NALCOR ENERGY

2010 Annual Performance Report
Transparency and Accountability

June 2011

Message from the Board of Directors

Hon. Roger Fitzgerald, M.H.A.
Speaker of the House of Assembly
East Block
Confederation Building

Dear Mr. Speaker:

In accordance with the *Transparency and Accountability Act*, I am pleased to submit the 2010 Annual Performance Report on behalf of the Board of Directors of Nalcor Energy.

The 2008-2010 Strategic Plan for the Energy Corporation of Newfoundland and Labrador outlined the direction for the corporation and the subsidiaries that existed in March 2008. During 2008, there were a number of changes in corporate structure as well as the introduction of the Nalcor Energy name and brand.

Nalcor Energy's legal structure at December 31, 2010 included four wholly-owned subsidiaries, Newfoundland and Labrador Hydro (Hydro or NLH), Nalcor – Oil and Gas Inc., Nalcor Energy – Bull Arm Fabrication, and Gull Island Power Corporation (GIPCo). Subsidiaries of Hydro were Churchill Falls (Labrador) Corporation (Churchill Falls or CF(L)Co), and Lower Churchill Development Corporation (LCDC). Churchill Falls holds a minority interest in Twin Falls Power Corporation (TwinCo).

To address all components of the 2008-2010 Strategic Plan, this Performance Report will present results for all of Nalcor Energy and will also highlight the accomplishments of Hydro and its subsidiary Churchill Falls. As 2010 is the final year of the strategic plan, performance results for the 2008-2010 planning period are summarized in addition to accomplishments for the calendar year 2010.

As the Board of Directors of Nalcor Energy, we are accountable for the preparation of this report and are accountable for the results.

Ed Martin
President & CEO
Member, Nalcor Energy Board of Directors

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Overview of the Company

Nalcor Energy's (Nalcor) business includes the development, generation, transmission and sale of electricity; the exploration, development, production and sale of oil and gas; industrial fabrication site management; and energy marketing. Focused on sustainable growth, the company is leading the development of the province's energy resources and has a corporate-wide framework which facilitates 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 (Hydro or NLH), Churchill Falls, Oil and Gas, Lower Churchill Project, and Bull Arm Fabrication. The activities of these lines of business are undertaken by Nalcor and its subsidiaries Newfoundland and Labrador Hydro, Nalcor Energy – Oil and Gas, Nalcor Energy – Bull Arm Fabrication and Hydro's subsidiary Churchill Falls (Labrador) Corporation.[1]

Vision

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

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

Churchill Falls
To be a safe, reliable and efficient plant operating in 2041 and beyond. There are three key elements of our vision:

- Safety – maintain a relentless focus on safety.
- Environment – reduce the environmental footprint of our operations.
- Asset management – reliable, cost-effective operations led by the right people, built on a foundation of excellence in long-term asset planning, short-term planning and scheduling, work execution, operations, and support services.

[1] Nalcor's legal structure at December 31, 2010 included four wholly-owned subsidiaries: Newfoundland and Labrador Hydro (Hydro); Nalcor – Oil and Gas Inc.; Nalcor Energy – Bull Arm Fabrication Inc.; and, Gull Island Power Corporation (GIPCo). Hydro holds investments in two entities: 65.8 per cent of Churchill Falls (Labrador) Corporation and 51 per cent of Lower Churchill Development Corporation (LCDC). GIPCo and LCDC are not active operating companies.

Mission

Nalcor
By 2010, Nalcor Energy will have enhanced its asset management processes to continuously improve the delivery of safe and reliable electricity to its customers, and expanded its energy sector involvement to include oil and gas, wind energy, and research and development to help build a strong economic future for Newfoundland and Labrador.

Hydro
Hydro is a Crown corporation committed to providing cost-effective and reliable energy services to our customers for the benefit of all people of the province.

Our skilled and committed employees will use innovative methods and technologies, and will maintain high standards of safety and health, and environmental responsibility.

Churchill Falls
Churchill Falls is committed to providing cost-effective and reliable energy services to our customers.

Our skilled and committed employees will maintain high standards of safety and health, and environmental responsibility.

We will promote innovative technologies and enhance the assets of the corporation for the benefit of future generations.

Mandate

Nalcor
The mandate of Nalcor, established in legislation under the *Energy Corporation Act* (2008), is to invest in, engage in, and carry out activities in all areas of the energy sector in the province and elsewhere, including:

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

Hydro
The *Hydro Corporation Act* (2007) mandates Hydro to be responsible for:

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

Churchill Falls
The Articles of Incorporation for the Churchill Falls (Labrador) Corporation state that the business of the Corporation be limited to the following:

- Producing or otherwise acquiring and transmitting and selling electricity;
- Harnessing or otherwise making use of water for the purpose of producing hydroelectric and hydraulic power and for any other purpose.

Values

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

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

Lines of Business

Hydro
As the province's main energy provider, Hydro is focused on providing a safe, reliable and cost-effective electricity supply to meet current energy needs and accommodate future growth. The activities of Hydro include the operation of the regulated utility and non-regulated activities.

Hydro is regulated by the Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB) and its electricity rates are set through periodic general rate applications. The regulated portion of the company includes the generation, transmission and distribution of electrical power and energy to utility, residential and commercial customers. Hydro is the primary generator of electricity in Newfoundland and Labrador with an installed generating capacity of 1,637 megawatts (MW). The company operates nine hydroelectric generating stations, one oil-fired plant, four gas turbines and 25 diesel plants.

In 2010, non-regulated activities of Hydro included: power sales to two industrial customers in Labrador; sales to other markets outside the province through energy marketing activities; and operation of the diesel plant in Natuashish, Labrador on behalf of the Mushuau Innu First Nation.

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. Safely operating and maintaining its electricity assets as well as municipal and community services drives the Churchill Falls strategy. The majority of electricity from the Churchill Falls station is sold to Hydro-Québec under a long-term contract. Churchill Falls sells 300 MW (recall power), the maximum provided under the power contract, to Hydro for use in Labrador and for export sales. Churchill Falls also sells 225 MW to Twin Falls to service the mining industry in Labrador West.

Nalcor Energy – Oil and Gas

Nalcor Energy – Oil and Gas manages oil and gas interests and is currently a partner in three developments in the Newfoundland and Labrador offshore oil and gas industry – the Hebron oil field, the White Rose Growth Project, and the Hibernia Southern extension. In addition, Oil and Gas holds an average of 67 per cent working interest in three onshore exploration permits in the Parsons Pond area on the Great Northern Peninsula. Nalcor Energy – Oil and Gas continues to pursue other investment opportunities and supports the province's efforts to promote exploration.

Lower Churchill Project

The lower Churchill River hydroelectric resource 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 Gull Island and Muskrat Falls will have a combined capacity of over 3,000 MW.

Bull Arm Fabrication

Nalcor's fifth line of business, Bull Arm Fabrication manages Atlantic Canada's largest fabrication site. 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 2011, the Bull Arm site will be leased by ExxonMobil for the construction and commissioning phases of the Hebron Project.

Other Companies
The Gull Island Power Corporation (GIPCo) is a wholly owned subsidiary of Nalcor. GIPCo was incorporated on September 21, 1970, as an organizational vehicle for the possible development of the lower Churchill. GIPCo is not presently an active operating company.

The Lower Churchill Development Corporation (LCDC) was incorporated on December 15, 1978. At that time it was considered as a possible organizational entity for the development of the lower Churchill hydroelectric development. At the end of December 2010, Hydro owned 51 per cent of the shares of LCDC and the federal government owned 49 per cent. The LCDC is presently not an active operating company.

The Twin Falls Power Corporation (TwinCo) was incorporated on February 18, 1960 to construct and operate the Twin Falls power plant which provided power to the mines of Labrador West. The Twin Falls power plant has been shut down and TwinCo purchases power from Churchill Falls to supply to the mines. Churchill Falls maintains a 33 per cent share in TwinCo and holds two-thirds voting shares in the company. Wabush Mines Incorporated, HLE Mining GP Incorporated, Wabush Iron Company Ltd. (collectively Wabush Mines) and the Iron Ore Company of Canada are the other shareholders in TwinCo. The operational activities of TwinCo are minimal.

Number of Employees, Physical Location and Other Key Statistics

Nalcor
Nalcor, the province's energy corporation, is leading the development of the province's energy resources. As of December 31, 2010, Nalcor and its subsidiaries employed 1,342 people with nearly 70 per cent of these employees located in rural parts of the island and Labrador. The gender composition of Nalcor's employee group was 78 per cent male and 22 per cent female. Nalcor has developed a multi-year action plan to support diversity and inclusion.

Gender	Rural	Urban	Total	Per cent
Female	145	152	297	22%
Male	787	258	1045	78%
Total	932	410	1342	
Per cent	69%	31%		

Hydro
Headquartered in St. John's, Hydro is the province's main electrical energy provider. In December 2010, the company had a staffing level of 898 people located throughout the province including 607 people in rural areas. The gender composition of Hydro's employee

group is 82 per cent male and 18 per cent female. As a large employer within Nalcor, Hydro will play a key role in implementing the multi-year action plan to support diversity and inclusion.

Gender	Rural	Urban	Total	Per cent
Female	52	108	160	18%
Male	555	183	738	82%
Total	607	291	898	
Per cent	68%	34%		

Churchill Falls

Churchill Falls operates one of the largest underground hydropower stations in the world and provides municipal and community services in the town of Churchill Falls. In December 2010, there were 295 people employed by Churchill Falls. Churchill Falls will also play an important role in implementing actions to support diversity and inclusion.

Gender	Rural	Per cent
Female	91	30%
Male	204	70%
Total	295	

2010 Consolidated Revenues and Expenses

The following table summarizes the consolidated 2010 revenue and expenses for Nalcor. The 2010 Consolidated Financial Statements for Nalcor are appended to this document (See Appendix 1). Nalcor had revenues of $620.1 million in 2010, expenses of $542.6 million and net income was $77.5 million.

Table 1: Nalcor Energy Consolidated Revenue and Expenses 2010

For the year ended December 31 (millions of dollars)	$	%
Revenue		
Energy sales	588.8	95.0
Interest and finance income	18.0	2.9
Other revenue	13.3	2.1
	620.1	
Expenses		
Fuels	140.4	25.9
Power purchases	44.4	8.2
Operations and administration	182.6	33.6
Interest and finance charges	105.1	19.4
Amortization and depletion	67.5	12.4
Other gains and losses	2.6	0.5
	542.6	

The following table summarizes the consolidated 2010 revenue and expenses for Hydro. Hydro's audited Consolidated Financial Statements are appended to this document (See Appendix 2). Hydro's revenues totalled $596.1 million in 2010, expenses were $512.4 million and net income was $83.7 million.

Table 2: Hydro Consolidated Revenue and Expenses 2010

For the year ended December 31 (millions of dollars)	$	%
Revenue		
Energy sales	572.2	96.0
Interest and finance income	17.8	3.0
Other revenue	6.1	1.0
	596.1	
Expenses		
Fuels	140.4	27.4
Power purchases	44.4	8.7
Operations and administration	163.6	31.9
Interest and finance charges	105.0	20.5
Amortization	56.4	11.0
Other gains and losses	2.6	0.5
	512.4	

Shared Commitments

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

Department of Natural Resources
The Department of Natural Resources works with Nalcor in policy-related areas for the various energy sector activities in which Nalcor engages and supports the company's efforts to progress all the strategic issues outlined. For example, activity related to the acquisition of working interests in offshore oil fields was a coordinated effort between the department and Nalcor Energy – Oil and Gas. The ongoing administration of issues related to the electrical system throughout the province and the execution of key policy actions outlined in the province's Energy Plan are also areas of significant collaboration.

Department of Finance
The Department of Finance works with Nalcor in relation to addressing requirements related to financial structure, dividend policies as well as providing guarantees for the company's debt financing activities. In particular, the Department supports Nalcor's efforts related to Issue 3: Finance and Corporate Governance, Issue 4: Growth, Issue 5: Operational Excellence, and Issue 6: Lower Churchill Project.

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

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

Outcome of Mission

In the 2008-2010 Strategic Plan, the following mission was presented:

> Energy Corporation of Newfoundland and Labrador is a crown corporation committed to providing cost-effective and reliable energy services to our customers for the benefit of all people of the province.
>
> Our skilled and committed employees will use innovative methods and technologies, and will maintain high standards of safety and health and environmental responsibility.

