulated's rural customers increased 1.7% effective July 1, 2010, due to changes in Newfoundland Power's rates attributed to the operation of Newfoundland Power's Rate Stabilization Adjustment. This rate increase combined with reduced energy sales resulted in a slight decline in revenue from Hydro Regulated's rural customers of $0.6 million.

The RSP was established in 1986 to mitigate the impact of volatile fuel prices and quantities on consumers' electricity rates and Hydro Regulated's earnings. The difference between the actual cost of fuel consumed to generate electricity and the cost upon which electricity rates are based (cost of service) accumulates in the RSP. Balances in the RSP are recovered or refunded in the following year, with the exception of the hydraulic variation, which is recovered or refunded at a rate of 25% annually.

The hydraulic variation has been positive in recent years and results from higher than average hydroelectric production, enabled by lower reservoir storage requirement for drought protection due to reduced loads. This higher hydraulic production has reduced the need for thermal generation and related fuel costs. The balance in the RSP is also increasing due to reduced loads from industrial customers and variations in the fuel rider rates. The increased balance results in higher interest costs as interest is accrued on the outstanding balance based on the weighted average cost of capital of 7.6%. Rates are also adjusted annually based on forecast fuel prices through a fuel rider. The fuel rider and rate adjustment for the accumulated RSP balances becomes effective annually on July 1 for Newfoundland Power and on January 1 for industrial customers. The RSP balance due to customers as at December 31, 2010 was $159.2 million (2009 - $122.0 million).

Hydro Regulated utilizes No. 6 fuel oil at the 490 MW Holyrood Thermal Generating Station and diesel fuel at its diesel plants. The following table summarizes fuel consumed at the Holyrood plant and the average price per barrel.

	2010	2009
No. 6 fuel		
Consumption (millions of barrels)	1.4	1.5
Average price (CAD $/BBL)	$ 73.9	$ 52.5

Fuel expense includes the cost of No. 6 fuel, diesel fuel and adjustments to the fuel cost resulting from the operation of the RSP. Fuel costs are summarized below:

millions of dollars	2010	2009
No. 6 fuel/RSP/other	$ 128.1	$ 142.6
Diesel	12.2	12.6
Total fuel expense	$ 140.3	$ 155.2

No. 6 fuel/RSP/Other costs declined by $14.5 million due to a number of factors. Despite a decrease in thermal dased production for the Holyrood Plant, No. 6 fuel costs increased by $20.1 million primarily due to increased fuel prices during the year.

Fuel cost increases were offset primarily through the RSP mechanism resulting in a decrease in fuel expense of $18.9 million over 2009. In addition, fuel expense amortized from the RSP was $16.0 million lower compared to 2009.

To supplement Hydro Regulated's electricity generation on the island, Hydro Regulated purchases power under long-term agreements with non-utility generators (see Note 19(f) to the Consolidated Financial Statements). In Labrador, on the interconnected grid, Hydro Regulated purchases substantially all of its energy requirements from Churchill Falls.

Total purchased power decreased from $46.8 million in 2009 to $44.2 million in 2010. This decrease is primarily due to reduced purchases from hydro generators of $4.2 million offset by increases in purchases of wind energy of $1.6 million.

Hydro Regulated's net interest expense increased by $3.3 million from $83.5 million in 2009 to $86.8 million in 2010. The increase is primarily related to interest accumulating on an increasing RSP balance owing to customers.

Hydro Regulated's 2010 operating costs comprised 54% (2009 - 59%) of consolidated operating costs as outlined below:

millions of dollars	2010	2009
Salaries	63.1	60.4
Maintenance	21.7	22.1
Other	13.0	18.4
Total	97.8	100.9

Total operating costs decreased by $3.1 million over the 2009 level. Salaries and benefits increased by $2.7 million due to normal cost of living adjustment increases, negotiated union wage settlements and increases associated with employee future benefits offset by an increase in capitalized labour. Other costs decreased by $5.4 million primarily due to bad debt expenses of $3.7 million that were incurred in 2009 related to the closure of the Abitibi Bowater Grand Falls Mill.

Hydro Regulated's amortization expense was $43.8 million, an increase of $2.1 million over 2009, primarily the result of increasing levels of property, plant and equipment and marginally higher amortization levels each year as a result of using the sinking fund method of amortization.

Hydro Regulated made $55.5 million in capital investments and upgrades in 2010 (2009 - $54.1 million) to ensure continued reliability of the electricity system. Investments were made in the following categories:

millions of dollars	2010	2009
Generation	$ 16.2	$ 9.6
Distribution	17.8	21.9
Other	10.5	11.5
Transmission	11.0	11.1
	$ 55.5	$ 54.1

During 2010, Hydro Regulated recognized an asset retirement obligation related to the Holyrood generating station in the amount of $11.4 million. This obligation will cover the estimated costs of decommissioning certain portions of the Holyrood plant. Management's intention is that the generating units will remain in operation and will be converted to run as synchronous condensers to help manage transmission system voltages once Muskrat Falls and Labrador-Island Transmission Link are in service.

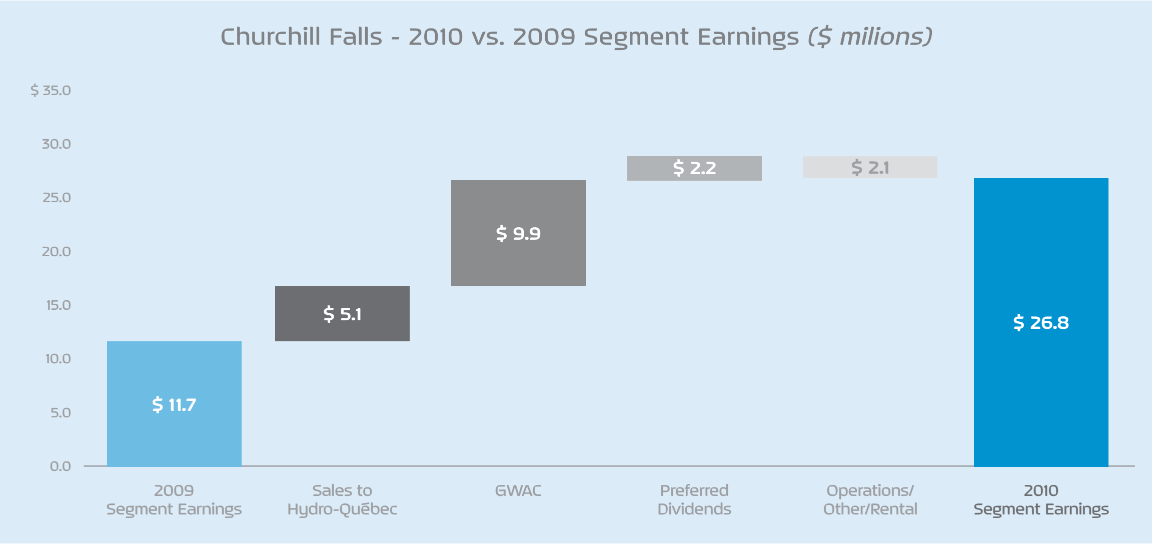
The timing of the decommissioning activities is based on the proposed timelines for the development of the Muskrat Falls generating plant, and the Labrador – Island Transmission Link which are part of the Lower Churchill Project. First power from this Project is planned for late 2016 and the decommissioning will likely begin three to four years later.

Also in 2010, the Government continued to waive the payment of the debt guarantee fee ($9.1 million) which impacted favorably on Hydro Regulated's net income. The guarantee fee is based on 1% of the total debt outstanding (net of sinking funds) guaranteed by the Government, as at the preceding December 31.

Hydro Regulated maintains a capital structure comprised of 75% debt and 25% equity and accordingly, during 2010, Hydro Regulated paid $30.9 million in dividends to Nalcor.

Churchill Falls

In 2010, Churchill Falls segment earnings were $26.8 million, an increase of $15.1 million compared to 2009. Factors contributing to this increase were primarily an increase in electricity sales to Hydro-Québec of $5.1 million; an increase in GWAC revenue of $9.9 million; and an increase in preferred dividends of $2.2 million. GWAC revenue in 2009 was negatively impacted by the cable fire that occurred in 2008 which reduced availability in 2009. All repairs were completed by October 2009 resulting in a return to full commercial operation. Churchill Falls achieved a five-month average of 95% of maximum additional revenue in 2010. The factors affecting the 2010 increased earnings are depicted in the following chart:



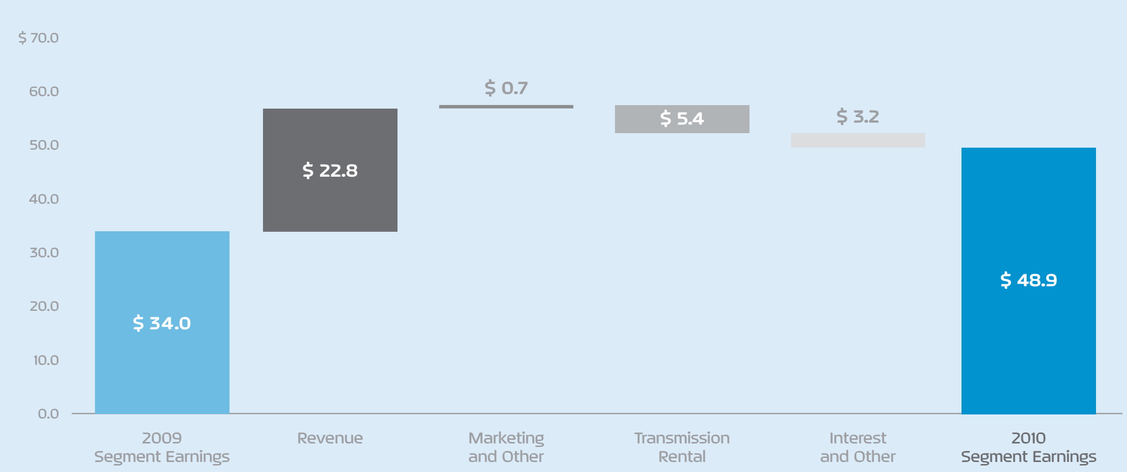
Churchill Falls' requirements for capital in the future are expected to increase, coincident with the aging of the plant and related infrastructure. During 2010, Churchill Falls began work on the long-term asset management plan and invested $15.1 million (2009 - $5.7 million). In accordance with the 1999 Shareholders Agreement, Churchill Falls has created a segregated fund to contribute towards the funding of capital expenditures related to the replacement of existing facilities. As at December 31, 2010, this fund had a balance of $59.7 million (2009 - $52.9 million). In addition, on December 15, 2010, the credit facility with the Bank of Nova Scotia was repaid in full and as a result the capital structure is now comprised entirely of equity.

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 outcome of this motion is not determinable at this time. On February 3, 2010, the Government established the Churchill Falls (Labrador) Corporation Trust (Trust) with Churchill Falls as the beneficiary. The purpose of the Trust is to fund the external costs incurred as a result of the motion filed by Churchill Falls and to date, $1.0 million in costs has been incurred in relation to this matter.

Energy Marketing

In 2010, Energy Marketing revenue was $77.5 million compared to $54.7 million in 2009 and segment earnings were $48.9 million, an increase of $14.9 million from 2009. The primary reason for this increase was the higher than normal demand experienced during the summer season due to warmer than normal weather which increased the market price of electricity. Energy markets were depressed in 2009 due to a downturn in the US economy resulting in lower energy demand in the Northeast United States industrial markets, and lower natural gas prices, thereby creating downward pressure on electricity pricing. Details of the year over year change in Energy Marketing earnings are noted in the following chart:

Energy Marketing - 2010 vs. 2009 Segment Earnings *($ milions)*

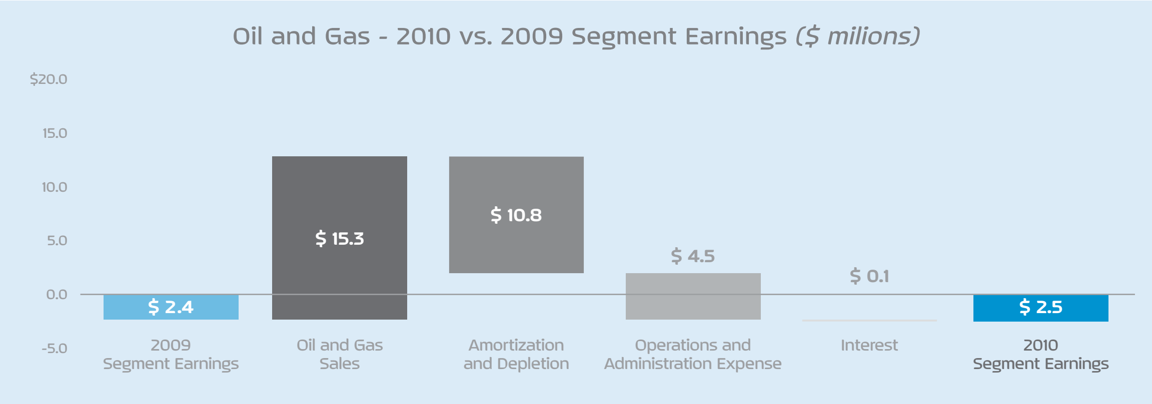


A combination of fixed price contracts, spot and day-ahead sales provides Nalcor with a diversified sales portfolio. Performance of the energy marketing group is evaluated based on benchmark pricing at an interface in the New York Independent System Operator (NYISO) which corresponds to the delivery point of Nalcor's firm annual transmission booking. In 2010, Nalcor's net revenue from Energy Marketing activities exceeded the NYISO pricing benchmark by 33% (2009 – 25%).

Energy Marketing revenues are denominated primarily in US dollars (USD) and in 2009 Nalcor entered into a series of forward foreign exchange contracts to mitigate the impact of currency fluctuations on earnings. These forward contracts are accounted for as hedges and revenue for 2010 includes $5.9 million in gains resulting from the qualifying hedges. In 2010, Nalcor also entered into a series of commodity swap contracts to minimize the impact of fluctuations in electricity prices. In 2010, Other gains and losses includes $3.4 million of losses resulting from these swap contracts.

Oil and Gas

Oil and Gas had first oil from the North Amethyst field in May 2010. Total production in 2010 was 185 thousand barrels (mbbls) and total sales were $15.3 million. During 2010, Oil and Gas transitioned to an oil producing business and cash flow from operations was $8.4 million. Net loss for 2010, was $2.5 million on par with the loss of $2.4 million in 2009. The primary reason for the loss in 2010 relates to depletion expense of $10.6 million. Details are depicted in the following chart:



During 2010, Oil and Gas completed a $30.0 million purchase of a 10% equity interest in the Hibernia Southern Extension Project. The Hibernia Southern Extension Unit is expected to produce first oil in the latter half of 2011.

In 2009, Oil and Gas acquired an average 67% working interest in three onshore exploration permits on the West Coast of Newfoundland for $0.6 million. In 2010, Nalcor completed the drilling of two onshore exploration wells in the Parsons Pond area. Nalcor successfully achieved its main operational objective in this exploration program, which was to gain valuable information from this basin which will enable further insight and assessment of the geology and petroleum potential of the area.

During 2010, costs capitalized as petroleum and natural gas properties totalled $82.7 million (2009 - $81.7 million) and include, in addition to direct acquisition costs, pre-development, development and drilling costs, legal fees, environmental consulting and project management. In addition, during 2010, Oil and Gas recognized an asset retirement obligation in the amount of $3.5 million and accretion of $0.1 million for Oil and Gas' net ownership share of retirement obligations associated with the White Rose Growth project.

