Q. **Reference: Finance**

Please provide the most current copies of all credit rating reports for Newfoundland and Labrador Hydro, Nalcor, and the Government of Newfoundland and Labrador.

A. As requested, please find attached copies of the latest credit reports for Newfoundland and Labrador Hydro, as published by the Dominion Bond Rating Service (August 8, 2013), and the Government of Newfoundland and Labrador, as published by the Dominion Bond Rating Service (August 10, 2012), Moody's (July 22, 2013) and Standard & Poor's (November 2012). Nalcor Energy does not have a public issuer credit rating, nor does it have any rated debt outstanding, therefore there is no corresponding public credit rating reports to provide.

Newfoundland and Labrador Hydro

Rating

Debt	Rating	Trend
Guaranteed Short-Term Debt (bsd. on Prov. Nfld)	R-1 (low)	Stable
Guaranteed Long-Term Debt (bsd. on Prov. Nfld)	A	Stable

Rating Update

The debt ratings of Newfoundland and Labrador Hydro (Hydro or the Company) are a flow-through of the ratings of the Province of Newfoundland and Labrador (the Province; see DBRS's report on the Province dated August 10, 2012), which unconditionally guarantees all of Hydro's outstanding debt. The unconditional guarantee extends to principal, interest and, where applicable, sinking fund payments relating to the Company's promissory notes, debentures and long-term loans.

As outlined in Hydro's long-term asset management program, the Company is undergoing a period of substantial capital expenditures (capex) to maintain its generation and transmission assets. This calls for an increase in debt levels, leading to higher leverage. However, interest coverage is expected to remain relatively stable as earnings grow to reflect a higher rate base. Hydro filed a general rate application (GRA) with the Board of Commissioners of Public Utilities (PUB) in July 2013, requesting new rates effective January 1, 2014. Once approved by the PUB, new rates will reflect a return on equity (ROE) of 8.80%, which is equal to that of Newfoundland Power Inc. (rated "A"). The increased ROE is expected to help improve Hydro's earnings and overall financial profile. Operating cash flow decreased modestly in 2012, mainly driven by higher fuel and purchase power costs, as well as lower wholesale electricity prices. Capex has remained high over the past five years, well above historical depreciation levels, as the Company continues to spend on maintenance and growth projects. Capex is expected to remain above historical levels in the medium to long term, reaching approximately $194 million in 2015. Dividends declared were approximately 44.4% of Hydro's earnings in 2012. As a result, the Company experienced a free cash flow deficit that was funded with internally generated cash flow and incremental debt. DBRS anticipates that, going forward, free cash flow deficits will be funded through a combination of internally generated cash and the appropriate mix of short- and long-term debt.

Rating Considerations

Strengths
(1) Debt is guaranteed by the Province
(2) Reasonable regulatory environment
(3) Minimal competition

Challenges
(1) Increased levels of planned capital expenditure
(2) Sensitivity to weather
(3) Environmental issues related to sulphur

Financial Information

Newfoundland and Labrador Hydro	CGAAP	CGAAP	CGAAP	CGAAP	CGAAP
(Consolidated)	**For the year ended Dec. 31**				
(CA$ millions where applicable)	**2012**	**2011**	**2010**	**2009**	**2008**
EBIT gross interest coverage (times)	1.67	1.86	1.91	1.64	1.70
Total debt in capital structure (1)	46.8%	47.1%	50.1%	52.5%	60.9%
Cash flow/Total debt (1)	14.7%	16.9%	15.1%	12.2%	12.3%
(Cash flow-dividends)/Capex (times)	0.98	0.83	0.75	1.34	1.61
Net income before non-recurring items	68	90	85	67	92
Cash flow from operations	136	151	142	122	146

(1) Debt is net of sinking fund assets.

Rating Considerations Details

Strengths
(1) **Debt is guaranteed by the Province.** The Province unconditionally guarantees Hydro's debt. As a result, the ratings of Hydro are a flow-through of the Province's rating.