The missions of Nalcor, Hydro and Churchill Falls were updated in 2009 reflecting the changes in corporate structure and introduction of the Nalcor Energy name and brand:

Nalcor
By 2010, Nalcor Energy will have enhanced its asset management processes to continuously improve the delivery of safe and reliable electricity to its customers, and expanded its energy sector involvement to include oil and gas, wind energy, and research and development to help build a strong economic future for Newfoundland and Labrador.

Newfoundland and Labrador Hydro
NLH is a Crown corporation committed to providing cost-effective and reliable energy services to our customers for the benefit of all people of the province.

Our skilled and committed employees will use innovative methods and technologies, and will maintain high standards of safety and health, and environmental responsibility.

Churchill Falls
Churchill Falls is committed to providing cost-effective and reliable energy services to our customers.

Our skilled and committed employees will maintain high standards of safety and health, and environmental responsibility.

We will promote innovative technologies and enhance the assets of the corporation for the benefit of future generations.

The measures and indicators presented in the 2008-2010 Strategic Plan support both the 2008 mission as well as the updated missions communicated in 2009. These measures and indicators reflect, and in some cases, repeat the measures and indicators presented for the eight strategic issues that are the substance of Nalcor's plan. To reduce repetition in the

presentation of performance results, detail is presented in the Outcomes of Goals and Objectives section and referenced accordingly.

The 2008-2010 Strategic Plan was developed before the Nalcor Energy name and brand had been introduced. Plan content that referenced the Energy Corporation of Newfoundland and Labrador (ECNL) has been edited and those references replaced with Nalcor Energy (Nalcor).

To fulfill its mission, Nalcor enhanced its asset management processes and demonstrated leadership and performance improvement in its safety and environmental performance in the 2008-2010 planning period. As well, electricity system reliability was better than target for several years for both Hydro and Churchill Falls. Nalcor also achieved the key growth initiatives outlined in its mission and expanded its energy sector involvement to include equity positions in three offshore oil and gas projects and a working interest in three onshore exploration permits on the west coast of the province. The integration of wind power has broadened the province's energy mix and Hydro purchases power from two commercial wind projects on the island. During the planning period, Nalcor also advanced its research and development activities with the introduction of the Ramea Wind-Hydrogen-Diesel Energy project.

Measure 1: Sustained improvement of safety performance.

Indicators:

- Reported the leading/lagging ratio[2].
- Reported the disabling injury frequency[3].
- Reported the medical aid injury frequency[4].

Outcomes:

Nalcor is committed to achieving and sustaining best-in-class safety performance and recognizes that this level of safety performance is a journey and requires a relentless commitment from all levels of the company and our union partners. From 2005 to 2010, Nalcor reduced both the total number and severity of injuries and improved the all injury frequency rate by 44 percent. This improvement reflects reductions in the disabling injury frequency rate of 65 per cent and medical aid injury frequency of 18 per cent. To assess progress the company measured and reported the lead/lag ratio as well as the frequency of disabling and medical aid injuries. Detailed safety performance results for Nalcor, Hydro and Churchill Falls for the planning period are presented under Outcomes of Goals and Objectives, Issue 1: Safety Leadership.

[2] Ratio of safety reports or observations (unsafe conditions, near misses, safe practices) to total lost-time and medical treatment incidents.

[3] Disabling injury (also referred to as lost-time injury) is a work related injury where an employee requires medical attention and is unable to return to work for his/her next scheduled shift.

[4] Medical aid injury (also referred to as medical treatment injury) is a work related injury where an employee requires medical attention; however, he/she is able to return to work for the next scheduled shift.

Measure 2: Annual accomplishment of EMS milestones and targets.

Indicators:

- Reported annual target tracking progress.

Outcomes:

An ISO 14001 Certified Environmental Management System (EMS) governs the activities of Hydro and Churchill Falls that affect the environment. The EMS includes specific targets and milestones that provide the basis for continuous improvement. In the 2008-2010 planning period, the completion of EMS milestones and targets has been tracked and reported. Nalcor, Hydro and Churchill Falls have improved performance over the planning period and in 2010 completion rates for all three entities were at, or better than, target. Detailed results are presented in Outcomes of Goals and Objectives, Issue 2: Environmental Leadership.

Measure 3: Improved governance and financial structure.

Indicators:

- Implemented the corporate restructuring plan.
- Achieved annual targets for governance improvements.

Outcomes:

Nalcor successfully completed the corporate restructuring required to facilitate investment. In 2008, Hydro was made a subsidiary of Nalcor and the Oil and Gas Corporation of Newfoundland and Labrador was incorporated. Other changes were also made to separate regulated and non-regulated activities to support appropriate cost and risk allocation. In 2009, Nalcor Energy – Bull Arm Fabrication became another subsidiary of Nalcor. In 2008, Nalcor prepared a Corporate Governance Index and used this index to assess governance effectiveness and identify opportunities for improvement. Throughout the planning period, Nalcor completed annual initiatives to support its commitment to continuous improvement of its governance and financial structure. Additional detail regarding corporate restructuring and governance improvements is presented in Outcomes of Goals and Objectives, Issue 3: Finance and Corporate Governance.

Measure 4: Progress towards assuming equity positions in new business areas.

Indicators:

- Sought equity positions in oil and gas developments in concert with Provincial policy.

Outcomes:

During the 2008-2010 planning period, Nalcor made significant progress with its growth plans. Nalcor Energy – Oil and Gas secured equity positions in three offshore oil and gas projects and purchased a working interest in three onshore exploration permits in Parsons Pond on the province's west coast. Detailed results are presented in Outcomes of Goals and Objectives, Issue 4: Growth.

Measure 5: Progress towards improving operational excellence.

Indicators:

- Achieved annual reliability targets – NLH only.

- Achieved Guaranteed Winter Availability (GWAC) performance targets – CF(L)Co only.
- Achieved operating cost targets.

Outcomes:
Electrical system reliability was very good over the planning period. Hydro's winter availability performance was better than target in both 2009 and 2010 and transmission reliability exceeded targets for 2008 and 2009. When performance was below target, performance was assessed and causal factors identified. Churchill Falls' GWAC performance was better than target for 2009 and 2010 but below target for 2008 as a result of a fire in the generating plant. Key financial indicators for Nalcor, including capital structure, improved over the planning period. Operating costs for Hydro were below budget for all three years however, a cable fire in Churchill Falls negatively impacted operating costs for Churchill Falls and Nalcor as a whole. Explanations of variances are presented in Outcomes of Goals and Objectives, Issue 5: Operational Excellence.

Measure 6: Progress on analysis necessary for the Provincial Government to consider a sanction decision on the Lower Churchill Project.

Indicators:

- Progress in each of the seven key areas of project activity: engineering, financing, environment, commercial/market access; Innu Nation impact and benefits agreement, project execution planning, and operations.

Outcomes:
Nalcor has made significant progress in key areas to inform project sanction however, Nalcor prudently deferred the sanction decision to further progress key elements of the Lower Churchill Development and gain the additional clarity required for Government to consider a sanction decision for Phase One. During the 2011-2013 planning period, Nalcor will be completing required activities to advance to Decision Gate Three – Project Sanction for the Muskrat Falls generating facility (Phase One Generation Project), the Labrador-Island Transmission Link, and will work with Emera in support of the Maritime Transmission Link. Additional detail regarding the accomplishments during the 2008-2010 period is presented in Outcomes of Goals and Objectives, Issue 6: Lower Churchill.

Measure 7: Progress towards ensuring alignment between employee and corporate goals.
Indicators:

- Monitored employee opinion survey results.

Outcomes:
Nalcor measured employee opinions through the Employee Opinion Surveys completed in 2008 and 2010. The results of the surveys are used to assess progress and identify areas of improvement to achieve alignment between employee and corporate goals. Nalcor and Hydro significantly improved their EOS scores between 2008 and 2010 and Churchill Falls was able to maintain performance. Survey results for Nalcor, Hydro and Churchill Falls are presented Outcomes of Goals and Objectives, Issue 7: People.

Measure 8: Recognition as a valued corporate citizen.

Indicator:

- Monitored public perception.

Outcomes:

The company monitored public perception using two key indicators, brand/name recognition for Nalcor, and public reputation for Hydro. Nalcor name/brand recognition was measured in 2009 and awareness was higher than target. In 2011, Nalcor will benchmark Nalcor's reputation to establish a performance baseline and inform future target setting. Hydro's public reputation was measured in 2009 and overall results increased slightly over 2007. Positive results in the Conception Bay South area, the location of the Holyrood thermal generating station, increased significantly. Additional detail regarding public perception monitoring is presented in Outcomes of Goals and Objectives, Issue 8: Community.

Outcomes of Goals and Objectives

The 2008-2010 Strategic Plan for the Energy Corporation of Newfoundland and Labrador (Nalcor Energy), highlighted eight strategic issues around which goals and objectives were established. These issues encompass the activities of Nalcor and its subsidiaries. In general, the accomplishments outlined are for Nalcor; accomplishments specific to Hydro and Churchill Falls are noted.

For each strategic issue, the information provided in the 2008-2010 Strategic Plan is reproduced, followed by an assessment of performance during the planning period. As well, the 2010 objectives, measures and indicators outlined in the 2009 Annual Performance Report are provided along with a summary of related accomplishments.

Issue 1: Safety Leadership

Issue: To be a safety leader.

Nalcor's relentless commitment to safety drives all its lines of business. For Nalcor, safety excellence is more than a way of operating; it is an integral part of the Nalcor identity and its strategy for the future.

Nalcor's pursuit of safety excellence encompasses the safety of its employees, contractors and the general public. To achieve safety excellence, the company established a strategic framework for safety excellence built on leadership, procedures and equipment, competence, supportive culture, union/management alignment, responsibility and reporting.

Nalcor has implemented many initiatives to achieve best-in-class safety performance. Changing behaviours and strengthening the company's safety culture are cornerstones of safety excellence. In 2008, the company delivered a two-day safety culture workshop entitled *Safety Culture – Taking it to the Next Level*. The workshops are designed to challenge traditional thinking around safety and help identify at-risk behaviours which can negatively impact safety performance. The company also adopted a Safety Credo to encourage employees to follow safety procedures, take the time to work safely, and take action when they see something unsafe. In addition, an Internal Responsibility System (IRS) for safety was jointly developed with both International Brotherhood of Electrical Workers (IBEW) locals through Nalcor's Corporate Safety Advisory Committee (CSAC). The IRS promotes personal responsibility for one's own safety and the safety of others regardless of where you work in the company.

Nalcor has also strengthened its procedures for working around electrical and other energized equipment. The Work Protection Code (code) helps create an isolated and de-energized work area. In 2009, the code was updated for implementation across all electricity lines of business and during 2010, training was completed by employees throughout these areas. Documenting

and verifying methods for completing work safely is also a focus for Nalcor's electricity operations. Starting in 2010, the company identified critical tasks, completed risk assessments, and began documenting and verifying work methods.

Nalcor's electricity assets are located across Newfoundland and Labrador. Contractors and operators of equipment capable of contacting overhead or underground power lines face the risk of contacts with electrical equipment. As well, members of the general public may come into contact with electricity generation, transmission and distribution equipment in and around their homes and businesses.

In an effort to eliminate electrical contacts and keep workers safe, Hydro, in partnership with Newfoundland Power and the Workplace Health, Safety and Compensation Commission, developed a power line hazards booklet and vehicle decal. This information was distributed to companies that work around electrical equipment and posted on Hydro's and the other partners' websites.

In late 2009 Hydro introduced its new public safety campaign - *Back it Up*. The campaign helps Newfoundland and Labrador residents make safer decisions at work and home. To support the campaign and safety in general, Hydro launched the website, HydroSafety.ca.

Nalcor's safety journey is one of persistence and commitment. From 2005 to 2010, Nalcor achieved significant improvement in its safety performance and positioned the company to realize sustained, best-in-class safety performance. During this period, Nalcor was successful in reducing both the number and severity of injuries. Key measures of safety performance improved with the all injury frequency rate decreasing by 44 by per cent and the indicator of more serious injuries – the lost-time injury frequency rate decreasing by 65 per cent.

Nalcor will continue to establish safety targets at levels that demonstrate the company's commitment to keeping employees, contractors and the general public safe. The company will work to mature its safety culture and build on its safety best practices to position the company for the future.

Goal: In each year through to 2010 continue to improve or sustain Nalcor's safety performance by increasing the ratio of reports that identify conditions or behaviours that contribute to disabling and medical aid incidents to the number of disabling and medical aid incidents.