Oil and Gas Reserves

Nalcor engaged independent qualified reserve evaluators to evaluate and prepare reports on Oil and Gas' oil reserves according to the Canadian Oil and Gas Evaluation Handbook reserve definitions and standards.

Reserves as at December 31, 2010:

	Light and Medium Oil	
thousands of barrels	Gross	Net
Developed	531	504
Undeveloped	5,550	4,118
Total Proved	6,081	4,622
Probable	16,631	10,605
Total Proved Plus Probable	22,712	15,227

Reconciliation of Gross Reserves (before royalty) 2010 vs 2009:

	Light and Medium Oil	
thousands of barrels	Gross Proved	Gross Probable
December 31, 2009	1,390	4,057
Extensions	-	-
Improved Recovery	-	-
Infill Drilling	660	(660)
Technical Revisions	216	(1,011)
Discoveries	-	300
Acquisitions	4,000	13,945
Dispositions	-	-
Economic Factors	-	-
Production	(185)	-
December 31, 2010	**6,081**	**16,631**

Depletion, Depreciation and Amortization (DD&A)

Under the full cost method of accounting for oil and gas activities, DD&A is calculated on a country-by-country basis. The DD&A rate is calculated by dividing the capital costs subject to DD&A by the proved oil and gas reserves expressed as equivalent barrels (boe). The resultant dollar per boe is assigned to each boe of production to determine the DD&A expense for the period.

In 2010, DD&A expense related to oil and gas properties was $10.6 million. During 2009, no DD&A expense was recorded as there had been no production.

At December 31, 2010, capital costs in respect of unproved properties and major development projects were $139.3 million compared with $117.0 million at the end of 2009. These costs are excluded from the DD&A calculation until the unproved properties are evaluated and proved reserves are attributed to the project or the project is deemed to be impaired.

MANAGEMENT'S DISCUSSION & ANALYSIS

Other

Lower Churchill Project: The lower Churchill River is the most attractive undeveloped hydroelectric project in North America. The Project's two proposed installations at Gull Island and Muskrat Falls will have a combined capacity of over 3,000 MW and can provide 16.7 TWh of electricity per year.

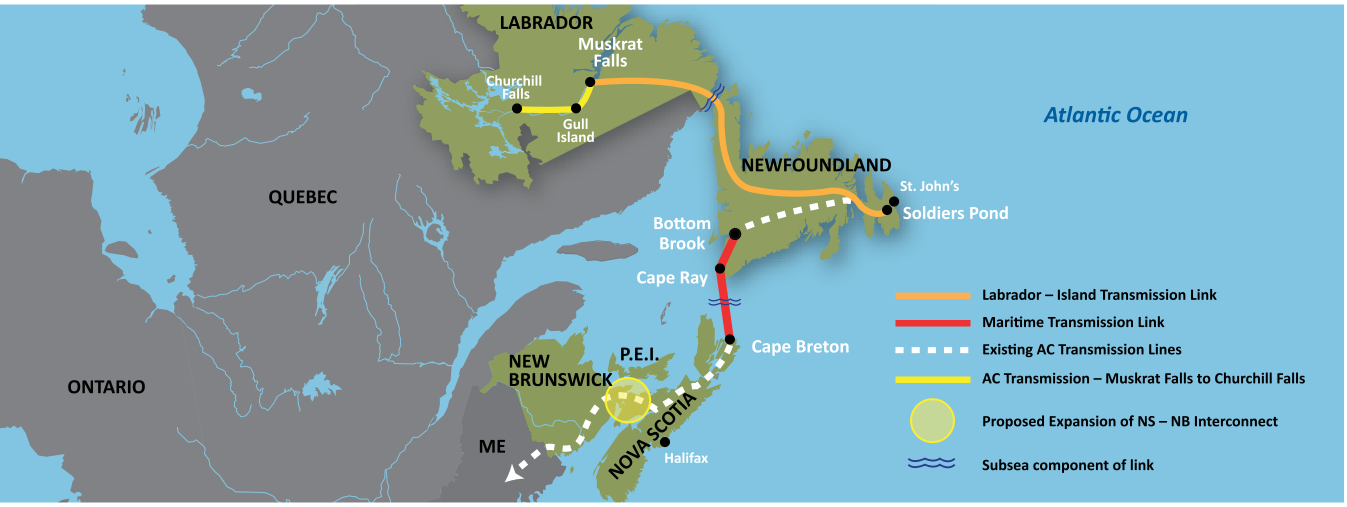
In November, 2010, Nalcor concluded arrangements, including the execution of a Term Sheet with Emera Inc, to develop Phase 1 of the Lower Churchill Project. Phase 1 includes: Muskrat Falls, an 824 MW hydroelectric development on the lower Churchill river in Labrador; a new transmission line (the Labrador-Island Transmission 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 Transmission Link) from Newfoundland to Nova Scotia. The Maritime Link will allow the provision of power to Emera in Nova Scotia and the provision of market access for Nalcor. Nalcor will also obtain transmission access in Nova Scotia, New Brunswick and Maine from Emera as part of the agreement.

The Muskrat Falls generation facility and the transmission link from Labrador to the island of Newfoundland has been identified by Newfoundland and Labrador Hydro as the least-cost, long-term option for meeting the province's growing electricity demand. Nalcor will use production from the Muskrat Falls generating facility to displace oil-fired generation from the Holyrood Thermal Generating Station, providing long-term rate stability. Power will also be available for industrial development in Labrador.

The project has a total estimated capital cost of $6.2 billion (excluding capitalized financing costs). Emera will fund an estimated $1.8 billion representing a 49% interest in the transmission assets. The remaining estimated $4.4 billion will be funded by Nalcor representing a 100% interest in the Muskrat Falls generating facility and its interest in the transmission assets. The parties continue to work towards final agreements. Completion of engineering, financing activities and regulatory approvals are required in order to make a final decision to proceed.

In 2010, Nalcor, the Government of Newfoundland and Labrador, Innu Nation and Innu Band Councils initialled the Lower Churchill Impacts and Benefits Agreement and the Upper Churchill Redress Agreement. These agreements are subject to ratification by the Innu Nation.

In 2009, Nalcor submitted the Environmental Impact Statement (EIS) for the Lower Churchill Generation Project – consisting of Muskrat Falls and Gull



Island. In January 2011, the Joint Review Panel, an independent body appointed by both provincial and federal governments to carry out the environmental assessment process, announced it would proceed to public panel hearings for the generation project. The 45-day public hearings, administered by the Panel, commenced on March 3, 2011, and recommendations are expected in 2011.

Throughout 2010, Nalcor continued its preparation for the EIS for the Labrador - Island Transmission Link project and in 2011, Nalcor received the EIS guidelines for this project. Nalcor plans to file the EIS late in 2011.

Significant engineering work has also been completed for the generation and Labrador-Island Transmission Link projects. In late 2010, Nalcor selected SNC-Lavalin for the engineering, procurement and construction management for the Muskrat Falls generating facility and the Labrador-Island Transmission Link.

Nalcor continues to advance market access to the Hydro-Québec transmission system for future developments. In 2006, Nalcor made application to Hydro-Québec TransÉnergie for transmission service from the Labrador/Québec border to markets in Québec, Ontario, the Maritime Provinces and the Northeastern United States. As a result of the subsequent refusal by Hydro-Québec to provide fair access, Nalcor filed complaints with the Régie de l'énergie (Régie), Québec's energy regulator, for a hearing based on the principles of open access and non-discrimination. In May 2010, the Régie ruled solely in favour of Hydro-Québec and dismissed all arguments presented by Nalcor. The following month, Nalcor filed an Application for Administrative Revision with the Régie, the first step to appeal the decision. Public hearings regarding the administrative revision were held in late 2010, and as of the date of this MD&A a decision is pending.

The proposed lower Churchill development shares the Churchill River with the Churchill Falls hydroelectric generation plant. In accordance with the Electrical Power Control Act, 1994, the PUB issued a Board Order on March 9, 2010 establishing a water management agreement between Nalcor and Churchill Falls. Following development of the Lower Churchill Hydroelectric Development, these two parties will share use of the Churchill River as the common water resource for their respective power production. The water management agreement will optimize power production on the river.

Bull Arm Fabrication: The Bull Arm Fabrication site is a strategic asset and has facilitated the advancement of the province's fabrication capability through participation in major projects including Hibernia, Terra Nova and White Rose oil projects. The Bull Arm site was originally developed in the 1990s to construct the 600,000-tonne Gravity Base Structure (GBS) platform and topside components for the Hibernia Project. In August 2008, the Government announced the transfer of the Bull Arm Site Corporation to Nalcor and the transfer was completed on March 31, 2009.

During 2010, earnings from the activities at the Bull Arm site were $1.1 million (2009 – $3.1 million). In 2010, Nalcor entered into lease finalization discussions for the Bull Arm site with ExxonMobil Canada Properties (ExxonMobil Canada) who will use the site for the Hebron Project. When the lease is finalized and Hebron activities begin, the site will be used from 2011 to 2017 for the construction, integration and commissioning of the GBS for Hebron.

Menihek Operations: In 2007, Hydro assumed ownership of the Menihek Generating Station from the Iron Ore Company of Canada and entered into a 40-year power purchase agreement to supply electricity from this facility to Hydro-Québec for its customers in the Schefferville region. Ownership of the plant was subsequently transferred from Hydro to Nalcor in late 2009. Revenue was $1.3 million for both 2010 and 2009 and with certain cost recoveries from Hydro-Québec, resulted in net income of $1.5 million (2009 - $1.5 million).

MANAGEMENT'S DISCUSSION & ANALYSIS

Electricity Sales to Mining Industry: Sales to the iron ore industry in Labrador are from two sources. The first is through Churchill Falls' joint venture, Twin Falls, and the second is through direct sales by Hydro sourced from recall power. These direct sales in 2010 were $5.5 million compared to $4.6 million in 2009. Net earnings were $3.0 million in 2010 and $1.9 million in 2009.

Business Development: Business Development includes activities related to wind development, research and development and other business opportunities. During 2010, the Business Development group continued activity associated with the Wind-Hydrogen-Diesel Energy Project in Ramea. This research and development project uses wind and hydrogen technology to supplement the diesel requirements of this isolated community and has the potential to offset diesel with zero-emission power. The project aims to develop a wind-hydrogen-diesel energy solution designed for small-scale energy production in isolated locations.

In 2010, none of these activities were in a commercial stage and as a result did not produce any revenues. Costs expensed and capitalized in 2010 were $1.1 million (2009 - $1.7 million) and $2.2 million (2009 - $2.8 million), respectively.

Other: Investments in LCDC and GIPCo are included in this category. Both companies are inactive and had minimal transactions in 2010 and 2009.

Corporate Costs: Costs associated with the operation of Nalcor, the parent company, are recorded in this category. In 2010, operating and other costs were $5.2 million, a slight decrease of $0.2 million over 2009 costs of $5.4 million.

Also included in this category are the operations of the Star Lake, Grand Falls and Bishop's Falls facilities (Exploits Generation). On December 16, 2008, the Government licensed Nalcor to manage and operate hydro facilities on behalf of the province of Newfoundland and Labrador. Nalcor is operating the Star Lake, Grand Falls and Bishop's Falls facilities on a cost recovery basis. The power purchase agreements that previously applied to these facilities have been cancelled through Legislation.

FINANCIAL CONDITION REVIEW

Assets

Total assets were $2,804.8 million at December 31, 2010, an increase of $174.1 million or 6.6% over December 31, 2009. There were a number of contributing factors to the increase in assets. Nalcor invested $82.7 million related to the acquisition and development of oil and gas properties (2009 - $81.7 million). In addition, the company invested $113.6 million in property, plant and equipment (2009 - $96.4 million).

Additions to property, plant and equipment were, in part, offset by amortization of $56.9 million (2008 - $54.9 million) and depletion of $10.6 million (2009 - nil). Cash and cash equivalents increased by $30.5 million, sinking fund investments by $28.8 and the fourth payment to the Reserve Fund of $4.2 million (Nalcor's 65.8% share of the $8.0 million contribution by Churchill Falls net of interest) made in 2010. These increases were offset by a decrease in regulatory assets, primarily the amortization of deferred charges of $4.4 million (2009 - $5.5 million) and a reduction in short-term investments of $33.5 million.

Liabilities

Total liabilities increased by $50.7 million from $1,488.7 million at December 31, 2009, to $1,539.4 million at December 31, 2010. The increase in liabilities was primarily due to an increase in regulatory liabilities of $37.2 million, the addition of asset retirement obligations of $14.8 million and an increase in accrued liabilities primarily related to oil and gas expenditures in the amount of $17.2 million and $10.8 million related to the Lower Churchill Hydroelectric Development. These increases were offset by the repayment of the Bank of Nova

Scotia credit facility in Churchill Falls in full, in the amount of $29.3 million.

Equity

Total Shareholder's equity increased by $123.4 million from $1,142.0 million to $1,265.4 million in 2010. This increase is due primarily to the 2010 earnings of $77.5 million and an increase in equity due to an injection of contributed capital by the Government of $40.6 million.

LIQUIDITY AND CAPITAL RESOURCES

Sources and Uses of Cash

Liquidity requirements are met through a variety of sources, including funds from operations, short-term borrowings, issuance of long-term debt and contributed equity capital.

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

millions of dollars	2010	2009
Cash provided by (used in)		
Operating activities	$ 210.9	$ 212.3
Financing activities	11.1	(15.7)
Investing activities	(191.5)	(232.4)
Net increase (decrease) in cash	$ 30.5	$ (35.8)

Nalcor's primary uses of funds during 2010 were operating expenses, capital spending, including expenditures for the Lower Churchill Hydroelectric Development and oil and gas properties, and interest and principal payments on its debt. Cash from operating activities of $210.9 million was consistent with the previous year and includes net earnings and other non-cash items as well as changes in working capital. Investing activities included $113.6 million in plant and equipment; $82.7 million related to oil and gas investments; sinking fund and reserve fund investments of $33.3 million and a reduction in short-term investments of $33.5 million. Cash generated from financing activities of $11.1 million was primarily due to an equity injection of $40.6 million of contributed capital offset by long-term debt retirement of $29.3 million.

Throughout 2010, Nalcor maintained an unsecured revolving short-term credit facility with a limit of $150.0 million, with covenants that restricted the issuance of debt such that the unconsolidated debt to total capitalization ratio could not exceed 70%. The covenants further stipulated that the Debt Service Coverage Ratio should at all times be greater than 1.5 to 1.0 on an unconsolidated basis. At December 31, 2010, Nalcor was in compliance with these ratios. The facility was unencumbered at the end of 2010 with the exception of a $1.5 million letter of credit outstanding.

Subsequent to year end, Nalcor renegotiated the terms of the credit facility to achieve realignment with the Corporation's revised short-term working capital needs. The facility has been converted to a demand operating facility with a limit of $100.0 million, with no change in the financial covenants. The restructuring will reduce standby fees on unused portions of the credit facility.

Nalcor's subsidiary, Hydro, maintains a short-term promissory note program for funding its ongoing requirements. This program has an authorized limit of $300.0 million and is guaranteed by the Government. The current credit rating of R1 (low) assigned to this program by Dominion Bond Rating Service (DBRS), combined with the Government guarantee, allows Hydro access to short-term funds in the Canadian Money Market at attractive rates. At December 31, 2010, there were no short-term notes outstanding. Unsecured bank credit facilities are also in place for $50.0 million and with the exception of letters of credit outstanding of $18.9 million, this bank credit facility was unencumbered at the end of 2010.