(2) **Reasonable regulatory environment.** The regulatory environment has contributed to a generally stable financial profile since 2002. In July 2013, Hydro filed its GRA with the PUB for rates effective January 1, 2014. Once approved, new rates will reflect an ROE of 8.80%, which is equal to that of Newfoundland Power Inc.

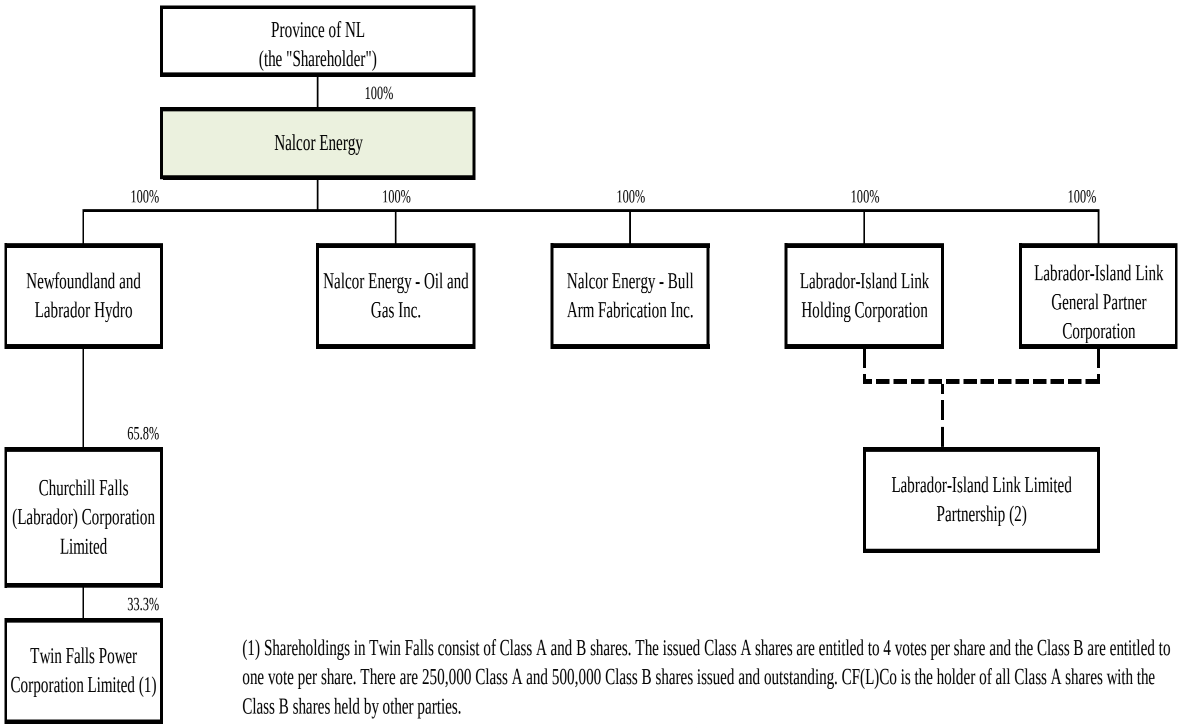
(3) **Minimal competition.** Geographic isolation and the lack of availability of natural gas minimize competitive pressures for the Company.

Challenges
(1) **Increased levels of planned capital expenditure.** Potential significant capex above historical depreciation levels may put pressure on Hydro's financial and credit profile in the near to medium term.

(2) **Sensitivity to weather.** Demand for Hydro is correlated with the weather, which has a direct impact on annual earnings and cash flows.

(3) **Environmental issues related to sulphur.** Approximately 15% of the Company's electricity in 2012 was thermal based, fuelled by bunker C fuel, which has high sulphur content. While future environmental regulations are uncertain, this could result in increased costs and/or capex. In 2011, the plant's sulphur emissions were reduced by 30% from levels in 2008, primarily as a result of lower sulphur content fuel and production requirements. The majority of the sulphur emissions are expected to be eliminated following the closure of the Holyrood plant once the Muskrat Falls Project comes on line.