Measure: Improved safety performance.

During the 2008-2010 planning period, Nalcor improved its safety performance. The safety goal references the ratio of safety reports to safety incidents or injuries and during the planning period, this ratio increased from 252:1 in 2008, to 369:1 in 2009 and 405:1 in 2010. As well,

other key safety measures improved during this period with lost-time injury frequency decreasing by 56 per cent and all injury frequency down by 30 per cent. Most areas of Nalcor achieved sustained safety performance with zero injuries. However, certain specific areas did not show a reduction or elimination of reportable incidents.

INDICATORS	ACCOMPLISHMENTS
Achieved annual safety lead/lag ratio targets.	**Nalcor**[5] Achieved. Nalcor achieved or performed better than target in 2008, 2009 and 2010. During this period the lead/lag ratio increased from 252:1 to 405:1 and the total number of safety reports increased by 19 per cent (from 5,791 to 6,883). **Hydro** Partially achieved. Hydro performed better than target in 2008 and 2010 and was slightly below target in 2009. In 2009, the number of safety reports or observations (leading portion of the indicator) increased slightly from 2008 however, the number of reportable incidents stayed the same resulting in a lead/lag ratio below the targeted improvement (341:1 compared to the target of 350:1). During the planning period the number of safety reports increased from 3,712 to 3,936 and the lead/lag ratio improved from 337:1 in 2008 to 358:1 in 2010. **Churchill Falls** Partially achieved. Churchill Falls performed better than target in 2009 and 2010. In 2008, a high level of reporting was offset by the number of injuries and the targeted improvement in lead/lag ratio was not achieved (169:1 compared to the target of 250:1) The total number of safety reports ranged from 1,979 in 2010 to 2,267 in 2009.
Achieved annual target reductions in the number and frequency of disabling injuries.	**Nalcor** Partially achieved. The number of lost-time injuries showed a positive trend declining from 13 in 2008 and 2009 to six in 2010. While most areas maintained excellent safety performance with few or zero lost-time injuries during this period, during both 2008 and 2009 the total number of injuries was higher than target due to performance in certain specific areas. There have been targeted safety programs

[5] The performance data for Nalcor includes Hydro and Churchill Falls performance.

INDICATORS	ACCOMPLISHMENTS
	implemented in these areas to improve performance. The lost-time injury frequency rate[6] (LTIFR) during this period ranged from 1.17 in 2008 (target of less than or equal to 0.30), to 1.14 (target of less than or equal to 0.50) in 2009 before decreasing to 0.51 in 2010 (slightly above the target of less than or equal to 0.50). **Hydro** Partially achieved. 2010 performance was significantly better than the target of less than or equal to 0.50 reflecting a reduction in the severity of the injuries experienced by Hydro employees. The number of lost-time injuries increased from six in 2008 to seven in 2009 before declining to three in 2010. The LTIFR was higher than target at 0.78 in 2008 (target of less than or equal to 0.30), and 0.92 (target of less than or equal to 0.50) in 2009 but decreased to 0.39 in 2010. **Churchill Falls** Not achieved. The number of lost-time injuries showed a positive trend decreasing from seven in 2008 to six in 2009 and to three in 2010. As a result, the LTIFR decreased by 55 per cent over the planning period. While this improving trend is encouraging, Churchill Falls had established a more aggressive targeted reduction in injuries which it did not achieve. The LTIFR ranged from 2.54 in 2008 (target of less than or equal to 0.30), to 2.22 in 2009 (target of less than or equal to 0.50) before decreasing to 1.15 in 2010 (target of less than or equal to 0.50).
Achieved annual target reductions in the number and frequency of medical aid injuries.	**Nalcor** Partially achieved. The number of medical treatment injuries declined from ten in 2008 to five in 2009 before increasing again in 2010 when 11 injuries occurred. The medical treatment injury frequency rate[7] was better than target in 2009, but in both 2008 and 2010 targeted reductions were not achieved (target of less than or equal to 0.5). While many areas of the company have achieved and sustained excellent safety performance, other areas and employee groups have

[6] Lost-time injury frequency rate (LTIFR) = [(Lost-time incidents) x 200,000]/Exposure hours (hours worked)
[7] Medical treatment injury frequency rate = [(Medical treatment injuries) x 200,000]/Exposure hours (hours worked)

INDICATORS	ACCOMPLISHMENTS
	not. Safety programs and initiatives continue to evolve to target trends identified through the analysis of injury and near-miss incidents. **Hydro** Not achieved. Over the planning period, Hydro was very successful in reducing the number of lost-time injuries however, the number of medical treatment injuries decreased from five in 2008 to four in 2009 before increasing to eight in 2010. The medical treatment injury frequency was close to target in 2009 (0.52 compared to the target of less than or equal to 0.50) but above target in 2008 (0.65 compared to the target of less than or equal to 0.45) and 2010 (1.01 compared to the target of less than or equal to 0.50). Hydro remains committed to implementing and refining safety programs and initiatives that will keep people safe. **Churchill Falls** Partially achieved. The number of medical treatment injuries decreased from five in 2008 to zero in 2009 and then increased to two in 2010. The medical treatment injury frequency rate during this period ranged from 1.81 in 2008 (target of less than or equal to 0.45), to zero in 2009 (target of less than or equal to 0.50) before increasing to 0.77 in 2010 (target of less than or equal to 0.50). While Churchill Falls did perform better than target in 2009, this performance improvement was not sustained in 2010.

During 2010, the company strengthened its safety programs and completed planned safety initiatives. Nalcor, Hydro and Churchill Falls experienced increased reporting of conditions, commendations, incidents and near misses with all three entities achieving performance better than target. Although the company reduced the number of workplace incidents again in 2010, it had targeted greater improvement and will continue to push for improvement. The company is striving for sustained safety performance and recognize this takes time, significant effort and a relentless commitment.

Objective: In 2010, continue to improve or sustain safety performance by increasing the ratio of reports that identify conditions or behaviours that contribute to the number of lost-time and medical-aid incidents to the number of lost-time and medical-aid incidents.

Measure: Improved safety performance.

INDICATORS	2010 ACCOMPLISHMENTS
Achieved annual safety lead/lag ratio targets.	**Nalcor** Achieved. In 2010, Nalcor maintained its momentum for increased reporting of incidents, near misses and safe practices. Observations increased by four per cent over 2009 and the lead/lag ratio for the year was 405:1, better than the target of 350:1. **Hydro** Achieved. Performance was better than target. The safety lead/lag ratio was 358:1 compared to the target of 350:1 Overall, reporting was up five per cent from 2009. **Churchill Falls** Achieved. Performance was better than target with a safety lead/lag ratio of 396:1 compared to the target of 350:1.
Achieved annual improvements in the all injury (medical-aid and lost-time) frequency rate.	**Nalcor** Achieved. In 2010, most areas of the company maintained excellent safety performance with few or zero medical-aid and lost-time injuries. Overall, Nalcor's all-injury frequency rate (AIFR)[8] improved from 1.58 in 2009 to 1.45 in 2010. While performance improved over 2009 Nalcor was targeting a larger improvement and established ambitious internal performance targets. In 2010, Nalcor experienced 17 injuries in total compared to a targeted reduction to 11 on the path to zero incidents. Nalcor's lost-time injuries were close to target reflecting a positive trend to less severe injuries. However, the company experienced 11 medical aid injuries, higher than the targeted reduction to six. As noted, the resulting AIFR was 1.45, better than 2009 performance of 1.58 but higher than the target of less than or equal to one. The contributing factors for the majority of the 2010 injuries included inadequate hazard identification and lack of implementation of appropriate mitigating measures such as following proper procedures and wearing appropriate personal

[8] All injury frequency rate = [(Lost-time + medical treatment incidents) x 200,000]/ Exposure hours (hours worked)

INDICATORS	2010 ACCOMPLISHMENTS
	protective equipment. **Hydro** Achieved. In 2010, Hydro's all injury frequency rate was 1.39 compared to 1.44 in 2009. Hydro experienced 11 reportable incidents in 2010 (three lost time and eight medical treatment), the same as 2009, however, higher exposure hours (hours worked) resulted in a lower injury frequency rate. A positive trend was the reduction in injury severity with the number of lost-time injuries declining from seven in 2009 to three in 2010. Despite this performance improvement, Hydro has established internal targets based on a larger reduction in the total number of injuries. **Churchill Falls** Achieved. During the 2008-2010 planning period, Churchill Falls reduced its all injury frequency rate by 56 per cent. In 2010, Churchill Falls experienced five reportable incidents – two medical treatment and three lost time. This is a reduction in total injuries from six in 2009. In 2010, the AIFR was 1.92 down nearly 14 per cent from 2009 but still above the internal AIFR target of less than or equal to one. All of the injuries in Churchill Falls involved temporary workers in one area of the operation. Identifying and implementing measures to improve the safety of temporary workers is a key safety focus for Churchill Falls.
Achieved annual improvements in the lost-time injury frequency rate.	**Nalcor** Achieved. As noted, in 2010 most areas of the company maintained excellent safety performance with few or zero injuries and overall the number of lost-time injuries decreased from 13 in 2009 to 6 in 2010. Again, while performance improved over 2009 Nalcor had established ambitious internal performance targets. Nalcor's total lost-time injury statistics were close to target. The company achieved the targeted reduction to six lost-time injuries however, the number of exposure hours results in a LTIFR of 0.51, slightly above the targeted reduction to a LTIFR of less than or equal to 0.50.

INDICATORS	2010 ACCOMPLISHMENTS
	As noted, the contributing factors for the majority of the 2010 injuries included inadequate hazard identification and lack of implementation of appropriate mitigating measures such as following proper procedures and wearing appropriate personal protective equipment. **Hydro** Achieved. In 2010, Hydro's lost-time injuries were lower than 2009 – four incidents compared to eight. The resulting LTIFR of 0.39 was better than 2009 performance of 0.92 and better than the internal target of less than or equal to 0.50. **Churchill Falls** Achieved. In 2010, Churchill Falls experienced three lost-time injuries resulting in a LTIFR of 1.15, a significant reduction from the 2009 rate of 2.22. The target established by Churchill Falls was an LTIFR of 0.50 and while the indicator referenced was achieved, actual performance exceeded this internal target.

Objective: Further enhance Nalcor's safety programs in 2010.

Measure: Action on individual components of safety improvement programs.

INDICATORS	2010 ACCOMPLISHMENTS
Completed planned activities related to safety procedures including work methods and work protection code.	Completed. Planned activities related to safety procedures for completing high-risk work were completed. Identified critical work tasks, completed task-based risk assessments and developed work methods that outline specific instructions on how to safely perform work related tasks. Implemented revised version of work protection code[9] in Hydro and Churchill Falls, completed delivery of associated training, and also implemented an on-line program for code refresher training for delivery in future years.

[9] Establishes conditions which, when combined with appropriate work practices, procedures and work methods, will provide workers with a safe work area when working on or around electrical and other energized equipment

INDICATORS	2010 ACCOMPLISHMENTS
Completed planned activities related to employee wellness program.	Completed. Wellness activities have been a part of the occupational health and safety program at Nalcor for a number of years. In 2010, Nalcor launched the *Wellness Works* program on a three year pilot basis. The program helps employees identify their personal health and lifestyle risk factors and engage in wellness activities. In addition to other wellness promotion activities, *Wellness Works* recognizes and rewards employees for participating in wellness activities and provides financial reimbursement to employees on approved health and fitness related purchases.

Issue 2: Environmental Leadership

Issue: To be an environmental leader.

Nalcor helps sustain a diverse and healthy environment for present and future Newfoundlanders and Labradorians by maintaining a high standard of environmental responsibility and performance. The company and its lines of business demonstrate a commitment to environmentally sound practices and good stewardship of our natural resources. Activities related to this issue support the Minister's strategic direction regarding sustainable resource development.

A well-established ISO 14001[10] Certified Environmental Management System (EMS) governs the activities in Nalcor's electricity businesses, Hydro and Churchill Falls, which affect the environment. The EMS drives continuous improvement in environmental performance by regularly establishing environmental improvement targets. Nalcor is completing planning activities to implement this ISO standard in other lines of business.