Capital markets are the principal source of longer-term funding for Hydro. Hydro's debenture issues are currently assigned an "A" credit rating by DBRS, and are also fully guaranteed by the Government. Hydro's total borrowings outstanding, net of sinking funds and exclusive of borrowings pertaining to Churchill Falls, are limited by legislation to $1.6 billion. As of December 31, 2010, $936.5 million was outstanding (2009 - $999.5 million).

The operations of Churchill Falls are financed by cash from operations. During 2010, Churchill Falls used cash balances to repay, in full, the debt held in the 4.4% fixed rate credit facility and to make the scheduled $8.0 million contribution to the capital reserve fund. Unsecured bank credit facilities are also in place in the amount of $10.0 million and with the exception of a letter of credit outstanding of $1.0 million, this bank credit facility was unencumbered at the end of 2010.

The operating and capital requirements of Oil and Gas are financed by funds from operations and injections of equity capital from Nalcor, and Oil ans Gas is 100% equity financed. During 2010, revenue from the sale of crude oil was realized from the White Rose Growth Project. These revenues, in conjunction with equity injections from Nalcor, were used to offset operating costs and investments in oil and gas assets. Until such time as Oil and Gas has an earnings and credit profile sufficient to support entry into either the money markets or the capital markets, any financing required to supplement earnings from operations will occur from the parent company in the form of equity injections. At such time, management will review the funding strategy to ensure continued appropriateness.

Bull Arm Fabrication's short-term liquidity requirements are met by a combination of cash and cash equivalents on hand and funds from operations.

Access to Working Capital

Cash flow from operations and the availability of short-term funding under Nalcor's new $100.0 million demand operating facility are considered sufficient to meet working capital requirements. Covenants under the credit facility are intact and draw downs to date have been without incident. Borrowing costs under the credit facility are based on Banker's Acceptance (BA) rates plus a stamping fee of 50 basis points or the Prime Rate, depending on which borrowing option is chosen.

Hydro's short-term debt is rated as R1 (low) by DBRS and A-1 mid by Standard and Poors. Both are investment grade credit ratings that facilitate Hydro's access to short-term capital markets. Hydro sells a large portion of its energy to Newfoundland Power, which is a regulated distribution utility in the province and whose First Mortgage Bonds are rated by DBRS as an "A" credit. Hydro continues to obtain short-term funding through its promissory note program. The notes issued under this program are guaranteed by the Government. Due to cash surpluses in 2010, Hydro's short-term promissory note program was less active as compared to previous years, with only $12.0 million in promissory notes issued during the first half of the year (2009 - $421.0 million). On March 15, 2011, Hydro issued $6.0 million in promissory notes.

Churchill Falls' primary revenue stream is fixed at pricing under a long-term power contract with Hydro-Québec. Churchill Falls' cash requirements are funded by cash from operations with periodic working capital needs met through ready access to cash and high quality short-term investments. At year end, Churchill Falls had access to $26.3 million in cash and highly-liquid short-term investments. It also had access to a reserve fund totalling $59.7 million for use in meeting unanticipated capital expenditures.

To date, working capital requirements of Oil and Gas have been met through contributions of equity capital from Nalcor. During 2010, this funding source was augmented by funds from Oil and Gas operations which consisted almost entirely of sales from White Rose production. Consequently, these funds from operations were subject to fluctuations in both the market price of crude oil and the US/Canada currency exchange rate. This exposure was managed in accordance with Nalcor's corporate Financial Risk Management Policy. In February 2011, a series of 11 commodity swaps were executed to hedge price fluctuations associated with the sale of crude oil for the coming year.

CAPITAL STRUCTURE

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

millions of dollars	2010	2009
Short-term debt	$ -	$ -
Current portion long-term debt	8.2	37.5
Long-term debt (net of sinking funds)	928.3	962.0
Total debt	$ 936.5	$ 999.5
Shareholder's equity	$ 1,265.4	$ 1,142.0
Total debt to capital (1)	42.5%	46.7%
Fixed rate debt as a percentage of total indebtedness (2)	100%	100%
EBIT to interest coverage (3)	2.0	1.8
FFO to debt (4)	14.0%	10.0%

(1) *Debt to captial - Total debt (promissory notes, long-term debt including current portion less sinking funds), divided by debt plus shareholders equity*

(2) *Long-term debt divided by total debt*

(3) *EBIT divided by gross interest. Earnings before interest and taxes includes interest income net of guarantee fees. Gross interest is interest expense before interest income, guarantee fees, capitalized interest, accretion and foreign exchange provision.*

(4) *FFO to debt- Funds from operations (cash flow from operations less post retirement benefits paid less capitalized interest plus or minus changes in working capital) divided by Debt (total debt less post retirement benefit obligations less accrued interest)*

Nalcor's primary objectives when managing capital are 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. Nalcor's approach to capital management is performed on a consolidated basis. Management monitors the capital requirement for each subsidiary individually.

Nalcor uses the key measures of debt to capital, Earnings before Interest and Tax (EBIT) to interest

coverage, weighted average term to maturity and the fixed to floating rate debt ratio to monitor its capital structure. Both the weighted average term to maturity and the fixed to floating debt ratio are periodically compared to utility industry benchmarks and if deemed appropriate, adjustments to the capital structure are made. During 2009 and 2010, Nalcor realized a significant improvement in the debt to capital ratio as a direct result of contributed capital received from the Government of $182.6 million over two years. This equity funding, combined with a policy to reinvest all earnings, resulted in a significant reduction in leverage in Nalcor's capital structure. EBIT to interest coverage improved year over year due to increased earnings with relatively stable interest costs. During 2010, Nalcor began to measure Funds from Operations to Debt as an indicator of its ability to cover debt with cash generated on an annual basis.

The proportion of fixed rate debt as a percentage of total indebtedness remained at 100% at the end of 2010. The stability of fixed rate percentage year over year was due to cash management activity that resulted in positive cash balances throughout the year. This resulted in a reduction in floating rate debt as there were no promissory notes outstanding at the year end.

MANAGEMENT'S DISCUSSION & ANALYSIS

OBLIGATIONS AND COMMITMENTS

Obligations and commitments for the five-year period 2011 to 2015 are as follows:

millions of dollars	2011	2012	2013	2014	2015
Debt repayments [1]	$ -	$ -	$ -	$ 125.0	$ -
Sinking fund installements	8.2	8.2	8.2	8.2	8.2
Reserve fund payments [2]	5.3	5.3			
Power purchase agreements [3]	23.9	24.5	25.1	25.6	26.1
Transmission capacity [4]	19.4	19.4	19.4	4.8	-
Total	$ 56.8	$ 57.4	$ 52.7	$ 163.6	$ 34.3

(1) *Includes repayment of long-term debt.*

(2) *In accordance with the shareholder's agreement, Churchill Falls is required to establish a $75.0 million Reserve Fund for major repairs, which commenced with an initial payment January 2007. The amount represents Nalcor's 65.8% share of the payment.*

(3) *Hydro has entered into a number of power purchase agreements with remaining terms ranging from 15 to 25 years.*

(4) *Hydro has the right to renew its transmission service contract at the end of the contract term.*

RELATED PARTY TRANSACTIONS

Nalcor enters into various transactions with its parent, 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. Nalcor transacts with the following related parties:

Related party	Relationship
The Province	100% shareholder of Nalcor.
Churchill Falls	Jointly controlled subsidiary of Hydro.
Twin Falls	Jointly controlled subsidiary of Churchill Falls.
The Trust	100% owned by the province of Newfoundland and Labrador with Chruchill Falls as beneficiary.
PUB	Agency of the Province

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

	The Province	Other Affiliates	Total
millions of dollars		**2010**	
Revenue	**7.2**	**-**	**7.2**
Expenses	**16.3**	**1.3**	**17.6**
Accounts receivable	**0.9**	**1.8**	**2.7**
Accounts payable and accrued liabilities	**10.5**	**0.1**	**10.6**
Deferred credits	**2.5**	**-**	**2.5**
millions of dollars		2009	
Revenue	3.9	-	3.9
Expenses	18.0	1.6	19.6
Accounts receivable	0.1	0.6	0.7
Accounts payable and accrued liabilities	9.5	0.1	9.6
Deferred credits	1.1	-	1.1

The related party transactions included in the financial statements are described in Note 20 of the Consolidated Financial Statements.

SECTION 3: RISK MANAGEMENT PROCESS

Nalcor's Leadership Team provides senior management oversight of risk in the Corporation. Nalcor focuses on an execution of risk management and mitigation strategies in each line of business utilizing a common risk framework and toolset. The Corporate Treasurer and Chief Risk Officer is responsible for the ongoing monitoring and review of the risk profile and practices and also chairs an Enterprise Risk Management (ERM) committee that assists in this activity. This committee consists of membership across the various lines of business. In addition, a risk representative, who is responsible for ensuring that risk management policy and related mitigation strategies are carried out, has been appointed in each line of business.

Risks are identified at the business unit level and rated according to severity and likelihood of occurrence. Mitigation strategies are devised for highly-rated risks and these strategies form an integral part of the related business plan. Mitigation strategies include initiatives such as insurance contracts, hedging transactions, asset management and capital improvements.

Risk management is viewed not only as a means by which risks are identified and mitigated as appropriate, but also as a means by which business opportunities can be identified and assessed. While recognizing that some acceptance of risk is a necessary part of doing business, Nalcor endeavors to accept only those risks that help ensure competitive advantage and that are within its capability to withstand. The Board of Directors is regularly updated on higher profile risks and their status, and during 2010 approved a five-year ERM plan for Nalcor which included endorsement of a framework that will be consistent with Risk Management Guidelines and Principles per ISO/CSA 31000.

The Internal Audit function also assists Nalcor in achieving its objectives by providing a systematic evaluation of the effectiveness of risk management, cost control and governance processes. Opportunities for improving management control may also be identified during the audits.

Nalcor has identified four major categories of risk: strategic, operational, financial and compliance related risks.

STRATEGIC RISK

The Leadership Team has identified key strategic risks within each line of business and accepted those that might provide competitive advantage. Others have been analyzed in the context of Nalcor's ability to withstand the attendant risk and mitigation strategies have been formulated for risks carrying a higher rating. Strategic opportunities and mitigation strategies identified as a result of this process are integrated with the corporate planning process.

OPERATIONAL RISK

Risks are identified and assessed based on the probability and severity of a potential occurrence. Events that could have a significant impact on corporate strategic goals are identified and mitigation procedures are effected to provide reasonable assurance that such events will not prevent achievement of corporate goals and objectives. Through continual updating of risk management practices, Nalcor ensures the protection of all physical and financial assets.

This category of risk includes: major damage to critical assets; interruption of electrical service; and liability to third parties arising from property damage or loss, bodily injury or loss of life. To eliminate or lessen the impact of this risk, Nalcor has developed regular maintenance, inspection and insurance programs and initiated redundancy of critical assets.

The corporate insurance program, covering all assets and specified liabilities, is reviewed and updated annually. The review focuses on exposures to loss, insurable values, coverage limits, deductibles, self-insured retentions and loss analysis. Statistics and information compiled during the annual review are utilized to develop renewal strategies resulting in the acquisition of comprehensive coverage at competitive cost.

Each operational area and facility within Nalcor has developed comprehensive response plans to provide guidance and contingency processes in the event of emergency. The plans are based on consideration of adverse events that each area or facility might be subject to in the course of their operations such as fire, explosion, equipment failure, and natural events such as floods and ice storms. Nalcor has also established emergency response plans at the corporate level, which provides for executive level and functional support from service areas such as safety, health, environment, human resources, engineering and communications. In addition to contingency planning for response at the time of occurrence and in the immediate post-emergency time frame, longer-term planning for business continuity related issues is also an on-going priority.

Nalcor has established an Office of Asset Management to ensure it manages its assets effectively and consistently to maximize plant availability and minimize cost through a consistent framework and process across the Corporation.

Safety

The pursuit of safety excellence is a critical focus at Nalcor and all its lines of business. Safety is reinforced throughout the organization and as evidenced by the delivery of Safety Culture Change Workshops to employees; the development of a set of core values; a Safety Credo; and formal documentation of an Internal Responsibility System for safety. Key safety processes are continuously reviewed and updated including: work protection code, work method development, contractor safety management, safety performance communication and personal hazard assessment.

Information Technology

Information technology affects all aspects of Nalcor's operations. Major risk exposures in this environment relate to information security (e.g., loss of processing capability due to hardware/software failure or threat of virus attacks) and availability of information (e.g., loss of communication across the wide area network).

With respect to information security, Nalcor has retained a service provider to help restore critical business systems. The service provider supplies a back-up site along with all the necessary hardware and communication links. Nalcor maintains a Disaster Recovery Plan that details actual recovery procedures and processes and is updated and tested on a periodic basis. The Energy Management System that controls Hydro's generation and transmission activities has a backup Energy Control Centre in a separate facility.

External threats to Nalcor's computer systems are mitigated through the use of firewalls, anti-virus tools and detection/intrusion prevention appliances. Internet access is tightly controlled and managed by a web-filtering device that reduces the risk of potential computer viruses.

Environmental

The number and diversity of environmental risks facing Nalcor requires a structured and consistent management approach. Nalcor applies the ISO 14001 Environmental Management System (EMS) standard developed by the International Organization for Standardization to its Hydro and Churchill Falls subsidiaries to drive continual improvement in mitigating environmental risks, while providing customers with safe, reliable electricity.

Targets for improvements in environmental performance for these lines of business are established and monitored as part of the corporate goals and objectives. Nalcor mitigates environmental risk through adherence to the various principles of the EMS, which include periodic internal environmental compliance audits, surveillance audits by an outside contractor and recertification as ISO 14001 compliant.

Regulatory

Rates that Hydro Regulated charges for the provision of electrical service are established by the PUB. The ability to recover the actual costs of providing service depends on achieving forecasts established in the rate setting process. During 2009, the Government issued an Order in Council which provided Hydro with the ability to earn a rate of return equal to the rate approved from time to time by the PUB for Newfoundland Power. Hydro has yet to file a general rate application to obtain this rate of return.

Growth Activities

As Nalcor considers future growth activities in the energy sector, it may be subject to a number of risks. As investment opportunities are evaluated, strategies will be devised to mitigate identified risks.

FINANCIAL RISK

Nalcor operates in an environment with various forms of financial risk, including credit, liquidity and market risk. In compliance with Board-approved Financial Risk Management Policy, Nalcor utilizes a combination of derivative financial instruments, portfolio management, counter-party credit monitoring and financing activities to manage these risks.

Credit Risk

Nalcor is exposed to credit risk in the event of non-performance by counterparties to its financial instruments. Procedures and practices designed to manage the credit risks associated with the various business activities throughout Nalcor include assessment and monitoring of counter-party creditworthiness, setting of credit limits and various forms of credit assurance. The majority of receivables are from regulated utilities and retail consumers, which minimizes credit risk.

Nalcor manages its cash investment credit risk exposure by restricting its investments to high-quality securities. Investments held within the reserved fund portfolio of Churchill Falls do not exceed 10% with any one institution with the exception of the Government of Canada. Derivative transactions are executed with only highly-rated banking institutions. Credit risk related to the sale of recall power is managed through contractual arrangements with creditworthy counter parties, supported by credit enhancements as appropriate.