Simplified Corporate Structure



(1) Shareholdings in Twin Falls consist of Class A and B shares. The issued Class A shares are entitled to 4 votes per share and the Class B are entitled to one vote per share. There are 250,000 Class A and 500,000 Class B shares issued and outstanding. CF(L)Co is the holder of all Class A shares with the Class B shares held by other parties.

(2) LIL Holdco currently holds 65.1% while Emera holds 34.9% interest of the limited partnership in the LIL LP.

Company Profile

- Hydro is a Crown corporation owned by Nalcor Energy, which is in turn 100% owned by the Province.
- Hydro is the dominant electric generation and transmission power company in the Province. It also directly serves residential, commercial and industrial distribution customers in more rural service areas.
- Hydro supplies over 90% of the Province’s electrical energy. In 2012, it sold approximately 77% of its available supply to an investor-owned electricity distributor, Newfoundland Power Inc., which is wholly owned by Fortis Inc. Hydro’s remaining power deliveries are directed to its own distribution customers across the Province as well as five large industrial companies. Short-term exports of unused recall power from Churchill Falls are sold to other parties via the energy-marketing division.
- Hydro’s regulated operations have installed generating capacity of 1,626 megawatts (MW), consisting of hydroelectric (939 MW), thermal (617 MW) and diesel (52 MW) power.
- Churchill Falls has installed generating capacity of 5,428 MW and a power contract with Hydro-Québec (rated A (high)) for the majority of the electricity generated from this facility (approximately 30 terawatt hours until 2041).
- The Company has long-term supply contracts and power purchase arrangements with non-utility power producers in the Province, amounting to approximately 180 MW.
- Upon completion of the Lower Churchill project, the Company will be the off-taker for a portion of Muskrat Falls’ generating output and some of its transmission capacity via a power purchase agreement.

Earnings and Outlook

	CGAAP	CGAAP	CGAAP	CGAAP	CGAAP
Consolidated	**For the year ended Dec. 31**				
(CA$ millions where applicable)	**2012**	**2011**	**2010**	**2009**	**2008**
Net sales	392	398	395	364	366
EBITDA	211	224	232	205	224
EBIT	151	168	175	151	171
Gross interest expense	91	91	92	92	100
Net interest expense	88	89	91	91	91
Net income before equity income & non-recur.	68	90	85	67	92
Net income before non-recurring items	68	90	85	67	92
Reported net income	64	91	84	66	87
Return on equity	9.4%	12.7%	12.1%	10.4%	14.8%

2012 Summary

- Hydro's earnings are generated primarily from its regulated electricity business.
- Earnings before non-recurring items were lower in 2012 due mainly to higher fuel and power purchase costs in addition to a decrease in energy marketing earnings, as a result of lower natural gas prices.

2013 Outlook

- Earnings in 2013 are expected to improve modestly as natural gas prices have begun to recover from historic lows.
- Earnings volatility will continue to be managed through stabilizing the fuel prices and customer load variations in the rate stabilization plan and recovering from or refunding it to customers in future rates.

Financial Profile and Outlook

	CGAAP	CGAAP	CGAAP	CGAAP	CGAAP
Consolidated	**For the year ended Dec. 31**				
(CA$ millions where applicable)	**2012**	**2011**	**2010**	**2009**	**2008**
Net income before non-recurring items	68	90	85	67	92
Depreciation & amortization	60	55	56	55	53
Deferred income taxes and other	7	6	0	0	1
Cash flow from operations	136	151	142	122	146
Dividends paid	(30)	(78)	(92)	(45)	0
Capital expenditures	(108)	(88)	(65)	(58)	(90)
Free cash flow (bef. working cap. changes)	(2)	(15)	(16)	20	55
Changes in non-cash work. cap. items	(63)	(18)	46	11	(2)
Rate stabilization/Regulatory adjustments	33	14	42	74	34
Net free cash flow	(33)	(19)	71	105	87
Acquisitions & long-term investments	0	0	0	0	0
Short-term investments	9	2	25	(23)	(3)
Proceeds on asset sales	4	5	1	1	1
Net equity change	0	0	0	0	0
Net debt change	52	0	(29)	(164)	(52)
Other	(36)	(26)	(27)	95	(33)
Change in cash	(4)	(37)	40	14	0
Total debt (1)	923	893	937	1,000	1,186
Cash and equivalents	12	25	65	50	15
Total debt in capital structure (1)	46.8%	47.1%	50.1%	52.5%	60.9%
Cash flow/Total debt (1)	14.7%	16.9%	15.1%	12.2%	12.3%
EBIT interest coverage (times)	1.67	1.86	1.91	1.64	1.70
Dividend payout ratio	44.4%	87.1%	109.1%	66.5%	0.0%

(1) Debt is net of sinking fund assets.