Hydro continued its environmental leadership efforts throughout the planning period. A focus area for Hydro is the reduction of emissions from thermal generation. In 2009, Hydro switched from the one per cent sulphur fuel introduced in 2006 to an even cleaner fuel (0.7% sulphur) at the Holyrood Generating station which will further reduce some emissions by approximately 30 per cent. Hydro also has power purchase agreements for 54MW of clean, renewable wind energy. As well, the Wind-Hydrogen-Diesel Energy Project in Ramea uses wind and hydrogen technology to supplement the diesel requirements of this isolated community. This research and development project offers an opportunity to increase renewable generation in isolated diesel systems and reduce Hydro's future use of fossil fuels and its carbon footprint.

In recent years, Hydro has also been involved in a number of activities to investigate renewable electricity generation. In 2009, the Government of Newfoundland and Labrador and Hydro completed a study to investigate the potential for the integration of alternative energy sources, including, solar, wind and mini-hydroelectric facilities into isolated Labrador communities that rely on diesel generation as a primary source of electricity. Results of the study were positive and in late 2010, the Provincial Government announced an additional $2.5 million to study small-scale hydroelectric projects for some Labrador coastal communities as well as funding to further wind studies in isolated communities.

[10] International Standards Organization (ISO) 14001 assists companies in continually improving their environmental performance, while complying with any applicable legislation. Organizations are responsible for setting their own targets and performance measures with the standard serving to assist them in meeting objectives and goals and the subsequent monitoring and measurement.

Hydro is also committed to helping consumers better manage and use electricity. Conservation benefits energy consumers, but also defers investment in new generation sources to meet growing demand. In addition to taking active steps to create energy savings in its own facilities, in 2010 Hydro launched the Industrial Energy Efficiency Program (IEEP) which provides a customized approach to energy savings for the company's industrial customers. Hydro also partners with Newfoundland Power to deliver the takeCHARGE – Saving Energy Starts Here! Program. takeCHARGE offers rebate programs to encourage residential and commercial customers to conserve their electricity usage.

Environmental leadership is also a key element of Churchill Falls' vision. In each year of the 2008-2010 planning period, Churchill Falls successfully completed 100 per cent of its EMS environmental targets and milestones. During 2010, Churchill Falls conducted a review of practices to prevent and respond to oil spills entering rivers, and continued several multi-year programs including debris removal from old construction related sites, repairs to reduce oil leaks from switchyard transformers, and site remediation as part of its contaminated lands program.

Over the planning period, the Environmental Assessment (EA) process for the Lower Churchill Generation Project also continued to advance. In 2010, the Environmental Impact Statement (EIS) and Nalcor's responses to Information Requests submitted by the joint Federal and Provincial Review Panel, were assessed by the Panel, determined to be sufficient, and public hearings were completed in April 2011. The Labrador-island Transmission Link Project was registered under the *Newfoundland and Labrador Environmental Protection Act* and the *Canadian Environmental Assessment Act* in January 2009, in order to formally initiate the provincial and federal EA reviews. Public consultations are ongoing.

Phase 1 of the Lower Churchill Development, combined with our existing hydro generating facilities, provides the opportunity for approximately 98 per cent of the province's electricity requirements to be met with stable, renewable power. This clean energy source also offers the opportunity to export surplus power to other markets where the demand for clean energy continues to grow.

The commitment of Nalcor and its lines of business to environmental leadership helps ensure a healthy and sustainable environment for future generations.

Goal: In each year through to 2010 maintain or increase the number of Environmental Management System targets and objectives[11] accomplished to 98 per cent.

Measure: Annual accomplishment of EMS milestones and targets.

[11] Also referred to as milestones.

Indicators:

- Annual milestone tracking progress.
- Annual target tracking progress.

During the 2008-2010 planning period, performance against the goal of maintaining or increasing the number of EMS targets and milestones accomplished to 98 per cent varied by year and company. The number of EMS targets and milestones completed varied from a low of 89 per cent completion of EMS targets by Hydro in 2008 to a high of 100 per cent completion of targets and milestones by Churchill Falls in all three years. The variances experienced were attributed to software and resource issues. Annual target and milestone completion improved over the planning period and in 2010, Nalcor, Hydro and Churchill Falls all met or exceeded the goal of 98 per cent completion.

INDICATORS	ACCOMPLISHMENTS
Annual milestone tracking progress.	**Nalcor** Achieved. EMS milestone completion progressed annually from 96 per cent in 2008 to 97 per cent in 2009 before increasing to 98 per cent in 2010. **Hydro** Achieved. Hydro's EMS milestone completion increased from 94 per cent in 2008 to 98 per cent in both 2009 and 2010. **Churchill Falls** Achieved. Churchill Falls completed 100 per cent of EMS milestones in 2008, 2009, and 2010.
Annual target tracking progress.	**Nalcor** Achieved. EMS target completion progressed from 94 per cent in 2008 and 2009 before increasing to 98 per cent in 2010. **Hydro** Achieved. Hydro's EMS target completion increased from 89 per cent in 2008 to 93 per cent in 2009 and progressed further to 98 per cent in 2010. **Churchill Falls** Achieved. Churchill Falls completed 100 per cent of EMS targets in 2008, 2009, and 2010.

Objective: In 2010, maintain or increase the number of Environmental Management System (EMS) targets and objectives accomplished to 98 per cent.

Measure: Annual accomplishment of EMS targets.

INDICATORS	2010 ACCOMPLISHMENTS
Accomplished 98 per cent of Environmental Management System (EMS) targets.	**Nalcor** Accomplished. In 2010, Nalcor performed better than target and completed 116 of the 117 (99 per cent) of EMS targets planned for the year. **Hydro** Accomplished. Of the 79 targets planned for completion in 2010, 78 (99 per cent) were completed. **Churchill Falls** Accomplished. In 2010, Churchill Falls completed all 38 EMS targets (100 per cent).

Issue 3: Finance and Corporate Governance

Issue: To strengthen our financial and governance structure to enable Nalcor's mandate.

Nalcor is committed to excellence in its business activities and the processes that facilitate these activities. During 2008, the company completed corporate restructuring activities to support the pursuit of its vision and mandate. In 2009 and 2010, the company continued to enhance its financial position and governance model to support existing operations and enable Nalcor's growth.

Nalcor manages its capital to ensure the financial viability of its lines of business and to facilitate investment opportunities. During the planning period, the company realized a significant improvement in its capital structure as a direct result of contributed capital from its Shareholder, the province. In 2009 and 2010, the Shareholder invested a total of $182.6 million in equity. This funding, combined with a policy to reinvest all earnings, resulted in a significant reduction in leverage in Nalcor's capital structure.

Hydro's financial position has also improved. In 2009, Nalcor contributed $100 million, that it received as an equity contribution from the Shareholder to Hydro to strengthen its financial position. Also in 2010, the Province continued to waive its debt guarantee fee[12] which impacted favourably on Hydro's financial performance. These actions combined with a higher return on equity will provide a strong foundation for future financial performance of the company.

The Boards of Directors of Nalcor and its subsidiaries have made a firm commitment to best governance practices. The Boards continue to demand transparency, accountability and the highest level of ethical conduct from all operations and activities. Reinforcing Nalcor's strong governance foundation will remain a priority into the future.

Goal: By the end of 2009 to have completed a corporate restructuring that facilitates financing requirements and appropriate risk and cost allocation.

Measure: Improved governance and financial structure.

Nalcor's goal of completing a corporate restructuring that facilitated financing requirements and appropriate risk and cost allocations was successfully completed by the end of 2009. In

[12] The guarantee fee is based on 1 per cent of total debt outstanding (net of sinking funds) guaranteed by the Province, as at the preceding December 31.

2010, Nalcor focused on continuous improvements to its financial and governance structure and processes.

INDICATORS	ACCOMPLISHMENTS
Completion of corporate restructuring plan elements to facilitate investment opportunities.	Nalcor successfully completed the corporate restructuring required to facilitate investment opportunities. During 2008, a number of changes were made to Nalcor's corporate structure: Hydro was made a subsidiary of Nalcor Energy; and, a second subsidiary, the Oil and Gas Corporation of Newfoundland and Labrador Inc.[13], was incorporated under the *Corporations Act of Newfoundland and Labrador*. As well, some functions including the Lower Churchill Project were moved from Hydro to Nalcor. These changes resulted in the separation of regulated and non-regulated activities and supported appropriate cost and risk allocation. During 2009, Nalcor assumed ownership of the Bull Arm Fabrication Site and established a team to manage site operations. Nalcor Energy – Bull Arm Fabrication Inc. also became a subsidiary of Nalcor.
Annual targets for governance improvements.	To identify and achieve governance improvements, a Corporate Governance Index was prepared for the Board of Directors of Nalcor in 2008 to assess governance effectiveness. Governance index targets for 2008 were attained and over the planning period, Nalcor achieved annual targets for additional governance improvements. To fulfill its commitment to continuous governance improvement, the mandates of Nalcor and subsidiary boards and committees were reviewed and approved during the planning period. In 2010, the mandate and constitution of a new committee – the Nalcor Safety, Health and Environment Committee, was approved. This committee provides oversight of safety, health and environment issues for Nalcor and its subsidiaries.

[13] Subsequently its name was changed to Nalcor Energy – Oil and Gas Inc..

	A formal Financial Risk Management Policy was approved in 2009 and this policy was updated and approved by the Nalcor Board in 2010. As well in 2010, a five-year enterprise risk management (ERM) plan for Nalcor was approved by the Board.

As noted, by the end of 2009 Nalcor completed a corporate restructuring that facilitated financing requirements and appropriate risk and cost allocations. Activities completed in 2010 supported continuous improvement in structures and processes.

Objective: In 2010, complete identified initiatives required to support continuous improvements to financial and governance structure.

Measure: Completion of identified initiatives.

INDICATORS	2010 ACCOMPLISHMENTS
Completed identified initiatives.	To maintain its commitment to continuous improvement, a number of initiatives were successfully completed in 2010. **Risk management:** In 2010, Nalcor completed a number of initiatives to advance the strategic assessment and mitigation of the company's evolving risk profile. Nalcor developed and implemented a strategy for commodity price and currency risk and also developed and implemented a corporate credit risk policy. Key risk activities related to the Board are referenced above. **Financing strategy:** In 2010, Nalcor implemented its approved financing strategy supported by an equity contribution from the Shareholder. As well, a financing strategy for 2011 was developed and approved by the Nalcor Board of Directors and the Shareholder. Results for 2010 demonstrate continued improvement in Nalcor's financial results and equity structure. **Approved mandates for subsidiary boards and committees.** Mandates for Nalcor subsidiary boards and committee were approved. As well, the Safety, Health and Environment Committee mandate and constitution were approved in 2010.

INDICATORS	2010 ACCOMPLISHMENTS
Completed identified initiatives.	**Board of Directors (Nalcor) approved enterprise risk management (ERM) plan**. During 2010, the Board of Directors approved a five-year enterprise risk management (ERM) plan for Nalcor. This plan included a framework that is consistent with Risk Management Guidelines and Principles per ISO/CSA 31000[14]. As noted above, the Board also approved an updated Financial Risk Management Policy during 2010.

[14] International Standards Organization (ISO)/Canadian Standards Association (CSA)31000 is a national standard that provides principles, framework, and processes for managing risk in a transparent, systematic and credible manner. ISO 13000 is not specific to any country, industry or sector and can be used by any public, private or community enterprise, association, group or individual.

Issue 4: Growth

Issue: To grow a diversified and viable energy business.

During the 2008-2010 period, Nalcor expanded its operations into the broader energy sector, making significant progress in the oil and gas sector in particular. In August 2008, the Oil and Gas Corporation of Newfoundland and Labrador Inc. was incorporated under the *Corporations Act of Newfoundland and Labrador* and subsequently changed its name to Nalcor Energy – Oil and Gas.

Nalcor Energy – Oil and Gas manages Nalcor's oil and gas interests and is currently partner in three developments in the Newfoundland and Labrador offshore oil and gas industry. On May 31, 2010, Nalcor Energy celebrated a historical milestone – first oil. 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.

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 of this program, to gain valuable information from this basin to enable further insight and assessment of the geology and petroleum potential of the area.

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 fully 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 the re-investment 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.

The province's oil and gas industry is experiencing a period of expansion; however, more investment is needed to arrest the 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.

Activities related to this issue support the Minister's strategic direction regarding promoting natural resource development and diversification.

In addition to its involvement in the oil and gas industry, Nalcor expanded its role in other areas of the energy sector. In 2009, the Bull Arm Fabrication Site was transferred to Nalcor and later that year, the company began operating the Exploits River hydroelectric generation assets on behalf of the province.