Liquidity Risk

Nalcor is exposed to liquidity risk with respect to its contractual obligations and financial liabilities. Short-term liquidity is provided by cash and cash equivalents, funds from operations and maintenance of borrowing facilities sufficient to cover both anticipated and unexpected fluctuations within its operations. Cash flows are monitored continuously. Long-term liquidity is provided through the issuance of debentures in the capital markets and injections of equity capital in support of large project investments. The funding obligations associated with the longer-term debentures are managed through a balanced approach to debt maturity and a program of sinking fund investment. Debt maturities are managed to avoid overly demanding funding requirements in any given year.

Market Risk

Interest Rates

Nalcor has a $100.0 million demand operating facility. Hydro's short-term funding is managed under a Provincially-guaranteed promissory note program having a $300.0 million limit and a $50.0 million unsecured credit facility with its banker. Churchill Falls maintains a short-term investment portfolio that serves its working capital needs. An unsecured credit facility of $10.0 million is available but has rarely been utilized. Credit capacity is made available to Oil and Gas through Nalcor and as such, is not directly exposed to fluctuations in interest rates.

Nalcor annually establishes clear guidelines for exposure to short-term interest rates. These exposure limits are reset annually based on ongoing benchmarking against key indices, coupled with the performance of sensitivity analysis against established risk tolerance levels for each subsidiary. In this manner, Nalcor attempts to minimize the likelihood of a material impact on net income resulting from an unexpected change in interest rates.

Foreign Exchange and Commodity Prices

Nalcor's primary exposure to both foreign exchange and commodity price risk arises from: Hydro's purchases of No. 6 fuel for consumption at its Holyrood Thermal Generating Station; the sale of recall power at USD market rates; and, USD denominated sales of crude oil by Oil and Gas. Management of foreign exchange risk and commodity price risk is governed by the Financial Risk Management Policy approved by the Board of Directors.

Hydro Regulated's exposure on the purchase of No. 6 fuel is mitigated through the operation of the RSP. Hydro Regulated employs the periodic use of forward currency contracts as a means by which future exposure to exchange rate fluctuations on any given day can be avoided. As at December 31, 2010, there were no forward contracts outstanding in connection with No. 6 fuel purchases.

Foreign exchange and commodity price exposures on sales of recall power are managed through a combination of portfolio management and derivative hedging instruments, including forward exchange contracts and commodity price swaps. During 2009, Hydro executed USD/CAD currency trades on a total notional value of USD $87.8 million covering the 24-month period from April 2009 to March 2011. As at December 31, 2010 the total notional value of currency trades outstanding was USD $11.5 million (2009 - $59.1 million). In 2010 commodity hedge trades with a total notional value of USD $24.7 million covering the nine-month period from April 2010 to December 2010 were executed. As at December 31, 2010 the total notional value of commodity trades outstanding was USD $1.1 million.

Exposure to both foreign exchange and commodity price risk arose in Oil and Gas due to US denominated sales of crude oil which commenced in 2010. Due to uncertainty surrounding the production profile and schedule, it was determined that a hedge strategy in relation to these sales was not prudent for 2010.

Commodity price and foreign exchange risks, as it pertains to both energy sales and oil and gas investments, are managed in a manner that considers Nalcor's earnings quality and planned objectives. As added foreign exchange and commodity price exposures emerge, they will be managed in accordance with the Financial Risk Management Policy.

COMPLIANCE RISK

Nalcor is exposed to varying aspects of compliance risk across its lines of business. Each line of business is required to assess their risk of non-compliance and to consider mitigation strategies in instances that have a high pre-mitigation risk rating. These include compliance with provincial legislation, regulatory directives, environmental standards, debt covenants, accounting standards and with a wide variety of contractual arrangements affecting both revenues and expenditures.

In all these risk areas, Nalcor has identified, rated and mitigated each risk as appropriate and ensured their consideration as part of the corporate business planning process.

SECTION 4: CRITICAL ACCOUNTING ESTIMATES

Nalcor's discussion and analysis of its financial condition and results of operations are based on its audited Consolidated Financial Statements, which have been prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP).

Significant accounting policies are contained in Note 2 to the audited Consolidated Financial Statements. Some of these policies involve critical accounting estimates requiring subjective or complex judgments that are inherently uncertain which could result in materially different amounts under different conditions or using different assumptions. Management has discussed the development, selection, and application of its key accounting policies and the critical accounting estimates and assumptions they involve, with the Audit Committee of the Board of Directors, and it has reviewed the disclosures described in this section.

The following section discusses the critical accounting estimates and assumptions that management has made and how they affect the amounts reported in the audited Consolidated Financial Statements. Nalcor considers these estimates to be an important part of understanding its financial statements.

Employee Future Benefits

Nalcor provides pensions and other retirement benefits for most of its employees. Nalcor believes the accounting estimates related to its employee benefit plan costs are critical accounting estimates because the derived estimates are based on the use of various key assumptions and differences in actual results or changes in assumptions could materially affect Nalcor's Consolidated Financial Statements.

Due to the long-term nature of these plans, the calculation of expenses and obligations depends on various assumptions such as: discount rates, health care cost trend rates, projected salary increases, retirement age, mortality and termination rates. These assumptions are determined by management and are reviewed by Nalcor's actuaries.

The discount rate reflects the weighted average interest rate at which the other post-retirement liabilities could be effectively settled using high-quality bonds at the measurement date. Based on employee demographics and expected future benefit and medical claims, payments are measured and discounted to determine the present value of the expected future cash flows. The cash flows are discounted using yields on high-quality AA-rated non-callable bonds with cash flows of similar timing. Other assumptions are based on actual experience and best estimates.

Actual results that differ from the assumptions are accumulated and amortized over future periods and, therefore, generally affect recognized expense and the recorded obligation in future periods. These differences relate primarily to actual actuarial gains/losses incurred on the benefit obligation versus those expected, as recognized in the Consolidated Financial Statements. For further details on the annual expense and obligation, see Note 11 to the Consolidated Financial Statements.

Asset Retirement Obligations

Nalcor recognizes asset retirement obligations in the period in which they are incurred if a reasonable estimate of fair value can be determined. Determining asset retirement obligations requires estimates in relation to the expected life of the asset and the costs of demolition, dismantlement, restoration and remedial work that would be required. During 2010, Nalcor recognized an $11.4 million liability associated with the retirement of portions of the Holyrood Thermal Generating Station and $3.8 million of retirement obligations associated with Nalcor's net ownership interest in petroleum and natural gas properties.

Impairment of Property, Plant and Equipment

Nalcor reviews the carrying value of its 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. When applicable, an impairment loss would be recognized equal to the amount by which the carrying amount exceeds the fair value. Various assumptions and accounting estimates are required to determine whether an impairment loss should be recognized and if so, the value of such loss. This includes factors such as short-term and long-term forecasts of the future market price of electricity and fuel, the demand and supply of electricity and fuel, the in-service dates of new generating stations, inflation, capital expenditures and station lives. The amount of future net cash flow that Nalcor expects to receive from its property, plant and equipment could differ materially from the net book values recorded in its Consolidated Financial Statements.

Full Cost Accounting for Petroleum and Natural Gas Properties

Nalcor reviews the carrying value of its development projects at the end of each accounting period. The carrying value of petroleum and natural gas properties, as well as the corresponding DD&A expense, is based on estimates of costs to develop proved undeveloped reserves, proved oil and gas reserves and future net cash flows from proved reserves.

Regulation

Generally, the accounting policies applicable to Hydro are subject to examination and approval by the PUB. These accounting policies may differ from those used by entities not subject to rate regulation. The timing of the recognition of certain assets, liabilities, revenues and expenses may differ from that otherwise expected using Canadian GAAP for entities not subject to rate regulation. Regulatory assets and regulatory liabilities arise as a result of the rate-setting process and have been recorded based on previous, existing or expected future regulatory orders. Certain estimates are necessary until these amounts are finalized pursuant to regulatory decisions or other regulatory proceedings. The final amounts approved by the PUB for deferral as regulatory assets and regulatory liabilities and the approved recovery or settlement periods may differ from those originally expected. Any resulting adjustments to original estimates are reported in earnings in the period in which they become known. As at December 31, 2010, Hydro Regulated had $69.7 million in current and long-term regulatory assets (2009 - $74.1 million) and $159.8 million in current and long-term regulatory liabilities (2009 - $122.6 million). The nature of Hydro Regulated's regulatory assets and liabilities is described in Note 5 to the Consolidated Financial Statements.

Useful Life of Capital Assets

Property, plant and equipment are amortized over their estimated service lives. Estimated service lives are determined based on the anticipated physical life of the asset, technological obsolescence, and past experience, and are reviewed regularly to ensure that they continue to be appropriate.

Amortization is an estimate based primarily on the anticipated useful life of assets that reflects current facts and historical information. Nalcor's consolidated property, plant and equipment represents approximately 70% of total consolidated assets as at December 31, 2010 (2009 - 72%). Amortization expense associated with property, plant and equipment was $56.9 million during 2010 (2009 - $54.9 million). Due to the size of Nalcor's property, plant and equipment, changes in amortization rates can have a significant impact on amortization expense.

During 2010, Hydro Regulated completed an amortization study as a follow-up to the 2005 study conducted pursuant to Order No. P.U. 7 (2002 - 2003) The scope of this study included a review of Hydro's amortization methods as well as a statistical analysis of service life estimates and calculation of appropriate amortization rates and annual and accrued amortization balances as at

December 31, 2009. Based on the results of this study, management currently estimates that switching from the use of the sinking fund rather than straight-line amortization for hydroelectric and transmission assets as well as changing from unit based amortization to a group based method on remaining life basis will result in minimal change in the annual amortization expense.

Capitalized Overhead

As approved by the PUB, Hydro Regulated capitalizes overhead costs that are not directly attributable to specific capital assets but which relate to the overall capital program. This capital overhead is allocated to property, plant and equipment and amortized over their estimated service life. In 2010, $2.1 million (2009 - $2.5 million) was allocated. Any change in the methodology of calculating and allocating general overhead costs to property, plant and equipment could have a significant impact on the amount recorded as operating expenses and property, plant and equipment assets.

Contingencies

Nalcor is subject to various legal proceedings and claims associated with the ordinary course of business operations. It is management's judgment that the amount of liability, if any, from these actions would not have a material adverse effect on Nalcor's financial position or results of operations.

SECTION 5: ACCOUNTING CHANGES

Conversion to International Financial Reporting Standards (IFRS)

On February 13, 2008, the Accounting Standards Board (AcSB) confirmed that publicly-accountable enterprises will be required to adopt International Financial Reporting Standards (IFRS) for interim and annual financial statements for fiscal years beginning on or after January 1, 2011. As a result of recent changes to Part I of the Canadian Institute of Chartered Accountants (CICA) Handbook – Accounting, by the AcSB, certain rate-regulated entities can defer the adoption of IFRS by one year to January 1, 2012. Nalcor meets the criteria for deferral and as such has chosen to adopt IFRS effective January 1, 2012.

Nalcor commenced its IFRS conversion project in 2008 and established a formal project governance structure which includes a steering committee consisting of senior levels of management from various disciplines as appropriate. Regular reporting is provided to the leadership team and the Audit Committee of the Board of Directors. In addition to dedicated internal resources, Nalcor has also engaged an external advisor to assist in the IFRS conversion project.

Nalcor is currently finalizing and implementing system and process changes, preparing comparative financial information, finalizing and obtaining Audit Committee approval of IFRS compliant financial statements as well as providing further training and communication to affected stakeholders.

Accounting Policy Decisions and Impacts

The following discussion provides further information about Nalcor's policy choices upon transition to IFRS. At this time, Nalcor has not reached a conclusion on all its accounting policy choices and, since the IASB continues to issue new accounting standards, Nalcor's final accounting policy decision will only be determined once all applicable standards are known prior to January 1, 2012 transition date.

The areas with the highest potential to significantly impact Nalcor upon conversion to IFRS, identified during the scoping phase, are regulatory assets and liabilities, property, plant and equipment and petroleum and natural gas properties.

Regulatory Assets and Liabilities

Nalcor currently uses certain accounting policies specific to rate-regulated activities under GAAP which permit the recognition of regulatory assets and liabilities. The concept of rate regulatory accounting does not exist under current IFRS. The inability to recognize regulatory assets and liabilities after implementing IFRS in 2012 may have a significant impact on Nalcor's earnings due to a change in the timing of recognition of revenues and expenses.

Property, Plant and Equipment

International Accounting Standard (IAS) 16 – Property, Plant & Equipment, requires that significant parts of an asset be depreciated separately. Nalcor has completed a review of its asset records and made modifications where necessary, to ensure compliance with IAS 16. IAS 16 also permits property, plant and equipment to be measured using the fair value model or the cost model. Nalcor has chosen to adopt the cost model which results in no change from the current measurement policy under GAAP.

IAS 16 also requires the cost of an asset to be reduced by the systematic allocation of depreciation over the assets useful economic life. Nalcor has determined that sinking fund depreciation used on certain assets in Hydro Regulated is not appropriate under IFRS and will adopt the straight-line method upon transition.

In May 2010, the IASB amended IFRS 1 such that entities with rate-regulated activities could elect to use the carrying amount of items of property, plant and equipment as deemed cost at the date of transition to IFRS. Nalcor currently intends to apply this exemption.

Petroleum and Natural Gas Properties

Under Canadian GAAP, Nalcor follows the CICA's guideline on full cost accounting in which all costs directly associated with the acquisition of, exploration for, and development of oil and gas reserves are capitalized on a country-by-country cost centre basis. Costs accumulated within each country are depleted using the unit-of-production method based on proved reserves.

Under IFRS, Nalcor will continue to deplete capitalized costs using the unit-of-production method; however, Nalcor has chosen to deplete these costs based on proved plus probable reserves.

Under IFRS, Nalcor will also adopt new accounting policies associated with pre-exploration costs, exploration and evaluation costs and development costs. Under Canadian GAAP pre-exploration costs are capitalized and depleted within the cost centre. Under IFRS these costs must be expensed. Exploration and evaluation costs will continue to be capitalized under IFRS until the project is determined to be technically feasible and commercially viable, at which point the costs would be transferred to property, plant and equipment. Under IFRS, Nalcor will continue to capitalize development costs, however, these costs will be depleted on a unit-of-production method over a cash generating unit level instead of the country cost centre level.

During 2011, Nalcor will continue to review all proposed and continuing projects of the IASB, closely monitor any International Financial Reporting Interpretations Committee initiatives with potential to impact financial reporting and will participate in related initiatives as appropriate.

MANAGEMENT REPORT

The accompanying Consolidated Financial Statements of Nalcor Energy, and all information in the Business and Financial Report, are the responsibility of Management and have been approved by the Board of Directors.

The Consolidated Financial Statements have been prepared by Management in accordance with Canadian generally accepted accounting principles, applied on a basis consistent with that of the preceding year. The preparation of financial statements necessarily involves the use of estimates based on Management's judgement, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to April 1, 2011. Financial information presented elsewhere in the Business and Financial Report is consistent with that in the Consolidated Financial Statements.

Management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for the appropriate delegation of authority and segregation of responsibilities. An internal audit department independently evaluates the effectiveness of these internal controls on an ongoing basis, and reports its findings to Management and to the Audit Committee of the Board of Directors.