2012 Summary

- The Company's credit metrics declined modestly in 2012 due to weaker earnings, but remained reasonable for the current rating category.
- Operating cash flow decreased slightly in 2012, primarily driven by higher fuel and purchase power costs as well as lower wholesale electricity prices.
- Capex over the past five years has been well above historical depreciation levels, as the Company continues to spend on maintenance and growth projects.
- Dividends were approximately 44.4% of net income in 2012, down from 87.1% in 2011. Dividends paid represent both non-regulated earnings related to the sale of recall power and the maintenance of the target capital structure.
- The Company generated negative free cash flow of approximately $33 million in 2012. Free cash flow deficits were funded by incremental debt and cash on hand.

2013 Outlook

- Hydro expects to spend well above its historical depreciation level going forward on capex (more than $100 million on average per annum).
  - The capex will be used to maintain its transmission and generation assets through its long-term asset management program.
- The Company expects to fund the capex spending through internally generated operating cash flow and debt.
- DBRS expects the Company's credit metrics to continue to remain within the current rating category.

Long-Term Debt Maturities and Bank Lines

- 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 a guarantee fee of 0.25% and 0.5% annually on obligations with maturities less than or equal to ten years and greater than ten years, respectively (net of sinking funds), outstanding as of the preceding December 31.
- Hydro has a $300 million short-term promissory note program, guaranteed by the Province, which it uses for its daily funding requirements. As at December 31, 2012, the Company had $52 million (at par) outstanding.
- The Company has a $50 million unsecured operating line of credit with a commercial bank that is used primarily to backstop the Company's short-term promissory note program and to support letters of credit. At December 31, 2012, there was no amount outstanding on the operating line of credit; however, 24 letters of credit were outstanding, which collectively reduced available credit by $18.9 million.

(As at December 31, 2012)

(CA$ millions)	**2013**	**2014***	**2015**	**2016**	**2017**	**Thereafter**	**Total**
	8	125	-	225	150	625.90	1,134
	1%	11%	0%	20%	13%	55%	100%

Includes term debt maturities and sinking fund requirements for Hydro only.

* Includes $125 million of Notes to be repaid from the sinking fund reserve.

- The debt maturity profile is well spread out, with 12% of total debt coming due prior to 2015.
- Hydro expects to refinance upcoming maturities or issue new debt at more favourable interest rates in the near term.

Regulation

- Hydro is regulated by the PUB base on a return on rate base model.
- Hydro has a rate stabilization plan (RSP) that provides for the deferral of cost variances resulting from changes in fuel prices relative to the base price, levels of precipitation and load.
  - Accumulate balances related to fuel cost variations will be recovered over the following one-year period.
  - Accumulate balances related to variations in hydrology will be recovered at a rate of 25% of the outstanding balance at year-end, including the weighted-average cost of capital on the balance.
  - The RSP allows Hydro to smooth out the rate increases required to recover the cost variances.
- On January 1, 2005, the demand and energy rate for the sale of power, which bills according to highest actual demand requirements from the winter season, to Newfoundland Power Inc. began. This provides an incentive to Newfoundland Power Inc. to reduce its peak demand cost.
- Hydro has an allowed ROE of 4.47% based on the decision from the 2006 GRA.
- Hydro filed a GRA with the PUB in July 2013, requesting new rates effective January 1, 2014. Once approved by the PUB, new rates will reflect an ROE of 8.80%, which is equal to that of Newfoundland Power Inc.
- Hydro has an internal target debt-to-equity ratio of 75:25 for regulated operations. After approval of the GRA filed in July 2013, Hydro will be entitled to have equity in its capital structure up to the same amount as Newfoundland Power Inc. (currently 45% equity with 55% debt). However, Hydro expects to maintain its target of 75% debt.
- The PUB approved a $62.7 million capital budget for 2013.
- Effective July 1, 2013, Hydro was issued an order approving an overall average rate increase of approximately 3.00% in electricity rates.