Goal: In each year through to 2010 acquire equity interests in oil and gas fields and/or pursue new development opportunities as appropriate.

Measure: Progress towards achieving equity positions.

Indicators:

- Completion of equity agreements in oil and gas fields.

INDICATORS	ACCOMPLISHMENTS
Completion of equity agreements in oil and gas fields	**2008** ▪ Completed the acquisition of a 4.9 per cent working interest in the Significant Discovery License and project assets for the Hebron Ben Nevis and West Ben Nevis fields. ▪ Progressed acquisition of a five per cent working interest in the White Rose Growth project. This project includes the North Amethyst Field, West White Rose, and the South White Rose Extension. **2009** ▪ Completed the acquisition of a five per cent working interest in the White Rose Growth project. ▪ Signed memorandum of understanding (MOU) to acquire a working interest in the Hibernia Southern Extension. ▪ Acquired an average 67 per cent working interest in three onshore exploration permits in Parsons Pond on the province's west coast. **2010** ▪ Signed formal agreements to acquire a 10 per cent working interest in the Hibernia Southern Extension.

Objective: In 2010 acquire equity interests in oil and gas fields and/or pursue new development opportunities as appropriate.

Measure: Progress towards assuming equity positions.

INDICATORS	2010 ACCOMPLISHMENTS
Completed required discussions and due diligence activities for any identified opportunities.	During 2010, Nalcor Energy – Oil and Gas signed formal agreements to acquire a working interest in the Hibernia Southern Extension. The province, through Nalcor Energy – Oil and Gas, has a 10 per cent equity stake in the Hibernia Southern Extension subsea tie-back project. Also in 2010, the development plan for the Hibernia Southern Extension was approved.

Issue 5: Operational Excellence

Issue: Through operational excellence to provide value to all consumers of our energy.

Nalcor's commitment to excellence drives all its operations. The foundation of the company is built on the strength and expertise of its electricity businesses – Hydro and Churchill Falls. These companies are leading Nalcor's asset management[15] efforts to ensure our assets provide service and value over their entire lifecycle.

The majority of Hydro's most important assets are approximately 40 years old. This is true of Hydro's largest hydroelectric generation facility at Bay d'Espoir, the Holyrood Thermal Generating Station, and much of Hydro's transmission and distribution systems. In addition, many other key electricity generation assets are more than 30 years old.

Keeping Hydro's electricity systems in reliable operating condition is accomplished through a combination of routine maintenance of existing assets, replacement of assets that have reached the end of their useful life and are worn beyond the point of economic repair, or by replacement of assets with ones which will result in lower life cycle costs or improved operations.

The Churchill Falls power station is a world class facility and one of the largest underground power stations in the world. Operational excellence is the keystone of Churchill Falls, with a focus on safety excellence, reliability and managing the asset to provide long-term value. With the plant and related infrastructure approaching 40 years old, asset management is critical to keeping the aging assets in reliable operating condition to provide reliable service to customers for the long-term and to ensure assets are fully functional well beyond the expiry of current commitments in 2041.

Churchill Falls' strategy is focused on comprehensive planning and strategic investment. The company has completed a long-term asset plan that informs its capital investments. The plan reflects the operating requirements of the facility and is based on key inputs including comprehensive assessments of asset condition as well as operating and maintenance experience.

While the generation of reliable power is essential year round at Churchill Falls, November to March is a critical operating period. Since 1999, Churchill Falls has entered into a Guaranteed

[15] Asset management is the comprehensive management of asset requirements, planning, procurement, operations, maintenance, and evaluation in terms of life extension or rehabilitation, replacement or retirement to achieve maximum value for the stakeholders based on the required standard of service to current and future generations.

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 performance was achieved 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.

Nalcor is in the business of managing and operating a large base of assets – doing this well is critical to the success of our current operations and our growth plans. Asset management is instrumental to ensuring our assets can provide reliable service and value for generations to come.

Goal: In each year through to 2010 improve or maintain corporate reliability indices while achieving capital and operating budget financial targets.

Measure: Annual reliability and operating cost performance.

Indicators:

- Achieved annual reliability targets (winter availability and transmission reliability) – Hydro only.
- Achieved Guaranteed Winter Availability Contract – Churchill Falls only.
- Achieved operating cost targets.

INDICATORS	ACCOMPLISHMENTS
Achieved annual reliability targets (winter availability and transmission reliability)[16] – Hydro only.	**Winter Availability** Partially achieved. In the 2008-2010 period, winter availability improved from 90.3 to 97.9 per cent. Hydro achieved reliability performance that was better than target in both 2009 and 2010. In 2008, Hydro's winter availability was 90.3 per cent or below the target of 97 per cent. Contributing factors to the below target performance in 2008 included delays in completing capital improvements due to a defective part that resulted in generating units not being available. **Transmission Reliability** Partially achieved. Transmission reliability can be assessed using a

[16] Winter availability is a measure of the reliability of the major generating facilities on the island interconnected system during the critical winter season (January, February, March, and December).

INDICATORS	ACCOMPLISHMENTS
	number of different industry accepted measures. In 2008, Hydro reported delivery point reliability[17] and for consistency, this measure is also reported for 2009 and 2010. In both 2008 and 2009, Hydro's performance was better than target and reliability improved by nearly 40 per cent year-over-year. In 2010, performance declined over 2009 and performance was below target as a result several significant transmission events. The greatest single impact to transmission reliability occurred when equipment was damaged by heavy salt contamination and high winds during Tropical Storm Earl.
Achieved Guaranteed Winter Availability Contract (GWAC) [18] targets – Churchill Falls only.	**GWAC** Partially achieved. GWAC performance ranged from a low of 54 per cent in 2009 to a high of 95.3 per cent in 2010. In 2008, during January, February and March GWAC revenues averaged higher than the 99 per cent target however, in early November a fire in a cable shaft at the Churchill Falls generating plant caused extensive damage to two sets of power cables, resulting in two (of the 11) generating units being unavailable. The actual GWAC percentage for 2008 of 66.6 per cent reflects the reduced amount of generation available during November and December. Repairs to the generating units continued into 2009 and Churchill Falls was able to return the plant to full operation before the end of the year and achieve 54 per cent of potential revenue compared to a target of 45 per cent. 2010 performance was slightly better than target and the highest for the planning period (95.3 per cent compared to 95 per cent).
Achieved operating cost targets.	**Nalcor** Partially achieved. Nalcor's total operating costs were below budget in 2010 (4.3 per cent), above budget for 2008 at 1.6 per cent but within the target of within 2 per cent, and above budget in 2009 (10.1 per cent). The primary factor contributing to 2008 performance was the costs associated with the Churchill Falls cable fire, specifically, the insurance policy deductible payment. In 2009,

[17] Delivery point reliability (unsupplied energy) is measured in megawatt minutes and reflects the electricity (megawatts) that is not available and the duration of the outage (minutes).

[18] GWAC tracks actual revenue as a percentage of maximum possible revenue under the provision of an agreement between Churchill Falls and Hydro-Québec. During key winter months, Churchill Falls receives GWAC revenue based upon plant availability. For the 2010 calendar year GWAC could be earned for January, February, March, November and December.

INDICATORS	ACCOMPLISHMENTS
	the largest factor contributing to above budget performance was higher than budget operating costs for non-regulated Hydro activities. During the planning period, Nalcor also established targets for other key financial indicators such as capital structure. Nalcor's capital structure has improved significantly from 56 per cent debt in 2008 to 47 per cent in 2009 and 43 per cent in 2010. The main driver of this improvement has been equity contributions received from the Shareholder. **Hydro** Partially achieved. Hydro operating costs were below budget in all three years of the planning period. However, the target of within 2 per cent of budget was not achieved in 2009 and 2010. Regulated Hydro operating costs were slightly below budget (0.6 per cent) in 2008, under by 2.3 per cent in 2009 and under budget by 8.4 per cent in 2010. Regulated Hydro exceeded its net income target in 2008, 2009 and 2010. **Churchill Falls** Partially achieved. Churchill Falls total operating costs were slightly over budget (4.3 per cent) in 2008, over by 1.1 per cent in 2009 but within the target of being within 2 per cent, and over budget by 2.8 per cent in 2010. As noted, the 2008 variance related to the insurance policy deductible related to the cable fire. Main factor contributing to the increase in 2009 was the increase insurance due to the 2008 cable fire. The increase in 2010 related to an increase in legal fees related to the motion filed against Hydro-Quebec seeking modification to the pricing terms of the 1969 Power Contract. These legal fees are funded by a trust set up by the Province.

Objective: In 2010, improve or maintain corporate reliability indices while achieving capital and operating budget financial targets.

Measure: Annual reliability and financial performance.

INDICATORS	2010 ACCOMPLISHMENTS
Achieved annual reliability performance (winter	**Hydro** **Winter Availability**

INDICATORS	2010 ACCOMPLISHMENTS
availability) – **NLH only**.	Achieved. Overall performance of 97.9 per cent was significantly better than the target of greater than or equal to 94 per cent. Holyrood thermal generating unit performance for the winter months ranged between 90 per cent and 98.4 per cent with a total winter season availability of 94.6 per cent. Hydraulic generating plant performance for the winter months ranged between 98.9 per cent and 99.9 per cent with a total winter season availability of 99.5 per cent.
Achieved Guaranteed Winter Availability Contract (GWAC) targets– **Churchill Falls only.**	**Churchill Falls** **GWAC** Achieved. Actual GWAC revenue averaged 95.3 per cent of potential revenue, slightly better than the target of greater than or equal to 95 per cent.
Achieved capital structure target (debt/equity).	**Nalcor** **Debt/Equity** Achieved. Capital structure at year-end was better than target. Year-end actual of 57 per cent compared to target of greater than or equal to 50 per cent.

Issue 6: Lower Churchill

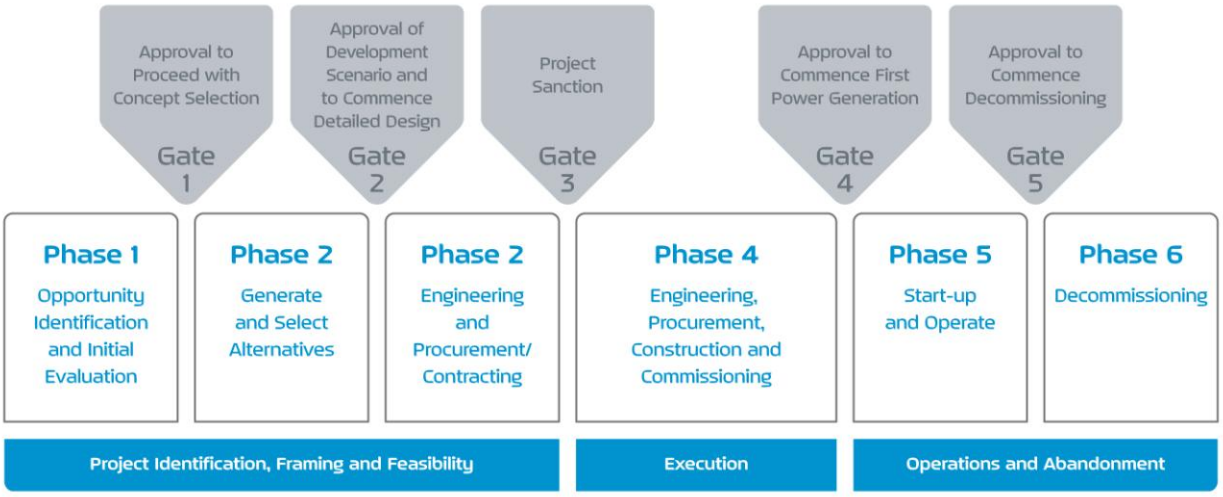
Issue: To complete analysis required to consider a sanction decision on the Lower Churchill Project.

The Churchill River in Labrador is a significant source of renewable, clean energy. The existing Churchill Falls generating station, which began producing power in 1971, harnesses about 65 per cent of the potential generating capacity of the river. The remaining capacity is located at two sites on the lower Churchill River, Muskrat Falls and Gull Island. The energy from these sites will meet Newfoundland and Labrador's needs over the coming years and enable the province to benefit from the export of power.

The Lower Churchill Project includes two generating facilities, Muskrat Falls and Gull Island, which have a combined capacity of 3,074 MW and can provide 16.7 terawatt hours of electricity per year. That energy can supply hundreds of thousands of households annually and contribute significantly to the reduction of air emissions from thermal, coal and fossil fuel power generation.