The responsibility of the external auditor, Deloitte & Touche LLP, is to express an independent, professional opinion on whether the Consolidated Financial Statements are fairly presented in accordance with Canadian generally accepted accounting principles. The Auditors' Report outlines the scope of their examination and their opinion.

The Board of Directors, through its Audit Committee, is responsible for ensuring that Management fulfills its responsibility for financial reporting and internal controls. The Audit Committee meets regularly with Management, the internal auditors and the external auditors to satisfy itself that each group has properly discharged its respective responsibility and to review the Consolidated Financial Statements before recommending approval by the Board of Directors. The internal and external auditors have full and free access to the Audit Committee, with and without the presence of Management.

Ed Martin
President and Chief Executive Officer

Derrick Sturge
Vice President, Finance and Chief Financial Officer

INDEPENDENT AUDITORS' 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, 2010, and the consolidated statements of income and retained earnings, comprehensive income and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

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

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

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

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

Deloitte & Touche LLP

Chartered Accountants
St. John's, NL
Canada
April 1, 2011

CONSOLIDATED BALANCE SHEET

As at December 31 (millions of dollars)	2010	2009
ASSETS		
Current assets		
Cash and cash equivalents	44.5	14.0
Short-term investments	15.7	49.2
Accounts receivable	93.9	88.9
Current portion of regulatory assets (Note 5)	3.8	4.8
Inventory	63.0	59.5
Prepaid expenses	4.7	3.3
Derivative assets	2.0	5.7
	227.6	225.4
Property, plant and equipment (Note 3)	1,968.7	1,901.7
Petroleum and natural gas properties (Note 4)	269.2	193.8
Regulatory assets (Note 5)	65.9	69.3
Other long-term assets (Note 6)	273.4	240.5
	2,804.8	2,630.7
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	152.1	125.2
Current portion of long-term debt (Note 8)	8.2	37.5
Current portion of regulatory liabilities (Note 5)	118.9	89.8
Deferred credits	2.6	3.1
Derivative liabilities	0.3	-
	282.1	255.6
Long-term debt (Note 8)	1,136.7	1,141.6
Regulatory liabilities (Note 5)	40.9	32.8
Asset retirement obligations (Note 9)	14.8	-
Long-term payable (Note 10)	4.6	4.3
Employee future benefits (Note 11)	60.3	54.4
	1,539.4	1,488.7
SHAREHOLDER'S EQUITY		
Share capital (Note 12)	122.5	122.5
Contributed capital (Note 12)	374.1	333.5
	496.6	456.0
Accumulated other comprehensive income (Note 13)	27.3	22.0
Retained earnings	741.5	664.0
	768.8	686.0
	1,265.4	1,142.0
	2,804.8	2,630.7

Commitments and contingencies (Note 19)

Subsequent events (Note 23)

See accompanying notes

On Behalf of the Board

Ed Martin
Director

Gerald Shortall
Director

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

For the year ended December 31 (millions of dollars)	2010	2009
Revenue		
Energy sales	588.8	561.6
Interest and finance income (Note 16)	18.0	18.2
Other revenue	13.3	10.3
	620.1	590.1
Expenses		
Fuels	140.4	155.2
Power purchased	44.4	47.1
Operations and administration	182.6	171.3
Interest and finance charges (Note 16)	105.1	102.3
Amortization and depletion	67.5	54.9
Other gains and losses	2.6	(0.7)
	542.6	530.1
Net income	77.5	60.0
Retained earnings, beginning of year	664.0	604.0
Retained earnings, end of year	741.5	664.0

See accompanying notes

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31 (millions of dollars)	2010	2009
Net income	77.5	60.0
Other comprehensive income		
Change in fair value of available for sale financial instruments	20.6	9.8
Change in fair value of derivatives designated as cash flow hedges	1.1	9.2
Amounts recognized in net income	(16.4)	(13.5)
Comprehensive income	82.8	65.5

See accompanying notes

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31 (millions of dollars)	2010	2009
Cash provided by (used in)		
Operating activities		
Net income	77.5	60.0
Adjusted for items not involving a cash flow		
Amortization and depletion	67.5	54.9
Accretion of long-term debt	0.4	0.4
Loss on disposal of property, plant and equipment	0.7	1.8
Unrealized loss (gain) on derivative instruments	0.3	(0.8)
	146.4	116.3
Changes in non-cash operating working capital balances (Note 17)	64.5	96.0
	210.9	212.3
Financing activities		
Long-term debt repaid	(29.3)	(0.9)
Increase in contributed capital	40.6	142.0
(Decrease) increase in deferred credits	(0.5)	2.6
Increase in long-term payable	0.3	3.6
Decrease in promissory notes	-	(163.0)
	11.1	(15.7)
Investing activities		
Additions to property, plant and equipment	(113.6)	(96.4)
Additions to petroleum and natural gas properties	(82.7)	(81.7)
Increase in other long-term assets	(29.2)	(31.1)
Decrease (increase) in short-term investments	33.5	(24.6)
Proceeds on disposal of property, plant and equipment	0.5	1.4
	(191.5)	(232.4)
Net increase (decrease) in cash	30.5	(35.8)
Cash position, beginning of year	14.0	49.8
Cash position, end of year	44.5	14.0
Cash position is represented by		
Cash (bank indebtedness)	44.3	(3.0)
Cash equivalents	0.2	17.0
	44.5	14.0
Supplementary cash flow information (Note 17)		

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS

Nalcor Energy (Nalcor) is incorporated under a special act of the Legislature of the Province of Newfoundland and Labrador (Province) as a Crown corporation and its business includes the development, generation and sale of electricity, oil and gas, wind energy, industrial fabrication and energy marketing.

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

Newfoundland and Labrador Hydro (Hydro) is incorporated under a special act of the Legislature of 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.

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.

Nalcor Energy Oil and Gas Inc. (Oil and Gas) is incorporated under the Corporations Act of Newfoundland and Labrador. Oil and Gas has a broad mandate to engage in upstream and downstream sectors of the oil and gas industry including exploration, development, production, transportation and processing.

Nalcor Energy Bull Arm Fabrication Inc. (Bull Arm Fabrication) is incorporated under the Corporations Act of Newfoundland and Labrador. Bull Arm Fabrication is Atlantic Canada's largest industrial fabrication site and has 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.

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

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.

2. SIGNIFICANT ACCOUNTING POLICIES

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

The Province transferred its ownership interest in Bull Arm Fabrication to Nalcor effective March 31, 2009. The transfer has been accounted for using the continuity of interests method which resulted in a restatement to include Bull Arm Fabrication's financial position, results of operations and cash flows as if Bull Arm Fabrication had been combined since its inception.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Principles of Consolidation

The Consolidated Financial Statements include the financial statements of Nalcor and its subsidiary companies: Hydro (100% owned), Oil and Gas (100% owned), Bull Arm Fabrication (100% owned), GIPCo (100% owned) and LCDC (51% owned). Intercompany transactions and balances have been eliminated upon consolidation.

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

Churchill Falls holds 33.33% of the equity share capital of Twin Falls and is a party with other shareholders in a participation agreement which gives Churchill Falls joint control of Twin Falls. This investment is accounted for by the proportionate consolidation method.

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

Use of Estimates

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

Rates and Regulations

Hydro's revenues from its electrical sales to most customers within the Province are subject to rate regulation by the PUB. Hydro's borrowing and capital expenditure programs are also subject to review and approval by the PUB. Rates are set through periodic general rate applications utilizing a cost of service (COS) methodology. The allowed rate of return on rate base is 7.4% (2009 - 7.4%). Hydro applies 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 more fully disclosed in Note 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 0.40% to 1.35% (2009 - 0.25% to 1.57%) per annum. Cash and cash equivalents and short-term investments are measured at fair value.

Inventory

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

Property, Plant and Equipment

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

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

Gains and losses on the disposal of property, plant and equipment are recognized in income 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. Interest is charged to construction in progress at rates equivalent to Hydro's weighted average cost of capital.

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

Estimated service lives of the major assets are as follows:

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

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

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

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

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

Churchill Falls

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

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

Capitalized Interest

Interest is charged to construction in progress until the project is complete at rates equivalent to the weighted average cost of debt or the last approved weighted average cost of capital for regulated assets. Capitalized interest cannot exceed actual interest incurred.

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.

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.

Asset Retirement Obligations

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

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

Revenue Recognition

Electricity Sales

Revenue is recognized on the accrual basis, as power deliveries are made, and includes an estimate of the value of electricity consumed by customers in the year, but billed subsequent to year-end. Sales within the Province are primarily at rates approved by the PUB, whereas export sales and sales to certain major industrial customers are either at rates under the terms of the applicable contracts, or at market rates.

A power contract with Hydro-Québec, 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 hour (kWh) to 2.0 mills per kWh upon renewal in 2016.

Churchill Falls receives revenues from Hydro-Québec, under a guaranteed winter availability contract (GWAC) through 2041. The GWAC provides for the sale of 682 MW of guaranteed seasonal availability to Hydro-Québec during the months of November through March in each of the remaining years until the end of the Power Contract.

The value of differences between energy delivered and the Annual Energy Base (AEB), as defined in the Power Contract, is tracked over a four-year period and then either recovered from or refunded to Hydro-Québec over the subsequent four-year period, unless the balance is less than $1.0 million in which case it is recovered or refunded immediately. These long-term receivables or long-term payables are subject to interest at 7% per annum (2009 - 7%).

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. Transfer of risks and rewards are considered to have occurred when title to the product passes to the customer.

Revenue from properties in which the company has an interest with other producers is recognized on the basis of the Oil and Gas' net working interest using the entitlement method. Under this method, crude oil produced and sold below or above the 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.

Foreign Currency Translation

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

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

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

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
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 liabilities
Derivative liabilities	Held for trading
Long-term debt	Other liabilities
Long-term payable	Other 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 has designated foreign exchange forward contracts as cash flow hedges (Notes 6(d) and 15). In a cash flow hedge relationship, the portion of gains or losses on the hedging item that is determined to be an effective hedge is recognized in Other Comprehensive Income (OCI), while the ineffective portion is recorded in net income. The amounts recognized in OCI are reclassified in net income when the hedged item affects net income.

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

Future Accounting Changes

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

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

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

3. PROPERTY, PLANT AND EQUIPMENT

	Cost	Contributions In Aid of Construction	Accumulated Amortization	Net Book Value
(millions of dollars)		2010		
Electric – generation	**1,767.6**	**29.5**	**615.9**	**1,122.2**
Electric – transmission and distribution	**849.0**	**67.9**	**280.4**	**500.7**
Development projects	**240.1**	**-**	**-**	**240.1**
Other	**309.4**	**24.0**	**179.7**	**105.7**
	3,166.1	**121.4**	**1,076.0**	**1,968.7**

	Cost	Contributions In Aid of Construction	Accumulated Amortization	Net Book Value
(millions of dollars)		2009		
Electric – generation	1,735.4	29.6	595.0	1,110.8
Electric – transmission and distribution	822.9	67.7	263.3	491.9
Development projects	194.2	-	-	194.2
Other	295.5	23.5	167.2	104.8
	3,048.0	120.8	1,025.5	1,901.7

As at December 31, 2010, the cost of assets under construction and therefore excluded from costs subject to amortization was $257.7 million (2009 - $200.9 million).

4. PETROLEUM AND NATURAL GAS PROPERTIES

(millions of dollars)	**2010**	2009
Petroleum and natural gas properties	**279.8**	193.8
Less: accumulated depletion	**(10.6)**	-
	269.2	193.8

Internal costs directly related to acquisition, exploration and development activities capitalized in 2010 were $0.6 million (2009 - $0.2 million).

As at December 31, 2010 $174.7 million (2009 - $193.8 million) of accumulated costs of petroleum and natural gas properties were not subject to depletion and depreciation.

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, a 10% working interest in the Hibernia Southern Extension and an average working interest of 67% in three onshore exploration permits in Parsons Pond on the Great Northern Peninsula.

Acquisitions

On February 16, 2010, Oil and Gas signed formal agreements to acquire a 10% equity interest in the Hibernia Southern Extension Subsea tie-back project for a purchase price of $30.0 million.

5. REGULATORY ASSETS AND LIABILITIES

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

Nalcor's subsidiary, 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 are no longer likely to be recovered or repaid through future rate adjustments, the carrying amount is reflected in operations. The following is a description of each of the circumstances in which rate regulation affects the accounting for a transaction or event.

Rate Stabilization Plan

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

Balances accumulating in the RSP, including financing charges, are to be recovered or refunded in the following year, with the exception of hydraulic variation, which will be recovered or refunded at a rate of 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.

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 generally accepted accounting principles require that the cost of fuel be recognized as an operating expense in the period in which it was consumed. In 2010, $23.3 million was recognized (2009 - $42.3 million) in the RSP and $2.3 million (2009 - $18.3 million) was recovered through rates and included in energy sales, with a corresponding cost amortized in fuel expenses.

Deferred Foreign Exchange Losses

Hydro incurred foreign exchange losses related to the issuance of Swiss Franc and Japanese Yen denominated debt in 1975 and 1985, respectively, which were recognized when the debt was repaid in 1997. The PUB has accepted the inclusion of realized foreign exchange losses related to long-term debt in rates charged to customers in future periods. 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 generally accepted accounting principles 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 (2009 - $2.2 million), is included in interest and finance charges (Note 16).

Deferred Major Extraordinary Repairs

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

Deferred Study Costs

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

Deferred Energy Conservation Costs

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

Deferred Purchased Power Savings

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

Property, Plant and Equipment

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

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

6. OTHER LONG-TERM ASSETS

(millions of dollars)		2010	2009
Long-term receivables	(a)	**25.7**	24.8
Sinking funds	(b)	**208.4**	179.6
Reserve fund	(c)	**39.3**	34.8
Derivative assets	(d)	**-**	1.3
		273.4	240.5

(a) Included in long-term receivables are two refundable deposits in the amount of $24.1 million (2009 - $23.9 million), associated with an application for transmission service into Québec, bearing interest at one-year Guaranteed Income Certificate (GIC) rates, a $0.1 million (2009 - $0.1 million) deposit associated with an application for transmission service in New Brunswick, bearing interest at the Prime Rate, and two refundable deposits in the amount of $1.2 million (2009 - nil) associated with an application for transmission service into Nova Scotia, bearing interest at Prime Rate less 1.0%. The remaining portion of $0.3 million (2009 - $0.8 million) is the 2004-2008 AEB receivable from Hydro-Québec bearing interest at 7.0%.

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

(c) Pursuant to the terms of the 1999 shareholders' agreement Churchill Falls, in 2007, commenced the creation of a $75.0 million segregated reserve fund to contribute towards the funding of capital expenditures related to Churchill Falls' existing facilities and their replacement (Note 19(j)). A summary of Nalcor's 65.8% share of the reserve fund is as follows:

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

(d) During 2009, Nalcor entered into a series of 24 foreign exchange forward contracts to manage exchange rate risk on US dollar (USD) electricity sales. The nominal contract values range from $2.4 million to $6.0 million with an average exchange rate of 1.17 Canadian to USD. During 2010, 12 (2009 - eight) of these contracts were settled with the effective portion of the gain, in the amount of $5.9 million (2009 - $2.4 million), reported as energy sales and the ineffective portion as other income. The fair value of the remaining four contracts outstanding as at December 31, 2010 is $2.0 million of which the entire amount is current (2009 - $5.7 million). These contracts have been designated as part of a hedging relationship (Note 15).