Newfoundland and Labrador Hydro (Consolidated)

Balance Sheet	CGAAP	CGAAP	CGAAP		CGAAP	CGAAP	CGAAP
(CA$ millions)	**Dec. 31**	**Dec. 31**	**Dec. 31**		**Dec. 31**	**Dec. 31**	**Dec. 31**
Assets	**2012**	**2011**	**2010**	**Liabilities & Equity**	**2012**	**2011**	**2010**
Cash & equivalents	12	25	65	S.T. borrowings	52	0	0
Accounts receivable	102	96	81	Accounts payable	92	150	123
Inventories	62	64	63	Current portion L.T.D.	8	8	8
Regulatory assets	2	3	4	Regulatory liabilities	169	138	119
Prepaid expenses & other	4	3	5	Other current liab.	2	4	29
Total Current Assets	**183**	**191**	**217**	**Total Current Liab.**	**324**	**299**	**279**
Net fixed assets	1,806	1,761	1,722	Long-term debt	1,126	1,132	1,137
Sinking funds	263	247	208	Provisions	94	83	69
Regulatory assets	63	64	66	Regulatory liabilities	33	33	41
Investments & others	52	47	65	Other L.T. liab.	3	6	30
				Shareholders' equity	787	756	723
Total Assets	**2,366**	**2,310**	**2,279**	**Total Liab. & SE**	**2,366**	**2,310**	**2,279**

Consolidated	CGAAP	CGAAP	CGAAP	CGAAP	CGAAP
Balance Sheet &		**For the year ended Dec. 31**			
Liquidity & Capital Ratios	**2012**	**2011**	**2010**	**2009**	**2008**
Current ratio	0.56	0.64	0.78	0.87	0.53
Total debt in capital structure (1)	46.8%	47.1%	50.1%	52.5%	60.9%
Cash flow/Total debt (1)	14.7%	16.9%	15.1%	12.2%	12.3%
(Cash flow-dividends)/Capex (times)	0.98	0.83	0.75	1.34	1.61
Dividend payout ratio	44.4%	87.1%	109.1%	66.5%	0.0%
Coverage Ratios (times)					
EBIT interest coverage	1.67	1.86	1.91	1.64	1.70
EBITDA interest coverage	2.33	2.47	2.53	2.23	2.23
Fixed-charges coverage	1.72	1.97	1.91	1.72	1.82
Operating Efficiency					
Power purchases/ revenues	10.4%	9.0%	7.7%	8.3%	7.2%
Fuel costs/ revenues	31.1%	26.5%	24.2%	27.4%	28.8%
Profitability Ratios					
EBITDA margin	53.9%	56.1%	58.7%	56.4%	61.2%
EBIT margin	38.5%	42.2%	44.4%	41.4%	46.7%
Profit margin	17.4%	22.5%	21.5%	18.4%	25.2%
Return on equity	9.4%	12.7%	12.1%	10.4%	14.8%
Return on capital	8.3%	9.7%	9.4%	8.3%	9.1%

(1) Debt is net of sinking fund assets.