Phase One of the lower Churchill River hydroelectric development includes the Muskrat Falls generating facility and associated Labrador transmission, the Labrador-Island Transmission Link, and the Maritime Transmission Link. Muskrat Falls, in conjunction with the Labrador-Island Transmission Link has been identified by Hydro as the least cost alternative for meeting provincial electricity demand. The Maritime Transmission Link provides an opportunity to access markets outside the province and monetize energy that is not required immediately to meet domestic demand. The second phase of the development includes Phase Two of the generation project – the Gull Island generating facility and associated transmission in Labrador.

Large undertakings like the Lower Churchill Project have long lead times and require thorough planning and timely execution. The stage-by-stage process used by Nalcor to advance the Project from identification through to completion is called the gateway process and is consistent with best practices for megaproject development and execution. Gate 1 provided approval to proceed with concept selection and Gate 2 provided approval of the development scenario and to commence detailed design. To date, Nalcor has made significant progress in key areas to support the process including: Aboriginal affairs; environmental assessment; engineering; and, market access/commercial arrangements.



Aboriginal Affairs

In February 2010, representatives of the Government of Newfoundland and Labrador, Innu Nation, Innu Band Council, and Nalcor initialled the Upper Churchill Redress Agreement and the Lower Churchill Project Impacts and Benefits Agreement (IBA). At the same time, representatives of the Province, Innu Nation and each Innu Band Council initialled the bilateral Newfoundland and Labrador and Labrador-Innu Nation land claims agreement-in-principle. These three agreements, referred to as Tshash Petapen (New Dawn), are subject to ratification on a schedule to be determined by the Innu Nation.

Environmental Assessment

Environmental Assessment (EA) is a review and planning process for identifying the potential environmental and socioeconomic effects of proposed development projects, in order to consider and incorporate these into project planning and decision making.

The registration of the Lower Churchill Hydroelectric Generation Project in December 2006 began the environmental assessment process. In February 2009, following consultations with communities and groups throughout the province, Nalcor Energy submitted the required Environmental Impact Statement (EIS) for the Lower Churchill Hydroelectric Generation Project. The EIS and Nalcor's responses to Information Requests submitted by the joint Federal and Provincial Review Panel, have been assessed by the Panel, determined to be sufficient, and public hearings were completed in April 2011.

The Labrador-island transmission link project was registered under the *Newfoundland and Labrador Environmental Protection Act* and the *Canadian Environmental Assessment Act* in January 2009, in order to formally initiate the provincial and federal EA reviews. Final environmental assessment guidelines are expected in 2011.

Engineering, Procurement, and Construction
In late 2010, Nalcor selected SNC-Lavalin for the engineering, procurement and construction management (EPCM) for the Muskrat Falls generating facility and the Labrador-island transmission link. Also during 2010, the province released the Lower Churchill Construction Projects Benefits Strategy outlining the activities and procedures to be followed by Nalcor Energy, its contractor and subcontractors regarding employment and business benefits.

Market Access/Commercial Arrangements
Access to both domestic and export markets is essential to realizing the full economic and environmental benefits of the lower Churchill development. Hydro is mandated to forecast electricity requirements and complete the evaluation of supply. As noted, Hydro's assessment identified the Muskrat Falls project, with a transmission link between Labrador and the island, to be the least cost alternative to meet existing and future power needs on the Island Interconnected System.

Over the last number of years, Nalcor has also advanced two primary market access alternatives for exporting excess power: access to the Hydro-Québec transmission system and development of a maritime transmission link.

In November 2010, the development of a maritime transmission link passed a significant milestone when the Governments of Newfoundland and Labrador and Nova Scotia announced an agreement between Nalcor Energy and Emera Inc.. As noted, the Maritime Transmission Link provides an opportunity to access markets outside the province and monetize energy that is not required immediately to meet domestic demand. During the next planning period, the term sheet signed by Nalcor Energy and Emera Inc. in 2010 will be converted into final legal agreements.

Nalcor's efforts to export power across the Québec transmission system resulted in a 2006 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 TransÉnergie to provide fair access, Nalcor filed complaints with the Régie de l'énergie, 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 legitimate 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 in April 2011, the Régie upheld its previous decision. Nalcor will continue to pursue this matter and is reviewing options including a judicial review and potential action in the United States.

Water Management

The proposed lower Churchill development shares the Churchill River with the Churchill Falls hydroelectric generation plant. The *Electrical Power Control Act* requires operators on a river system to enter into a water management agreement to coordinate production among all facilities on a river. A tentative agreement reached between Nalcor and Churchill Falls, for Churchill River water management, was not approved by the CF(L)Co Board of Directors. As a result in late 2009, Nalcor applied to the Public Utilities Board (PUB) to establish the terms of the agreement and in March 2010 the PUB issued an order establishing the Water Management Agreement for the Churchill River.

Goal: By 2009 to have completed analysis necessary for the Provincial Government to consider a decision regarding sanction.

Measure: Progress in each of the seven key areas.

Indicators:

- Engineering
- Financing
- Environment
- Commercial/Market Access
- Aboriginal Impacts and Benefits Agreement
- Project Execution Planning
- Operations

While the 2008-2010 Strategic Plan established an earlier target for considering a sanction decision for the Lower Churchill Project, Nalcor prudently deferred the timing of this decision in order to further progress key elements of the Development and gain additional clarity. During the 2011-2013 planning period, Nalcor will be completing required activities to inform Gate 3[19] decisions for the Muskrat Falls project (Phase One Generation Project), the Labrador-island transmission link project, and will work with Emera in support of the Maritime link project.

INDICATORS	ACCOMPLISHMENTS
Engineering	During the planning period, Nalcor successfully completed planned engineering and field investigation activities to advance generation and transmission components of the Lower Churchill Development. Key activities included: ▪ Site investigation work at both Gull Island and Muskrat Falls to collect important geotechnical and other technical

[19] Gate 3 – Project Sanction is approval to commence full construction

INDICATORS	ACCOMPLISHMENTS
	information. ▪ Site investigation work and Lidar[20] surveying of the Labrador-island transmission link to collect important spactial, geotechnical and other technical information. ▪ Engineering studies were completed to inform the layout of the Gull Island and Muskrat Falls generating facilities, the quantities of material involved, and the construction sequence. ▪ Site investigation and engineering studies carried out regarding the Strait of Belle Isle transmission crossing. ▪ Selection of an engineering, procurement and construction management (EPCM) contractor in 2010 will support completion of further detailed engineering in preparation for full construction following sanction.
Financing	During the planning period, Nalcor worked with financial advisors and representatives of the province to assess financing alternatives for the Lower Churchill Development. These alternatives are linked to market access and power sales options and progress. The agreement between Nalcor and Emera Inc. signed in 2010 will be a key factor to be considered in refining financing strategy for the Development.
Environment	In 2006, the Lower Churchill Hydroelectric Generation Project was registered with the provincial Department of Environment and Conservation under the *Environmental Protection Act* and a project description was filed under the *Canadian Environmental Assessment Act*. In 2009, following consultations throughout the province, Nalcor submitted the Environmental Impact Statement (EIS) for the Lower Churchill Hydroelectric Generation Project. The EIS and Nalcor's responses to Information Requests submitted by the joint Federal and Provincial Review Panel, have been assessed by the Panel, and have been determined to be sufficient. The 45-day public hearings administered by the Panel, commenced on March 3, 2011 and recommendations are expected in 2011. The Labrador-island transmission link project was registered in January 2009, in order to formally initiate the provincial and federal EA reviews. The final Environmental Impact Statement

[20] Light Detection And Ranging is an optical remote sensing technology that can measure the distance to, or other properties of a target by illuminating the target with light, often using pulses from a laser.

INDICATORS	ACCOMPLISHMENTS
	Guidelines will be issued in 2011.
Commercial/Market Access	During the 2008-2010 period, potential routing and market options for energy from the Lower Churchill Development were analysed and advanced. Hydro's evaluation of alternate generation sources to determine the least-cost long-term option to meet electricity requirements in the province identified the Muskrat Falls project, with a transmission link between Labrador and the island to be the least-cost alternative. Nalcor has also advanced two primary market access alternatives for exporting excess power: access to the Hydro-Québec transmission system and development of a maritime transmission link. Key activities and accomplishments related to these alternatives are summarized above.
Aboriginal Impacts and Benefits Agreement	In 2008, a significant milestone was reached in negotiations with the Innu Nation of Labrador with the signing of the Tshash Petapen (New Dawn) Agreement. The Agreement resolved key issues relating to matters between the province and Innu Nation surrounding the Innu Rights Agreement, the Lower Churchill Impacts and Benefits Agreement (IBA) and Innu redress for the upper Churchill hydroelectric development. Negotiations to finalize formal agreements concluded in February 2010 when representatives of the Government of Newfoundland and Labrador, Innu Nation, Innu Band Councils, and Nalcor initialled the Upper Churchill Redress Agreement and the Lower Churchill Project Impacts and Benefits Agreement (IBA). At the same time, representatives of the Province, Innu Nation and each Innu Band Council initialled the bilateral Newfoundland and Labrador-Innu Nation land claims agreement-in-principle. These three agreements, referred to as Tshash Petapen (New Dawn), are subject to ratification on a schedule to be determined by the Innu Nation.
Project Execution Planning	Project execution planning progressed significantly during the 2008-2010 planning period. Capital cost, schedule and risk analysis were developed and refined for generation and transmission elements of the Lower Churchill Development. This analysis supported progress of the Development through

INDICATORS	ACCOMPLISHMENTS
	the gateway process with approval to proceed with concept selection (Gate 1) and approval of the development scenario and to commence detailed design (Gate 2).
Operations	During the planning period, the preliminary operations philosophy and support strategy were prepared leading to the development of an operations and maintenance strategy for the Lower Churchill Development facilities.

Objective: In 2010, to have completed analysis necessary for the Provincial Government to consider a decision regarding sanction.

Measure: Progress in each of the seven key areas to inform a decision regarding sanction.

INDICATORS	2010 ACCOMPLISHMENTS
Engineering	Completed geotechnical field investigation program at Muskrat Falls and priority engineering work scopes for Gull Island, Muskrat Falls, as well as the Labrador-island transmission link. Identified preferred Strait of Belle Isle crossing option based on extensive feasibility studies. In late 2010, Nalcor selected SNC-Lavalin for the engineering, procurement and construction management (EPCM) for the Muskrat Falls generating facility and the Labrador-island transmission link.
Financing	Continued discussions with financial advisors and representatives of the province to assess financing alternatives. Activity advanced based on progress on market access and power sales options.
Environment	As noted, during 2010 the Lower Churchill Generation Project EIS and Nalcor's responses to Information Requests submitted by the joint Federal and Provincial Review Panel, were assessed by the Panel and determined to be sufficient to move to public hearings. Public hearings were completed in April 2011. During 2010, preparation of the Labrador-island transmission link project EIS continued. As well, public open houses regarding the project were held across the province.
Commercial/Market Access	In 2010, Hydro's evaluation of electricity supply alternatives identified the Muskrat Falls project with a transmission link between Labrador and the island to be the least-cost long-term

INDICATORS	2010 ACCOMPLISHMENTS
	option for meeting electricity requirements in the province. In November 2010, the development of a maritime transmission link, one alternative to export excess energy from the Lower Churchill Development, passed a significant milestone when the Governments of Newfoundland and Labrador and Nova Scotia announced an agreement between Nalcor Energy and Emera Inc.. The arrangement will enable surplus power to be transmitted through the Maritime Link and access is available for Nalcor to sell power into other markets including Atlantic Canada and the north-eastern United States. As noted above, the 2006 application to Hydro-Québec TransÉnergie for transmission service was refused and Nalcor filed complaints with the Régie de l'énergie 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 legitimate 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 in April 2011, the Régie upheld its previous decision. Nalcor will continue to pursue this matter and is reviewing options including a judicial review and potential action in the United States.
Aboriginal Impacts and Benefits Agreement	In February 2010, representatives of the Government of Newfoundland and Labrador, Innu Nation, Innu Band Councils, and Nalcor initialled the Upper Churchill Redress Agreement and the Lower Churchill Project Impacts and Benefits (IBA). At that same time, representatives of the Province, Innu Nation and each Innu Band Council initialled the bilateral Newfoundland and Labrador and Labrador-Innu Nation land claims agreement-in-principle. These three agreements are referred to as Tshash Petapen (New Dawn).
Project Execution Planning	In 2010, project execution and planning activities focused on achieving the required level of completion in order to progress through Gate 2 for the selected project configuration of Muskrat Falls and the Labrador-island transmission link. The capital cost, schedule and risk analysis was updated for this configuration and used for economic modeling. The project underwent an independent project review in accordance with

INDICATORS	2010 ACCOMPLISHMENTS
	the gateway process with a positive outcome. A separate independent review was also carried out by an internationally recognized benchmarking company – Independent Project Analysis (IPA) who also provided a positive score using their extensive experience and database. IPA stated "Project is better prepared than a typical megaproject at end of FEL2 (Nalcor's Phase 2/Gate 2)".
Operations	As noted, an operations and maintenance strategy was developed in 2009. Implementation of the strategy began in 2010 with the hiring of personnel with extensive operations and maintenance experience directly into the project's engineering team.