7. JOINT VENTURE

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

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

8. LONG TERM DEBT

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

Nalcor

Nalcor maintains an unsecured revolving term credit facility with its banker in the amount of $150.0 million Canadian or US equivalent. Borrowings in Canadian dollars 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. The terms of the credit facility allows for the expansion of the facility up to $300.0 million Canadian or US equivalent as a non-revolving term credit facility, secured by the guarantee of the Province. At year-end, the only drawing on the facility was one irrevocable letter of credit issued on behalf of Nalcor's subsidiary, Oil and Gas. This letter of credit, in the amount of $1.5 million, was issued to the Canada-Newfoundland and Labrador Offshore Petroleum Board (C-NLOPB) to satisfy certain financial responsibility requirements specified in the Accords Acts with respect to the issuance of authorizations for petroleum related work or activities within the Newfoundland and Labrador offshore area.

Hydro

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

* Sinking funds have been established for these issues.

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 1.0% annually on the total debt (net of sinking funds) guaranteed by the Province, outstanding as of the preceding December 31. For the years ended December 31, 2010 and 2009, the guarantee fee was waived by the Province.

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

Hydro maintains a $50.0 million Canadian or US equivalent unsecured operating credit facility with its banker. At year-end there were no amounts drawn on the facility (2009 - nil). Advances may take the form of a Prime Rate advance or the issuance of a BA with interest calculated at the Prime Rate or prevailing Government BA fee. The facility also provides coverage for overdrafts on Hydro's bank accounts, with interest calculated at the Prime Rate. At year-end, Hydro had 24 letters of credit outstanding (Note 19(g)) reducing the availability of the credit facility by $18.9 million (2009 - $7.5 million).

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

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

Churchill Falls

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

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

Operating Credit Facility

Churchill Falls maintains a $10.0 million Canadian unsecured operating credit facility with its banker and at year-end, there were no amounts drawn on the facility (2009 - nil). Advances may take the form of a Prime Rate advance or the issuance of BAs with interest calculated at the Prime Rate or prevailing Government BA fee. The facility provides coverage for overdrafts on Churchill Falls' bank accounts, with interest calculated at the Prime Rate. At year-end, Churchill Falls had two letters of credit outstanding (Note 19(g)) reducing the availability of the credit facility by $1.0 million (2009 - $1.0 million).

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

9. ASSET RETIREMENT OBLIGATIONS

During the year ended December 31, 2010, Nalcor recognized an $11.4 million liability associated with retirement of portions of the HTGS and $3.8 million of retirement obligations associated with Nalcor's net ownership 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 dollars)	2010	2009
Asset retirement obligations, beginning of year	-	-
Liabilities incurred	15.2	-
Liabilities settled	-	-
Accretion	0.1	-
Revisions	(0.5)	-
Asset retirement obligations, end of year	14.8	-

The total undiscounted estimated cash flows required to settle the obligations as at December 31, 2010 is $25.3 million (2009 - nil). Payments to settle the liabilities are expected to occur between 2017 and 2029. The fair value of the asset retirement obligations was determined using the present value of future cash flows discounted using a credit-adjusted risk-free rate ranging from 4.1% to 4.7%.

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.

10. LONG-TERM PAYABLE

The long-term payable to Hydro-Québec as at December 31, 2010, represents the accumulation of differences between energy delivered monthly and the AEB energy billed monthly, which will be tracked during the four-year period from September 1, 2008 to August 31, 2012. Currently, the full amount of $4.6 million (2009 - $4.3 million) is long-term bearing interest at 7.0%. The final amount will be determined on August 31, 2012, and will be paid or collected monthly beginning September 2012 and ending August 2016.

11. EMPLOYEE FUTURE BENEFITS

Pension Plan

Employees participate in the Province's Public Service Pension Plan, a multi-employer defined benefit plan. The employer's contributions of $5.8 million (2009 - $5.3 million) are expensed as incurred.

Other Benefits

Nalcor provides group life insurance and healthcare benefits on a cost-shared basis to retired employees, and in certain cases, their surviving spouses, in addition to a severance payment upon retirement. In 2010, cash payments to beneficiaries for its unfunded other employee future benefits was $2.4 million (2009 - $2.7 million). The most recent actuarial valuation was performed as at December 31, 2009 and extrapolated to December 31, 2010. The next actuarial valuation will be performed as at December 31, 2012.

(millions of dollars)	2010	2009
Accrued benefit obligation		
Balance at beginning of year	72.7	52.3
Current service cost	2.6	1.6
Interest cost	4.8	3.9
Actuarial loss	9.8	17.6
Benefits paid	(2.4)	(2.7)
Balance at end of year	87.5	72.7
Plan deficit	87.5	72.7
Unamortized actuarial loss	(27.0)	(18.1)
Unamortized past-service cost	(0.2)	(0.2)
Accrued benefit liability at end of year	60.3	54.4

(millions of dollars)	2010	2009
Component of benefit cost		
Current service cost	2.6	1.6
Interest cost	4.8	3.9
Actuarial loss	9.8	17.6
	17.2	23.1
Difference between actuarial loss and amount recognized	(8.9)	(17.6)
Benefit expense	8.3	5.5

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

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

Assumed healthcare trend rates:

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

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

Increase	2010	2009
Current service and interest cost	**1.3**	0.8
Accrued benefit obligation	**15.1**	11.1

Decrease	2010	2009
Current service and interest cost	**(1.0)**	(0.6)
Accrued benefit obligation	**(11.7)**	(8.7)

12. SHAREHOLDER'S EQUITY

Share Capital

(millions of dollars)	2010	2009
Common shares of par value $1 each		
Authorized: unlimited		
Issued and outstanding 122,500,000 (2009 – 122,500,000)	**122.5**	122.5

Contributed Capital

(millions of dollars)	2010	2009
Total contributed capital	**374.1**	333.5

During 2010, the Province contributed capital in the amount of $40.0 million (2009 - $142.0 million) and the Churchill Falls (Labrador) Corporation Trust (the Trust) contributed $0.6 million (2009 - nil).

13. ACCUMULATED OTHER COMPREHENSIVE INCOME

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

14. CAPITAL MANAGEMENT

Nalcor's primary objectives when managing capital are to minimize Nalcor's cost of capital within the confines of established risk parameters, and to safeguard Nalcor's ability to continue as a going concern. Nalcor's approach to capital management is performed on a consolidated basis. Management monitors the capital requirement for each subsidiary individually.

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 capital structure is outlined below:

(millions of dollars)	2010		2009	
Debt				
Long-term debt	**1,136.7**		1,141.6	
Current portion of long-term debt	**8.2**		37.5	
Sinking funds	**(208.4)**		(179.6)	
	936.5	**42.5%**	999.5	46.7%
Equity				
Share capital	**122.5**		122.5	
Contributed capital	**374.1**		333.5	
Accumulated other comprehensive income	**27.3**		22.0	
Retained earnings	**741.5**		664.0	
	1,265.4	**57.5%**	1,142.0	53.3%
Total debt and equity	**2,201.9**	**100.0%**	2,141.5	100.0%

Nalcor's unsecured operating facility has covenants restricting the issuance of debt such that the unconsolidated 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 to 1.0 on an unconsolidated basis. As at December 31, 2010, Nalcor was in compliance with these covenants.

Hydro

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

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

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

Per legislation, the total of the short-term loans issued by Hydro and outstanding at any time shall not exceed a limit as fixed by the Lieutenant-Governor in Council. Short-term loans are those loans issued with a term not exceeding two years. The current limit is set at $300.0 million. The balance outstanding as at December 31, 2010 was nil (2009 - nil). Issuance of long-term and short-term debt by Hydro is further restricted by Bill C-24, an amendment to the Newfoundland and Labrador Hydro Act of 1975. The Bill effectively limits Hydro's total borrowings, which includes both long and short-term debt, to $1.6 billion at any point in time.

Churchill Falls

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

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

Oil and Gas

Future requirements for capital are expected to increase to fund Oil and Gas' share of project development costs. Capital costs to date have been financed by equity. As projects reach the production stage, Oil and Gas' cash from operations will contribute to funding its capital requirements by reducing the reliance on Nalcor to finance growth.

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 ensure the availability of sufficient cash to satisfy capital requirements.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair Value

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

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

	Carrying Value	Fair Value	Carrying Value	Fair Value
(millions of dollars)	2010		2009	
Financial assets				
Cash and cash equivalents	**44.5**	**44.5**	14.0	14.0
Short-term investments	**15.7**	**15.7**	49.2	49.2
Accounts receivable	**93.9**	**93.9**	88.9	88.9
Derivative assets (including current portion)	**2.0**	**2.0**	7.0	7.0
Sinking funds – investments in same Hydro issue	**76.4**	**93.6**	71.1	85.2
Sinking funds – other investments	**208.4**	**208.4**	179.6	179.6
Reserve fund	**39.3**	**39.3**	34.8	34.8
Long-term receivable(1)	**25.7**	**n/a**	24.8	n/a
Financial liabilities				
Accounts payable and accrued liabilities	**152.1**	**152.1**	125.2	125.2
Derivative liabilities	**0.3**	**0.3**	-	-
Long-term debt including amount due within one year (before sinking funds)	**1,221.3**	**1,589.7**	1,250.2	1,471.0
Long-term payable	**4.6**	**4.7**	4.3	4.4

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

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

Establishing Fair Value

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

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

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

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

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

The following table presents Nalcor's fair value hierarchy for financial assets and liabilities as at December 31. There were no transfers between Level 1 and Level 2 during the year:

(millions of dollars)	Level 1	Level 2	Total
		2010	
Financial assets			
Cash and cash equivalents	**44.5**	**-**	**44.5**
Short-term investments	**15.7**	**-**	**15.7**
Accounts receivable	**93.9**	**-**	**93.9**
Derivative assets	**-**	**2.0**	**2.0**
Sinking funds – investments in same Hydro issue	**-**	**93.6**	**93.6**
Sinking funds – other investments	**-**	**208.4**	**208.4**
Reserve fund	**-**	**39.3**	**39.3**
Financial liabilities			
Accounts payable and accrued liabilities	**152.1**	**-**	**152.1**
Derivative liabilities	**-**	**0.3**	**0.3**
Long-term debt including amount due within one year (before sinking funds)	**-**	**1,589.7**	**1,589.7**
Long-term payable	**-**	**4.7**	**4.7**
		2009	
Financial assets			
Cash and cash equivalents	14.0	-	14.0
Short-term investments	49.2	-	49.2
Accounts receivable	88.9	-	88.9
Derivative assets	-	7.0	7.0
Sinking funds – investments in same Hydro issue	-	85.2	85.2
Sinking funds – other investments	-	179.6	179.6
Reserve fund	-	34.8	34.8
Financial liabilities			
Accounts payable and accrued liabilities	125.2	-	125.2
Derivative liabilities	-	-	-
Long-term debt including amount due within one year (before sinking funds)	-	1,471.0	1,471.0
Long-term payable	-	4.4	4.4

There were no financial assets or liabilities valued using Level 3 of the fair value hierarchy as at December 31, 2010 and 2009.

Risk Management

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

Credit Risk

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

Nalcor's three largest customers account for 78.3% (2009 - 78.8%) of total energy sales and 59.6% (2009 - 67.5%) of accounts receivable. These customers are comprised of rate regulated organizations or organizations 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, 2010.

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

Liquidity Risk

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

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

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

The following are the contractual maturities of Nalcor's financial liabilities, including principal and interest, as at December 31, 2010:

(millions of dollars)	<1 Year	1-3 Years	3-5 Years	>5 Years	Total
Accounts payable and accrued liabilities	152.1	-	-	-	152.1
Derivative liabilities	0.3	-	-	-	0.3
Long-term debt including amount					
due within one year	-	-	125.0	1,100.0	1,225.0
Long-term payable	-	1.5	2.3	0.8	4.6
Interest	61.8	181.3	161.5	752.4	1,157.0
	214.2	182.8	288.8	1,853.2	2,539.0

Market Risk

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

Interest Rates

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

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

	Net Income		Other Comprehensive Income	
(millions of dollars)	1% decrease	1% increase	1% decrease	1% increase
Interest on short-term investments	(0.4)	0.4	-	-
Interest on sinking fund	-	-	29.3	(10.3)
Interest on reserve fund	(0.1)	0.1	1.1	(0.9)
	(0.5)	0.5	30.4	(11.2)

Foreign Currency and Commodity Exposure

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

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

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

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

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

Oil and Gas has sales denominated in US dollars that are based on prevailing market oil prices. Market risk associated with fluctuations in oil prices and foreign exchange rates is managed consistent with Nalcor's financial risk management policy.

Effect of Hedge Accounting on Financial Statements

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

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

16. INTEREST AND FINANCE INCOME/CHARGES

(millions of dollars)	**2010**	2009
Interest and finance income		
Interest on sinking fund	**15.2**	13.9
Interest on reserve fund	**1.4**	1.3
Other interest income	**1.4**	3.0
	18.0	18.2
Interest and finance charges		
Long-term debt	**91.7**	91.8
Interest on rate stabilization plan	**10.2**	7.0
Accretion of long-term debt	**0.4**	0.4
Amortization of deferred foreign exchange losses	**2.1**	2.2
Other	**1.9**	1.7
	106.3	103.1
Interest capitalized during construction	**(1.2)**	(0.8)
	105.1	102.3

17. SUPPLEMENTARY CASH FLOW INFORMATION

(millions of dollars)	**2010**	2009
Accounts receivable	**(5.0)**	(11.7)
Inventory	**(3.5)**	(6.8)
Prepaid expenses	**(1.4)**	(1.7)
Regulatory assets	**4.4**	5.5
Regulatory liabilities	**37.2**	68.8
Accounts payable and accrued liabilities	**26.9**	39.1
Employee future benefits	**5.9**	2.8
	64.5	96.0
Income taxes paid	**0.2**	0.2
Interest received	**2.2**	2.6
Interest paid	**92.4**	93.0

18. SEGMENT INFORMATION

Nalcor operates in five business segments. Hydro Regulated encompasses sales of electricity to customers within the Province. Churchill Falls operates a hydroelectric generating facility and sells electricity primarily to Hydro-Québec. Oil and Gas activities include exploration, development, production, transportation and processing sectors of the oil and gas industry. Energy Marketing activities include the sale of electricity to markets outside the Province. Other encompasses industrial fabrication, some non-regulated electricity sales, development activities including the Lower Churchill Hydroelectric Development and corporate 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 described in Note 2.

	Hydro Regulated	Churchill Falls	Oil and Gas	Energy Marketing	Other	Inter-Segment	Total
(millions of dollars)				2010			
Revenue							
Energy sales	417.1	76.0	15.3	77.5	6.8	(3.9)	588.8
Interest and finance income	16.1	1.7	-	-	0.5	(0.3)	18.0
Other revenue	2.3	0.3	3.9	-	3.3	3.5	13.3
	435.5	78.0	19.2	77.5	10.6	(0.7)	620.1
Expenses							
Fuels	140.3	-	-	-	0.1	-	140.4
Power purchased	44.2	-	-	4.1	-	(3.9)	44.4
Operations and administration	97.8	40.5	10.7	21.4	12.2	-	182.6
Interest and finance charges	102.9	1.6	0.1	0.5	0.3	(0.3)	105.1
Amortization	43.8	12.6	10.9	-	0.2	-	67.5
Other gains and losses	-	-	-	2.6	-	-	2.6
	429.0	54.7	21.7	28.6	12.8	(4.2)	542.6
Net income (loss) from operations	6.5	23.3	(2.5)	48.9	(2.2)	3.5	77.5
Preferred dividends	-	3.5	-	-	-	(3.5)	-
Net income (loss)	6.5	26.8	(2.5)	48.9	(2.2)	-	77.5
Capital expenditures	55.5	9.9	82.8	-	48.1	-	196.3
Total assets	1,831.5	417.1	278.3	7.4	324.7	(54.2)	2,804.8

	Hydro Regulated	Churchill Falls	Oil and Gas	Energy Marketing	Other	Inter-Segment	Total
(millions of dollars)				2009			
Revenue							
Energy sales	443.8	61.0	-	54.7	6.0	(3.9)	561.6
Interest and finance income	16.4	1.4	-	-	0.4	-	18.2
Other revenue	2.2	0.3	0.4	-	6.1	1.3	10.3
	462.4	62.7	0.4	54.7	12.5	(2.6)	590.1
Expenses							
Fuels	155.2	-	-	-	-	-	155.2
Power purchased	46.8	-	-	4.2	-	(3.9)	47.1
Operations and administration	100.9	37.7	2.7	16.6	13.4	-	171.3
Interest and finance charges	99.9	1.8	-	0.6	-	-	102.3
Amortization	41.7	12.8	0.1	-	0.3	-	54.9
Other gains and losses	-	-	-	(0.7)	-	-	(0.7)
	444.5	52.3	2.8	20.7	13.7	(3.9)	530.1
Net income (loss) from operations	17.9	10.4	(2.4)	34.0	(1.2)	1.3	60.0
Preferred dividends	-	1.3	-	-	-	(1.3)	-
Net income (loss)	17.9	11.7	(2.4)	34.0	(1.2)	-	60.0
Capital expenditures	54.1	3.7	82.6	-	37.7	-	178.1
Total assets	1,766.0	420.5	198.3	10.2	286.2	(50.5)	2,630.7

Geographic Information

Revenues by geographic area:

(millions of dollars)	**2010**	2009
Newfoundland and Labrador	**476.4**	480.8
Québec	**71.9**	69.2
New Brunswick	**60.7**	3.5
Nova Scotia	**11.1**	36.6
	620.1	590.1

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

19. COMMITMENTS AND CONTINGENCIES

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

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

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

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

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

(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 $0.1 million (2009 - $0.1 million).

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

(e) Outstanding commitments for capital projects total approximately $41.6 million (2009 - $22.4 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	27 MW	2008	20 years
Wind	27 MW	2009	20 years

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

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

On December 16, 2008, the Province licensed Nalcor Energy to manage and operate the Star Lake, Grand Falls and Bishop's Falls hydro facilities on behalf of the Province. The power purchase agreements that previously applied to these facilities were cancelled through Legislation.

(g) Nalcor has issued an irrevocable letter of credit, in the amount of $1.5 million, to the C-NLOPB to satisfy certain financial responsibility requirements specified in the Accords Acts with respect to the issuance of authorizations for petroleum-related work or activities within the Newfoundland and Labrador offshore area.

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

Churchill Falls has issued 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 Provincial Department of Environment and Conservation.

(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 and development project. This funding is repayable in annual installments of $25,000 per commercial implementation of the resulting product. As at December 31, 2010 there have been no commercial implementations.

(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 is scheduled for the fall of 2013. The outcome of this motion is not determinable at this time.

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

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

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

20. RELATED PARTY TRANSACTIONS

Nalcor 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 Nalcor transacts are as follows:

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

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

		The Province	Other Affiliates	Total
(millions of dollars)			2010	
Revenue	(d)(f)(g)	**7.2**	**-**	**7.2**
Expenses	(a)(b)(c)(j)(k)	**16.3**	**1.3**	**17.6**
Accounts receivable	(b)(d)(f)(h)	**0.9**	**1.8**	**2.7**
Accounts payable and accrued liabilities	(c)(i)(j)(k)	**10.5**	**0.1**	**10.6**
Deferred credits	(e)(g)	**2.5**	**-**	**2.5**
(millions of dollars)			2009	
Revenue	(d)(f)(g)	3.9	-	3.9
Expenses	(a)(b)(c)(j)(k)	18.0	1.6	19.6
Accounts receivable	(b)(d)(h)	0.1	0.6	0.7
Accounts payable and accrued liabilities	(c)(i)(j)(k)	9.5	0.1	9.6
Deferred credits	(e)(f)(g)	1.1	-	1.1

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

(b) For the year ended December 31, 2010, approximately \$3.7 million (2009 - \$2.8 million) of operating costs were recovered from Churchill Falls for engineering, technical, management and administrative services. At December 31, 2010, \$1.7 million (2009 - \$0.6 million) was receivable from Churchill Falls.

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

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

(e) During 2010, Bull Arm Fabrication received \$1.0 million (2009 - \$2.0 million) in funding from the Province. As at December 31, 2010, \$0.3 million (2009 - \$0.5 million) is included in Deferred credits.

(f) 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 available under PEEP is \$5.0 million over five years. As at December 31, 2010, \$1.0 million of funds have been received to date and \$0.6 million is recorded as due from the Province (2009 - \$0.4 million in Deferred credits).

(g) 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 available under OGDP is \$20.0 million over three years beginning in 2010. As at December 31, 2010, \$5.0 million has been received from the Province of which \$2.1 million (2009 - nil) has been recorded as Deferred credits.

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

(i) 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 reported as retained earnings. As at December 31, 2010, $0.8 million (2009 - $0.8 million) of distributions payable to the Province are included in Accounts payable and accrued liabilities. Bull Arm Fabrication also has a payable to the Province of $0.3 million (2009 - $0.3 million) related to costs incurred prior to the transfer of Bull Arm Fabrication to Nalcor.

(j) Nalcor, as the operator of the Exploits assets, has a net payable to the Province of $5.7 million (2009 - $6.0 million) which is included in Accounts payable and accrued liabilities. Nalcor operates these assets on behalf of the Province on a cost recovery basis.

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

(l) Hydro received contributions in aid of construction from the Province related to wind feasibility studies. As at December 31, 2010, $0.1 million (2009 - $0.2 million) has been recorded as a deferred capital contribution.

21. WATER MANAGEMENT AGREEMENT

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

22. LOWER CHURCHILL HYDROELECTRIC DEVELOPMENT

On November 18, 2010, a term sheet was executed between Nalcor and Emera Inc. (Emera) to develop Muskrat Falls, a hydroelectric development on the lower Churchill River in Labrador, and related transmission assets. The agreement will result in the development of the 824 MW Muskrat Falls site, with power being transmitted over a new transmission line (the Labrador-Island Transmission 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 Transmission 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, New Brunswick, and Maine from Emera. The project has a total estimated capital cost of $6.2 billion (excluding capitalized financing costs). Emera will fund an estimated $1.8 billion representing a 49% interest in the transmission assets. The remaining estimated $4.4 billion will be funded by Nalcor representing a 100% interest in the Muskrat Falls generating facility and its interest in the transmission assets.

The parties continue to work towards final agreements. Completion of engineering, financing activities and regulatory approvals are required in order to make a final decision to proceed.

23. SUBSEQUENT EVENTS

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

(b) In February 2011, Oil and Gas entered into 11 swap contracts with a notional value of $17.4 million to hedge the commodity price risk on the sale of crude oil.

(c) On February 17, 2011, Oil and Gas announced that it no longer intends to drill the third of a three well drilling program related to its exploration licenses in Parson's Pond on the West Coast of Newfoundland. Oil and Gas is currently evaluating the data obtained from the first two wells in determining its next steps in exploring in this area.

(d) In March 2011, Nalcor renegotiated the terms of its credit facility with its banker in order achieve alignment with its revised short-term working capital needs. The facility has been converted to a demand operating facility with a limit of $100.0 million, with no change in the financial covenants (Note 14). Borrowings will continue to be available in the form of Prime Rate Advances, BAs and Letters of Credit. Borrowings in USD may take the form of Base Rate Advances and Letters of Credit.

24. COMPARATIVE FIGURES

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

FINANCIAL STATISTICS

Years ended December 31 (millions of dollars)	**2010**	2009	2008	2007	2006
OPERATING RESULTS					
Revenue					
Energy sales	**588.8**	561.6	563.3	567.5	541.8
Interest and finance income	**18.0**	18.2	27.5	21.6	23.2
Other	**13.3**	10.3	7.0	5.9	6.2
	620.1	590.1	597.8	595.0	571.2
Expenses					
Fuels and power purchased	**184.8**	202.3	205.8	197.6	193.4
Operations and administration	**182.6**	171.3	148.2	143.1	130.4
Interest and finance charges	**105.1**	102.3	105.7	122.0	128.9
Amortization and depletion	**67.5**	54.9	53.2	50.7	48.5
Other gains and losses	**2.6**	(0.7)	-	-	-
Write down of assets	**-**	-	2.7	-	-
	542.6	530.1	515.6	513.4	501.2
Net Income	**77.5**	60.0	82.2	81.6	70.0
Contributions to net income					
Hydro Regulated	**6.5**	17.9	9.0	2.9	(6.7)
Energy Marketing	**48.9**	34.0	47.8	49.9	48.6
Churchill Falls	**26.8**	11.7	20.8	25.1	26.4
Oil and Gas	**(2.5)**	(2.4)	(0.1)	-	-
Other	**(2.2)**	(1.2)	4.7	3.7	1.7
FINANCIAL POSITION					
Total current assets	**227.6**	225.4	210.9	187.5	196.4
Total current liabilities	**282.1**	255.6	280.0	355.3	201.5
Net working capital	**(54.5)**	(30.2)	(69.1)	(167.8)	(5.1)
Property, plant and equipment	**3044.7**	2,927.2	2,848.5	2,764.7	2,684.7
Accumulated depreciation	**1,076.0**	1,025.5	985.1	939.0	893.2
Property, plant and equipment, net	**1,968.7**	1,901.7	1,863.4	1,825.7	1,791.5
Petroleum and natural gas properties	**269.2**	193.8	112.1	-	-
Sinking funds	**208.4**	179.6	163.9	151.8	117.1
Other assets	**130.9**	130.2	124.7	121.3	127.3
Long-term debt	**1,136.7**	1,141.6	1,175.7	1,187.8	1,394.7
Other liabilities	**120.6**	91.5	84.8	65.4	61.7
Shareholder's equity	**1,265.4**	1,142.0	934.5	677.8	574.4
CAPITAL EXPENDITURES	**196.3**	178.1	205.5	86.5	60.9
STAFFING LEVELS					
Full-time equivalents	**1,263.0**	1,241.0	1,185.0	1,173.0	1,147.0

OPERATING STATISTICS

Years ended December 31	**2010**	2009	2008	2007	2006
INSTALLED GENERATING CAPACITY (rated megawatts)					
Churchill Falls	**5,428**	5,428	5,428	5,428	5,428
Twin Falls	**225**	225	225	225	225
Hydro					
Hydraulic	**939**	939	939	939	939
Thermal	**640**	640	640	640	640
Diesel	**58**	58	56	56	56
Menihek*	**19**	19	19	19	-
Wind** (Ramea)	**0.30**	-	-	-	-
Total	**7,309**	7,309	7,307	7,307	7,289
ELECTRIC ENERGY GENERATED, NET (gigawatt hours GWh)					
Churchill Falls	**33,781**	30,361	34,847	33,254	34,663
Hydro					
Hydraulic	**4,274**	4,200	4,772	4,689	4,802
Thermal	**792**	930	1,071	1,243	730
Diesel	**43**	46	47	43	42
Menihek*	**37**	40	41	13	-
Wind ** (Ramea)	**0.06**	-	-	-	-
Total	**38,927**	35,577	40,778	39,242	40,237
ELECTRIC ENERGY SALES (GWh)					
Churchill Falls Export	**28,966**	25,870	30,007	28,566	29,835
Hydro					
Utility	**5,016**	5,108	4,960	4,991	4,617
Rural	**884**	931	909	888	834
Industrial	**729**	576	1,124	1,136	1,145
Export	**1,457**	1,575	1,393	1,489	1,483
Menihek* Export	**37**	40	41	13	-
Twin Falls Industrial	**1,772**	1,591	1,801	1,678	1,801
Total	**38,861**	35,691	40,235	38,761	39,715
PETROLEUM AND NATURAL GAS PROPERTIES					
Oil Production (Thousands Barrels of Oil Equivalent (BOE)/day)					
North Amethyst***	**0.51**	-	-	-	-
Remaining Reserves (Proven and Probable) (Millions BOE)					
North Amethyst	**2.97**	3.65	-	-	-
West White Rose	**1.80**	1.80	-	-	-
Hibernia Southern Extension	**17.95**	-	-	-	-
TRANSMISSION LINES (kilometres)					
Churchill Falls					
735 kV	**608**	608	608	608	608
230 kV	**431**	431	431	431	431
Hydro					
230 kV	**1,608**	1,608	1,608	1,608	1,608
138 kV	**1,500**	1,500	1,500	1,500	1,500
69 kV	**634**	634	634	634	634
Menihek*					
69 kV	**39**	39	39	39	-
Total	**4,820**	4,820	4,820	4,820	4,781
PEAK DEMAND (megawatts)					
Churchill Falls	**5,604**	5,515	4,501	5,575	5,587
Hydro System	**1,305**	1,390	1,323	1,323	1,310

** Operations commenced October 1, 2007. ** Three 100 kilowatt turbines installed in 2010. *** First oil was May 31, 2010.*

NALCOR ENERGY EXECUTIVE LEADERSHIP TEAM

Ed Martin
President & CEO

Jim Keating
Vice President
Oil and Gas

Andy MacNeill
Vice President & General Manager
Churchill Falls

Gilbert Bennett
Vice President
Lower Churchill Project

Chris Kieley
Vice President Strategic Planning
& Business Development

Gerard McDonald
Vice President Human Resources
& Organizational Effectiveness

Jim Haynes
Vice President Regulated Operations
Newfoundland and Labrador Hydro

John MacIsaac
Vice President
Project Execution & Technical Services

Derrick Sturge
Vice President Finance & CFO

NALCOR ENERGY BOARD OF DIRECTORS

Tom Clift [1, 3, 4]
Professor
Memorial University - Faculty of Business

Cathy Bennett [3, 4]
CEO
Bennett Group of Companies

John Ottenheimer Q.C. (Chair) [1, 2, 4]
Resigned March 30, 2011
Corporate Director

Ken Marshall [1, 2]
President
Rogers Cable - Atlantic Region

Gerald Shortall [2, 3]
Chartered Accountant
Corporate Director

Ed Martin
President & CEO
Nalcor Energy

[1]Compensation Committee [2]Audit Committee [3]Corporate Governance Committee [4]Safety, Health and Environment Committee

NALCOR ENERGY OFFICERS

John Ottenheimer Q.C. (Chair)
Resigned March 30, 2011
Corporate Director

Mark Bradbury
General Manager Finance
Lower Churchill Project

Chris Kieley
Vice President Strategic Planning
& Business Development

Ed Martin
President & CEO

Wayne Chamberlain
General Counsel
& Corporate Secretary

Kent Legge
General Manager
Finance & Corporate Services

Derrick Sturge
Vice President Finance
& CFO

Peter Hickman
Assistant Corporate Secretary

John MacIsaac
Vice President Project Execution
& Technical Services

Gilbert Bennett
Vice President
Lower Churchill Project

Jim Keating
Vice President
Oil and Gas

Gerard McDonald
Vice President Human Resources
& Organizational Effectiveness

CORPORATE GOVERNANCE

Board of Directors

Nalcor Energy's Board of Directors is comprised of six members, including the Chair of the Board and the President and CEO of Nalcor Energy. The Board, chaired by John Ottenheimer*, has four active committees: Audit, Corporate Governance, Compensation and Safety, Health and Environment.