Issue 7: People

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

Nalcor recognizes the vital role employees play in the company's success and future direction. The company is focused on a workplace where people feel highly engaged and valued for their contributions.

Nalcor employees share a set of core values: honesty and trust, open communication, accountability, safety, teamwork, respect and dignity and leadership. Throughout the 2008-2010 planning period, the company continued to integrate these core values into employee recognition, leadership development, performance management, and recruitment and retention programs and processes.

In 2008, Nalcor introduced a new Employee Recognition Program intended to foster an environment of shared recognition. The program contains three elements: renewed Service Awards, used to highlight milestones achieved by employees who have dedicated years of service to the company; and two new programs, the On the Spot Awards and the President's Awards. The On the Spot Awards facilitate day-to-day recognition of employees by highlighting behaviours and actions supporting Nalcor's core values. The President's Awards are awarded to employees for significant accomplishments related to one of Nalcor's corporate goals. Over the planning period, these approaches to employee recognition have gained increased acceptance and use.

Another key initiative started in 2008 focused on the development of employees and future leaders. Nalcor implemented a new Management Development program for senior managers and continued its Leadership Fundamentals program, which provides both union and front-line supervisors with important management and leadership skills. The company's senior management group also participated in Leadership Development workshops.

Nalcor continues to pursue opportunities for collaboration on key initiatives with its union partners, the International Brotherhood of Electrical Workers (IBEW). In addition to a number of safety initiatives, the IBEW has participated in a Diversity Engagement Team. As well, the Employee Advisory and Liaison Committee was established jointly between IBEW Local 1615 and the company to provide a forum for consultation regarding transition of the Holyrood facility in the context of the Labrador-island transmission link. During 2010, new four year collective agreements were negotiated with IBEW Locals 1615 (Hydro) and 2351 (Churchill Falls).

Measuring and managing the performance of employees is also important to help Nalcor achieve its long-term goals and vision. Nalcor's Performance Management Program provides a procedure and forum for ongoing dialogue between managers/supervisors and their employees and is an important approach to motivating individual performance, providing employees with feedback on their work, discussing plans for personal and professional career development, and appropriately recognizing and rewarding employees for their performance.

Nalcor uses an Employee Opinion Survey (EOS) to measure progress and identify required improvements to achieve its goal to be a top employer. The EOS gives employees the opportunity to provide feedback about their work experience at Nalcor.

Goal: By 2009 improve all elements to a level where Nalcor would qualify for recognition as one of Canada's best employers in reference to an acceptable external benchmark.

Measure: Progress towards ensuring alignment between employee and corporate goals.

Indicators:

- Improved Employee Opinion Survey Score.

Nalcor administered Employee Opinion Surveys in 2008 and again in 2010. Results for 2008 were consistent with 2007 but below levels experienced by top employers; based on these results, Nalcor deferred external benchmarking and as a result, achievement of the stated goal in 2009 could not be assessed. 2010 survey results showed significant improvement and highlighted elements of employee engagement that could be strengthened further. External benchmarking will be completed in the 2011-2013 planning period.

INDICATORS	ACCOMPLISHMENTS
Improved Employee Opinion Survey Score	**Nalcor** Improved. In 2010, Nalcor achieved an overall EOS score of 3.74 out of five compared to 3.61 in 2008. **Hydro** Improved. In 2010, Hydro also achieved significant improvement with an EOS score of 3.8 compared to 3.6 out of five in 2008. **Churchill Falls** Maintained. In 2010, Churchill Falls achieved an overall EOS score of 3.5 out of five, the same performance as 2008. 2010 results highlighted strengths including having the skills necessary to do the job and taking the initiative to improve employee

INDICATORS	ACCOMPLISHMENTS
	health and safety. Areas for increased focus included communication and employee recognition.

Objective: In 2010, work to improve all elements of employee engagement to a level where Nalcor would qualify for recognition as one of Canada's best employers in reference to an acceptable external benchmark.

Measure: Completion of improvement activities.

INDICATORS	2010 ACCOMPLISHMENTS
Completed planned implementation and change management related to asset management framework, project execution structure and matrix organization design.	Completed. Communicating company direction and establishing supporting organization structures and processes facilitate employee engagement. During 2010, key organizational roles to lead project execution and asset management assigned and planned change management and communication activities completed. Activities to establish clear accountabilities for core functional processes to support matrix organization design were completed and communicated as planned.
Developed strategy for recruitment and retention in rural/remote areas and execute planned 2010 activities.	Developed strategy for retention in rural/remote areas and completed all 2010 action items including: apprenticeship and graduate engineers program enhancements; partnership with College of the North Atlantic on the Labrador Aboriginal Training Program; planning for joint Hydro-Newfoundland Power career awareness proposal; enhanced salaries/wages and other terms and conditions flowing from collective bargaining settlements; and development of community information profiles.
Completed diversity strategy for executive approval.	Completed diversity strategy for executive approval. Phase 1 of Diversity Plan – Project Definition was completed and approved by executive. Phase 2 – Consultation also completed including two meetings of Diversity Engagement Team (DET). Phase 3 – Develop Strategy including a multi-year action plan is complete. Executive approval obtained as planned in first quarter of 2011.

INDICATORS	2010 ACCOMPLISHMENTS
Completed current state assessment of mandatory safety and technical skills training.	Completed current state assessment including development of safety/technical competency profiles.
Completed 2010 Employee Opinion Score (EOS) survey.	Completed. Achieved an 86 per cent response rate and an overall Nalcor score of 3.74 out of five compared to 3.61 in 2008.

Issue 8: Community

Issue: To be a valued corporate citizen and an active member of the communities in which we operate.

Giving back to communities in Newfoundland and Labrador is a priority for Nalcor and the company strives to be a valued corporate citizen and to improve the quality of life for people throughout the province. This means actively supporting organizations in the communities where Nalcor operates and where our employees live. Through our Community Investment Program, Nalcor and its subsidiary company Hydro, support, educate and strengthen communities through charitable donations, youth scholarships and support of employee volunteerism.

Safety and health is a key area of focus for Hydro's Community Investment Program. In 2008, Hydro started its safety and health partnership with the Seniors Resource Centre of Newfoundland and Labrador (SRC). This partnership helps the SRC expand and deliver their safety, health and wellness initiatives for seniors across the province. Since 2008, over 650 seniors have attended Safety and Health Days organized by the SRC.

Since 2009, $35,000 has been donated to Ronald McDonald House through employee fundraising events and the Community Investment Program. Hydro will donate an additional $150,000 to Ronald McDonald House over a three-year period starting in 2011. Hydro is also a key supporter of Libra House, an emergency crisis shelter for women and children in Happy Valley-Goose Bay. Hydro previously donated two parcels of land valued at $80,000 for the shelter's expansion and renovation and is investing an additional $100,000 to support the project.

Each year, Nalcor and Hydro support educational and academic achievements by providing scholarships to students who achieve high academic standings and are leaders and role models in their schools and communities. The scholarship program represents Nalcor's commitment to help the province's youth further their educational studies. Since 2008, $120,000 has been awarded through scholarships and endowments to Newfoundland and Labrador students. This includes scholarships for women in engineering, trades and technology to help encourage and support women entering these fields of study.

Volunteerism is part of the corporate culture at Nalcor Energy. By partnering with employees through our company-wide Employee Matching and Volunteer Contribution Program, Nalcor reaches out to a broader range of community partners. These two employee-driven programs supported more than 75 organizations from 2008 to 2010 including the Community Food

Sharing Association, Young Adult Cancer, CIBC Run for the Cure, and many other community organizations and charity events throughout the province.

Nalcor's Community Investment Program reinforces the corporate vision by enhancing community service, investing in local communities, demonstrating good corporate citizenship and empowering employees in their community service.

Goal: In each year through to 2010 to have further strengthened Nalcor's corporate reputation by means of excellence in safety, environment, conservation, community investment, business planning and execution.

Measure: Improvements in Nalcor's perception by the public.

Indicators:

- Increased annual performance on Hydro's[21] reputation index.
- Increased brand recognition.

INDICATORS	ACCOMPLISHMENTS
Increased annual performance on Hydro's reputation index.	The results of the public reputation index review indicate an improvement from 77.24 in 2007 to 77.55 in 2009. A significant increase was realized in the Conception Bay South area where the company is focused on reducing emissions from the Holyrood thermal generating station and broadening communications and engagement with the community. Subsequent to the development of the 2008-2010 plan it was decided to measure reputation biennially; therefore, it cannot be determined whether annual performance on Hydro's reputation index increased during the planning period.

[21] Reputation index was measured for Hydro in 2009 and will be measured again in 2011. Reputation was not measured for Nalcor in the planning period however in 2011 Nalcor will benchmark Nalcor's reputation to inform future target setting.

INDICATORS	ACCOMPLISHMENTS
Increased brand recognition.	The Nalcor name and brand were introduced in December 2008. In 2009, corporate reputation research on name/brand recognition demonstrated awareness of 64 per cent compared to the target of 45 per cent. Brand recognition will be measured again in 2011. Subsequent to the development of the 2008-2010 plan, it was decided to measure brand recognition biennially; therefore, it cannot be determined whether brand recognition increased during the planning period.

Objective: In 2010, to have further strengthened Nalcor's reputation by means of excellence in safety, environment, conservation, community investment, business planning and execution.

Measure: Improvements in awareness/perception of Nalcor by the public.

INDICATORS	2010 ACCOMPLISHMENTS
Completed phase two brand implementation of signage and vehicles.	Completed. Secondary signage purchased as planned in 2010. As well, all new fleet vehicles purchased were branded with new standard and painting and re-stripping of highly visible existing fleet vehicles was tendered as planned in 2010.
Updated and produced Nalcor Energy Corporate video.	Completed. Nalcor Energy Corporate video updated. Rolled out to employees during annual *Checkpoint* in February 2011.
Completed collateral package for Churchill Falls.	Completed. Package included a visitor video, brochure, and a safety video.

Opportunities and Challenges

Implementing a new three-year strategic plan for 2011-2013 will require that Nalcor and Hydro build on accomplishments of the past and address future challenges and opportunities. Key challenges and opportunities are summarized below.

Safety Leadership

Nalcor's relentless commitment to safety drives all its lines of business. Achieving excellence in safety is Nalcor's number one priority and safety is also a shared core value. For Nalcor and Hydro, safety excellence is more than a way of operating; it is an integral part of the companies' strategy for the future. Over the next planning period, Nalcor and Hydro will continue to strengthen and promote safety initiatives aimed at enhancing the safety of employees, contractors and the public.

Electricity Supply

Nalcor's subsidiary, Hydro, ensures there is a safe, reliable and cost-effective electricity supply available to meet current demand and future growth. During the 2011-2013 planning period, Hydro will pursue arrangements to secure the energy required from Muskrat Falls for use in the province, enhance asset management, and implement programs to support environmental sustainability.

Upper Churchill

The Churchill Falls power station is a world class facility and one of the largest underground power stations in the world. The generating plant and related infrastructure are approaching 40 years in service and during the next planning period, Churchill Falls will develop and refresh its five year capital plan and complete planned asset investments. As well, Churchill Falls (Labrador) Corporation will be completing preparations for Upper Churchill Power Contract trial scheduled to commence in fall 2013.[22]

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

In 2009, CF(L)Co formally requested that Hydro-Québec enter into discussions to amend the pricing terms for the remainder of the 1969 Power Contract. Hydro- Québec did not respond and therefore, in early 2010 CF(L)Co filed a motion against Hydro-Québec in 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. This situation, combined with the obligation under the Québec Civil Code to act in good faith throughout the term of a contract, CF(L)Co believes obliges Hydro-Québec to renegotiate the terms of the contract to re-establish the equilibrium of benefits.