The principal functions of the Board include:

(a) developing Nalcor's approach to corporate governance;
(b) reviewing and approving the business, financial, strategic and other plans to enable Nalcor to execute its strategy;
(c) adopting processes for monitoring the company's progress toward its strategic and operational goals;
(d) approving the audited financial statements and Management's Discussion and Analysis;
(e) ensuring that Management has a process for identifying the principal business risks;
(f) overseeing the integrity of the internal control systems;
(g) ensuring that Nalcor has processes for operating within applicable laws and regulations;
(h) ensuring the company has a compensation philosophy and framework;
(i) ensuring a process is in place to measure the performance of senior executives of Nalcor;
(j) ensuring Management creates a culture of integrity throughout the organization; and
(k) ensuring that succession plans are in place for senior Management, including the President and CEO.

The Board met 12 times in 2010, in addition to Committee meetings. Director attendance at Board and Committee meetings in 2010:

Directors	Board of Directors	Audit	Corporate Governance	Compensation	Safety, Health and Environment
Number of Meetings Held	12	4	1	5	2
John Ottenheimer*	11	4	1	5	2
Ed Martin	12				
Cathy Bennett	12		1		2
Tom Clift	11		1	5	2
Ken Marshall	12	4		5	
Gerry Shortall	12	4	1		

*Resigned March 30, 2011

Nalcor has the following subsidiary companies, each with their own independent Board of Directors. In each case there is at least one independent member of the Nalcor Board on the subsidiary Boards.

- Newfoundland and Labrador Hydro
- Churchill Falls (Labrador) Corporation
- Nalcor Energy - Oil & Gas Inc.
- Nalcor Energy - Bull Arm Fabrication Inc.

The Board's independent directors regularly meet as part of scheduled meetings at which non-independent directors including members of Management are not present.

CORPORATE GOVERNANCE

Audit Committee

The Audit Committee is comprised of three independent directors. All members of the Committee are required to have a basic understanding of finance and accounting and be able to read and understand financial statements, and at least one member of the Committee shall have accounting or related financial management expertise at a level of sophistication similar to that of Nalcor. The Committee is comprised of Gerald Shortall (Chair), Ken Marshall and John Ottenheimer.

The Audit Committee's primary duties and responsibilities are to:

(a) monitor the integrity of Nalcor's financial statements, financial reporting process and systems of internal controls;
(b) identify and monitor the management of the principal risks that could impact the financial reporting of the company;
(c) appoint, approve compensation, and monitor the independence and performance of the external auditors;
(d) provide oversight over the internal audit function;
(e) monitor the compliance with legal and regulatory requirements; and
(f) facilitate communication among the external auditors, Nalcor's Internal Audit Department, Management and the Board.

The Audit Committee has the authority to conduct any investigation appropriate to fulfilling its responsibilities, and it has direct access to the independent auditors. Subject to Board approval, the Audit Committee may retain, at Nalcor's expense, special legal, accounting, or other consultants or experts it deems necessary in the performance of its duties.

The Committee regularly meets separately with the external auditor and Nalcor's Internal Audit Department and Management. The Committee also regularly meets in-camera with only the Committee members present.

Corporate Governance Committee

The Corporate Governance Committee consists of three directors as determined by the Board, all of whom shall be independent. The Committee is comprised of: Tom Clift (Chair), Cathy Bennett and Gerald Shortall. The Corporate Governance Committee is responsible for the following:

(a) developing governance principles for Nalcor and its subsidiaries that are consistent with high standards of corporate governance;
(b) identifying and recommending candidates for appointment to the Board for approval by the Shareholder; and
(c) reviewing and recommending a process for director orientation and assessment.

Compensation Committee

The Compensation Committee is comprised of three members, all of whom shall be independent directors. The Committee provides oversight of all compensation and human resources issues for Nalcor and its subsidiaries. The Committee is comprised of: Ken Marshall (Chair), Tom Clift and John Ottenheimer. The primary responsibilities of the Committee include:

(a) undertake an annual performance review of the President and CEO;
(b) review and assess Nalcor's succession planning policies and practices;
(c) establish and maintain a compensation philosophy and framework;
(d) review and assess compensation and benefit policies and programs and pension plans;
(e) review collective bargaining mandates and any proposed tentative settlement; and
(f) review performance management practices and procedures.

Subject to the approval of the Board of Directors, the Committee may engage outside legal and technical specialists to assist the Committee in the discharge of their duties and responsibilities.

Safety, Health and Environment Committee

The Safety, Health and Environment Committee consists of three directors as determined by the Board, all of whom shall be independent. The Committee is comprised of: Cathy Bennett (Chair), Tom Clift and John Ottenheimer. The Safety, Health and Environment Committee's primary responsibilities include:

(a) reviewing and reporting to the Board of Directors on the company's maintenance of safety, environment and health policies, procedures and practices;
(b) reviewing with Management whether the company's safety, environment and health policies are being effectively implemented and are in compliance with statutory and regulatory requirements;
(c) reviewing the findings of reports arising from internal and external audits and assessments of safety, environment and health issues, together with Management's response;
(d) reviewing with Management the impact of proposed legislation in matters of safety, environment and health on the operations of the company;
(e) reviewing with Management and making recommendations to the Board of Directors as appropriate, on the company's safety, environment and health policies and procedures and any other matters relating to the safety, environment and health that it considers relevant.

CORPORATE GOVERNANCE

Independence

Nalcor Energy has a Director Independence Policy consisting of:

(a) a majority of the Board of Directors, including the Board chair shall be independent;
(b) all the members of the Board's Committees shall be independent;
(c) directors are required to provide a formal declaration indicating that they satisfy the Independence criteria;
(d) directors have a responsibility to discuss any potential conflicts that might impact their independence with the Board chair or the chair of the Corporate Governance Committee;
(e) if directors do not satisfy the Independence criteria, they should not participate in any discussion or voting relating to matters that contribute to the independence issue.

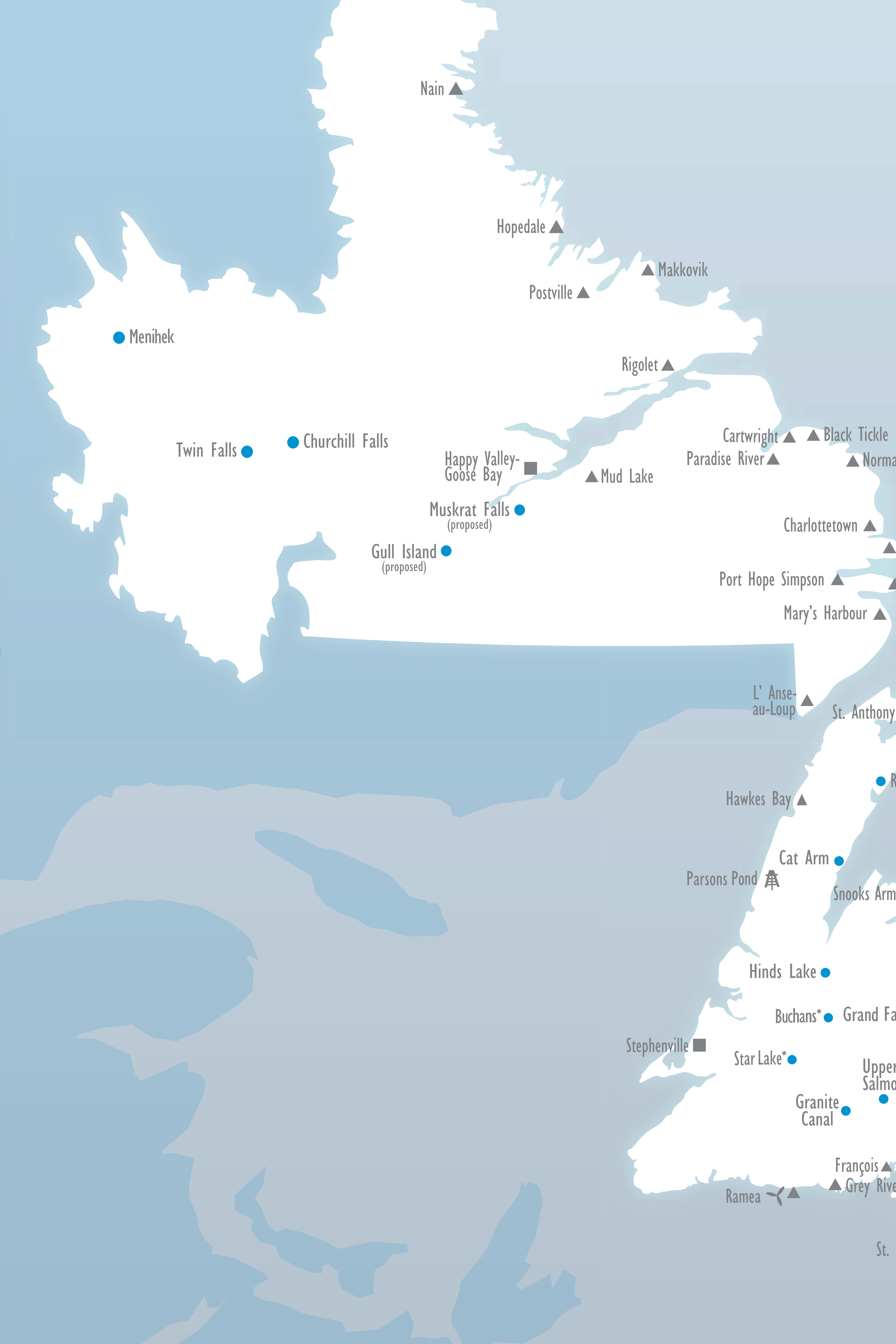
Policy on Independence of External Auditors

Nalcor Energy has an Auditor Independence policy that governs all aspects of Nalcor's relationship with the external auditor, including:

(a) establishing a process for determining whether various audit and other services provided by the external auditor affects their independence;
(b) identifying the services that the external auditor may and may not provide to Nalcor;
(c) pre-approving all services to be provided by the external auditor to the company;
(d) establishing a process for hiring current or former personnel of the external auditor in a financial oversight role to ensure auditor independence is maintained.

External Auditor's Fees

The external auditor of Nalcor and its subsidiaries is Deloitte & Touche LLP. Deloitte has been the external auditor since 2003. Professional fees incurred in 2010 in connection with audit and audit-related service were $320,000 (2009 - $295,000) and fees related to non-audit services were $53,000 (2009 - $179,000).

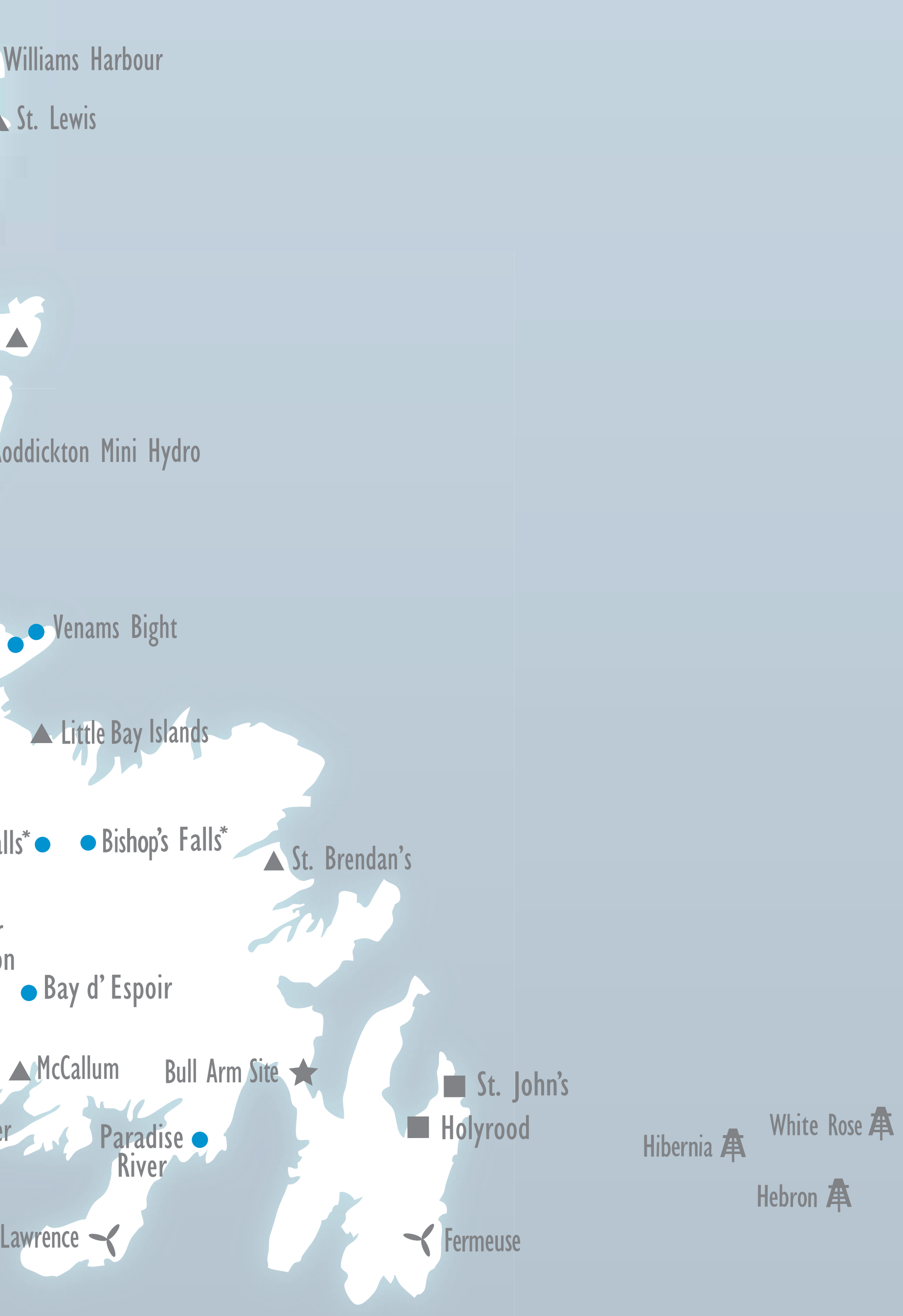

Nain
Hopedale
Makkovik
Postville
Menihek
Rigolet
Cartwright
Black Tickle
Paradise River
Twin Falls
Churchill Falls
Happy Valley-Goose Bay
Mud Lake
Muskrat Falls
(proposed)
Charlottetown
Gull Island
(proposed)
Port Hope Simpson
Mary's Harbour
L' Anse-au-Loup
St. Anthony
Hawkes Bay
Cat Arm
Parsons Pond
Hinds Lake
Buchans*
Stephenville
Star Lake*
Granite Canal
Ramea

ENERGY PORTFOLIO

LEGEND

- ● Hydroelectric Generation Station
- ■ Thermal Plant
- ▲ Diesel Plant
- Wind Generation
- ★ Industrial Fabrication
- Offshore and Onshore Oil Projects

* Operated under license from the Government of Newfoundland and Labrador



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