Oil and Gas Interests, Exploration and Development
Nalcor's subsidiary, Nalcor Energy – Oil and Gas, currently manages oil and gas interests in three developments offshore Newfoundland and Labrador and holds majority interest in three onshore exploration permits on the island's West Coast. During the 2011-2013 planning period, Nalcor will continue to exercise its rights under joint venture agreements to pursue issues of interest to Nalcor and the province and to establish work plans and budgets that preserve key project milestones. As well, the company will continually refresh its exploration strategy and invest a portion of its revenues in exploration activities.

Lower Churchill Development
The Lower Churchill Development includes two generating facilities, Muskrat Falls and Gull Island which can provide 16.7 terawatt hours of electricity per year. This energy can supply hundreds of thousands to households annually and contribute significantly to the reduction of air emissions from thermal, coal and fossil fuel power generation. During the 2011-2013 planning period, Nalcor will progress milestones to advance the sanction decisions for Phase One (Muskrat Falls, Labrador-Island Transmission Link, Maritime Transmission Link) of the Development and also advance Phase Two (Gull Island).

Bull Arm Fabrication Site Lease Management and Long-Term Strategy
During the 2011-2012 planning period, lease finalization discussions will conclude and the Bull Arm Fabrication Site will be leased to ExxonMobil Canada Properties who will use the site for the Hebron project. As well, Nalcor will be aligning its long-term strategy for Bull Arm to facilitate a seamless transition to other site operations at the conclusion of the Hebron project construction.

Energy Marketing
Nalcor's energy portfolio will continue to grow over the coming years with the development of the lower Churchill River hydroelectric resource and increased production from Nalcor Energy – Oil and Gas' offshore oil interests. Extracting value from these activities and positioning Nalcor for an even larger portfolio requires consideration of options to market its energy. During the next planning period, Nalcor will consider various options including continuing with current arrangements and establishing a self-contained energy marketing line of business. Nalcor will also continue to develop its energy marketing capability and pursue opportunities to increase overall value of its current portfolio.

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.

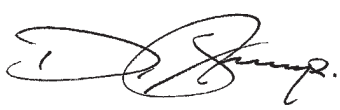
The Consolidated Financial Statements have been prepared by Management in accordance with Canadian generally accepted accounting principles, applied on a basis consistent with that of the preceding year. The preparation of financial statements necessarily involves the use of estimates based on Management's 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

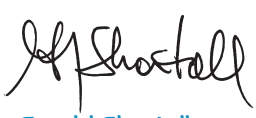
Commitments and contingencies (Note 19)

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

(millions of dollars)	Cost	Contributions In Aid of Construction	Accumulated Amortization	Net Book Value
		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**

(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

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

* Sinking funds have been established for these issues.

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:

	Level 1	Level 2	Total
(millions of dollars)		**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

(millions of dollars)	Hydro Regulated	Churchill Falls	Oil and Gas	Energy Marketing	Other	Inter-Segment	Total
				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.

NEWFOUNDLAND AND LABRADOR HYDRO
CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010

BOARD OF DIRECTORS

JOHN OTTENHEIMER Q.C. (Chair)
Corporate Director

ED MARTIN
President and Chief Executive Officer
Nalcor Energy

CATHY BENNETT
Owner/Operator
Bennett Restaurants Ltd.

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

KEN MARSHALL
President
Rogers Cable - Atlantic Region

GERALD SHORTALL
Chartered Accountant
Corporate Director

HEAD OFFICE
Newfoundland and Labrador Hydro
Hydro Place. 500 Columbus Drive
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OFFICERS

JOHN OTTENHEIMER Q.C. (Chair)
Corporate Director

ED MARTIN
President and Chief Executive Officer
Nalcor Energy

GILBERT BENNETT
Vice President
Lower Churchill Project

WAYNE CHAMBERLAIN
General Counsel and Corporate Secretary
Nalcor Energy

JIM HAYNES
Vice President Regulated Operations
Newfoundland and Labrador Hydro

ANDY MACNEILL
Vice President
Churchill Falls

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

GERARD MCDONALD
Vice President Human Resources and
Organizational Effectiveness
Nalcor Energy

DERRICK STURGE
Vice President Finance and Chief Financial Officer
Nalcor Energy

PETER HICKMAN
Assistant Corporate Secretary
Nalcor Energy

MARK BRADBURY
Corporate Treasurer and Chief Risk Officer
Nalcor Energy

S. KENT LEGGE
Corporate Controller
Nalcor Energy

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Independent Auditors' Report

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

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Deloitte & Touche LLP

Chartered Accountants
April 1, 2011

NEWFOUNDLAND AND LABRADOR HYDRO
CONSOLIDATED BALANCE SHEET

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

See accompanying notes

On behalf of the Board:

ED MARTIN

GERRY SHORTALL

NEWFOUNDLAND AND LABRADOR HYDRO
CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

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

See accompanying notes

NEWFOUNDLAND AND LABRADOR HYDRO
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

See accompanying notes

NEWFOUNDLAND AND LABRADOR HYDRO
CONSOLIDATED STATEMENT OF CASH FLOWS

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

Supplementary cash flow information (Note 16)

See accompanying notes

1. DESCRIPTION OF BUSINESS

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

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

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

Cash and Cash Equivalents and Short-term Investments
Cash and cash equivalents and short-term investments consist primarily of Canadian treasury bills and Banker's Acceptances ("BA"). Those with original maturities at date of purchase of three months or less are classified as cash equivalents whereas those with original maturities beyond three months and less than twelve months are classified as short-term investments. The short-term investments bear interest rates of 0.85% to 1.35% (2009 – 0.26% to 1.57%) per annum. Cash and cash equivalents and short-term investments are measured at fair value.

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

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

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

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.

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

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

Property, Plant and Equipment (cont'd.)

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

Estimated service lives of the major assets are as follows:

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

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

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

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

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

Hydro provides group life insurance and health care benefits on a cost-shared basis to retired employees, in addition to a severance payment upon retirement. The expected cost of providing these other employee future benefits is accounted for on an accrual basis and has been actuarially determined using the projected benefit method prorated on service and management's best estimate of salary escalation, retirement ages of employees and expected health care costs. The excess of net cumulative actuarial gains and losses over 10% of the accrued benefit obligation is amortized over the expected average remaining service life of the employee group.

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

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

Financial Instruments and Hedging Activities

Financial Instruments

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

Hydro has classified its financial instruments as follows:

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

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

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

Derivative Instruments and Hedging Activities

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

Future Accounting Changes

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

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

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

3. PROPERTY, PLANT AND EQUIPMENT

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

4. REGULATORY ASSETS AND LIABILITIES

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

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

Rate Stabilization Plan

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

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

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

Deferred Foreign Exchange Losses

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

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

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

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

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

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

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

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

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

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

Property, Plant and Equipment (cont'd.)

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

5. LONG-TERM RECEIVABLES

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

6. JOINT VENTURE

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

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

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

7. LONG-TERM DEBT

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

Details of long-term debt are as follows:

Hydro

	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.

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

Promissory notes, debentures and long-term loans are unsecured and unconditionally guaranteed as to principal and interest and, where applicable, sinking fund payments, by the Province. The Province charges Hydro a guarantee fee of one percent annually on the total debt (net of sinking funds) guaranteed by the Province, outstanding as of the preceding December 31. For the years ended December 31, 2010 and 2009, the guarantee fee was waived by the Province.

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

Hydro maintains a $50.0 million Canadian or US equivalent unsecured operating credit facility with its banker and at year-end there were no amounts drawn on the facility (2009 – nil). Advances may take the form of a Prime Rate Advance or the issuance of a BA with interest calculated at the Prime Rate or prevailing Government BA fee. The facility also provides coverage for overdrafts on Hydro's bank accounts, with interest calculated at the Prime Rate. At year-end, Hydro had 24 letters of credit outstanding (Note 18(g)) reducing the availability of the credit facility by $18.9 million (2009 - $7.5 million).

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

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

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

Churchill Falls

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

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

Operating Credit Facility

Churchill Falls maintains a $10.0 million Canadian unsecured operating credit facility with its banker and at year-end, there were no amounts drawn on the facility (2009 - nil). Advances may take the form of a Prime Rate Advance or the issuance of a BA with interest calculated at the Prime Rate or prevailing Government BA fee. The facility provides coverage for overdrafts on Churchill Falls' bank accounts, with interest calculated at the Prime Rate. At year-end, Churchill Falls had two letters of credit outstanding (Note 18(g)) reducing the availability of the credit facility by $1.0 million (2009 - $1.0 million).

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

8. LONG-TERM PAYABLE

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

9. ASSET RETIREMENT OBLIGATIONS

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

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

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

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

10. EMPLOYEE FUTURE BENEFITS

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

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

10. EMPLOYEE FUTURE BENEFITS (cont'd.)

Other Benefits (cont'd.)

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

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

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

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

Assumed healthcare trend rates:

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

10. EMPLOYEE FUTURE BENEFITS (cont'd.)

Other Benefits (cont'd.)

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

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

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

11. SHAREHOLDER'S EQUITY

Share Capital

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

Contributed Capital

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

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

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

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

12. ACCUMULATED OTHER COMPREHENSIVE INCOME

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

13. CAPITAL MANAGEMENT

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

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

A summary of the capital structure is outlined below:

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

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

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

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

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

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

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair Value

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

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

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

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

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

Establishing Fair Value

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

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

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

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

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

Fair Value (cont'd.)

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

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

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

		2009	
Financial assets			
Cash and cash equivalents	12.7	-	12.7
Short-term investments	37.3	-	37.3
Accounts receivable	86.2	-	86.2
Sinking funds – investments in same Hydro issue	-	85.2	85.2
Sinking funds – other investments	-	179.6	179.6
Derivative assets	-	7.0	7.0
Reserve fund	-	34.8	34.8
Financial liabilities			
Accounts payable and accrued liabilities	83.9	-	83.9
Accrued interest	28.7	-	28.7
Long-term debt including amount due within one year	-	1,471.0	1,471.0
Derivative liabilities	-	-	-
Long-term payable	-	4.4	4.4

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

Fair Value (cont'd.)

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

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

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

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

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

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

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

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

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

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

Risk Management (cont'd.)

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

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

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

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

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

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

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

Risk Management (cont'd.)

Market Risk (cont'd.)

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

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

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

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

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

Effect of Hedge Accounting on Financial Statements

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

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

15. INTEREST AND FINANCE INCOME /CHARGES

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

16. SUPPLEMENTARY CASH FLOW INFORMATION

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

17. SEGMENT INFORMATION

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

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

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

17. SEGMENT INFORMATION (cont'd.)

Geographic Information
Revenues by geographic area:

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

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

18. COMMITMENTS AND CONTINGENCIES

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

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

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

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

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

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

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

18. COMMITMENTS AND CONTINGENCIES

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

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

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

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

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

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

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

(g) Hydro has issued 23 irrevocable letters of credit to the New Brunswick System Operator totalling $18.6 million as credit support related to applications for point to point transmission services. In addition Hydro has issued one letter of credit to the Department of Fisheries and Oceans in the amount of $0.3 million as a performance guarantee in relation to the Fish Habitat Compensation Agreement. Churchill Falls has issued 3 irrevocable letters of credit, totalling $2.0 million to ensure satisfactory management of its waste management and compliance with a certificate of approval for the transportation of special hazardous wastes, granted by the Department of Environment and Conservation.

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

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

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

18. COMMITMENTS AND CONTINGENCIES (cont'd.)

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

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

19. RELATED PARTY TRANSACTIONS

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

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

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

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

(millions of dollars)			2009	
Revenue	(g)	-	2.0	2.0
Expenses	(a)(b)(c)(e)	21.4	4.0	25.4
Accounts receivable	(g)(h)	-	0.7	0.7
Accounts payable and accrued liabilities	(c)(d)(e)	21.3	2.7	24.0
Deferred capital contribution	(f)	-	0.2	0.2
Long-term related party note payable	(i)	23.9	-	23.9

19. RELATED PARTY TRANSACTIONS (cont'd.)

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

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

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

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

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

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

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

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

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

20. WATER MANAGEMENT AGREEMENT

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

21. SUBSEQUENT EVENT

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

22. COMPARATIVE FIGURES

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