Operating Statistics	For the year ended December 31				
Electricity Sold – Breakdown	**2012**	**2011**	**2010**	**2009**	**2008**
Utilities (Newfoundland Power)	5,359	5,317	5,016	5,108	4,960
Rural	998	949	884	931	909
Industrial	607	491	729	576	1,124
Exports	1,559	1,594	1,457	1,575	1,393
Total (GWh sold)	8,523	8,351	8,086	8,190	8,386
Energy sales growth	2.1%	3.3%	-1.3%	-2.3%	-1.4%
Generating Capacity (MW)					
Hydroelectric	939	939	939	939	939
Thermal (Oil)	617	632	640	640	640
Diesel	52	55	58	58	56
Installed capacity (MW)	1,608	1,626	1,637	1,637	1,635
Electricity Generated (GWh) – hydroelectric	4,595	4,512	4,274	4,200	4,772
Electricity Generated (GWh) – thermal	851	873	792	930	1,071
Electricity Generated (GWh) – diesel	46	47	43	46	47
Gross energy generated – GWh	5,492	5,432	5,109	5,176	5,890
Plus: purchases	3,395	3,305	3,339	3,330	2,852
Energy generated + purchased	8,887	8,737	8,448	8,506	8,742
Less: transmission losses + internal use	364	386	362	316	332
Total – GWh sold	8,523	8,351	8,086	8,190	8,410
Energy lost/energy gen + purch.	4.1%	4.4%	4.3%	3.7%	3.8%
Maximum Island Interconnected peak demand	1,385	1,399	1,305	1,390	1,323
Peak Island Interconnected demand/available capacity	86.1%	86.0%	79.7%	84.9%	80.9%

Rating

Debt	Rating	Trend
Guaranteed Short-Term Debt (bsd. on Prov. Nfld)	R-1 (low)	Stable
Guaranteed Long-Term Debt (bsd. on Prov. Nfld)	A	Stable

Rating History

	Current	2012	2011	2010	2009	2008
Guaranteed Short-Term Debt	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)
Guaranteed Long-Term Debt	A	A	A	A	A	A

Note:
All figures are in Canadian dollars unless otherwise noted.

DBRS

Insight beyond the rating.

Rating Report

Report Date:
August 10, 2012

Previous Report:
July 26, 2011

Province of Newfoundland and Labrador

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The Province

Newfoundland and Labrador is the eastern-most province in Canada. It is heavily reliant on natural resources, particularly oil and the mining sector. With nominal GDP of $33 billion in 2011, Newfoundland and Labrador ranks ninth among Canadian Provinces both by population and size of economy.

Recent Actions

July 26, 2011
Confirmed

Rating

Debt	Rating	Rating Action	Trend
Short-Term Debt*	R-1 (low)	Confirmed	Stable
Long-Term Debt*	A	Confirmed	Stable

* Issued/guaranteed by the Province, including Newfoundland and Labrador Hydro and Newfoundland and Labrador Municipal financing Corporation.

Rating Update

DBRS has confirmed the long- and short-term debt ratings of the Province of Newfoundland and Labrador (Newfoundland or the Province) at "A" and R-1 (low), respectively. The trend on both ratings is Stable. The Province's fiscal position is slightly improved since the last rating update. However, weakening federal transfers, as the Province will no longer accrue revenue associated with the Atlantic Accord, and lower-than-budgeted oil prices could pressure fiscal flexibility in the short term. Development of the lower Churchill River hydroelectric project in Labrador (the Lower Churchill Project) presents more of a balanced risk to the Province's credit profile as it could increase debt levels, materially so in the case of cost overruns, but also presents opportunities over the longer term.

For the fiscal year ending March 31, 2012, the Province recorded a surplus of $776 million based on preliminary results, or a $361 million surplus on a DBRS-adjusted basis after recognizing capital expenditures as incurred rather than as amortized; this represents a substantial improvement over the $459 million DBRS-adjusted deficit that had been expected. The better-than-expected fiscal performance was the result of both oil prices and production levels being higher than projected.

A DBRS-adjusted deficit of $691 million, or 2.0% of GDP, is forecast for the current fiscal year as federal transfers related to the Atlantic Accord have come to an end and oil production is expected to be down year-over-year. DBRS notes that the price of Brent crude has been significantly below the budget assumption of US$124.12/barrel for much of the current year. Unless oil prices recover sharply, this represents a significant downside risk to fiscal projections. DBRS estimates that the DBRS-adjusted deficit could climb to over $1 billion under current oil prices. (Continued on page 2.)

Rating Considerations

Strengths

(1) Demonstrated fiscal discipline
(2) Strong liquidity position
(3) Manageable debt burden and prudent debt profile
(4) Significant energy resources
(5) Competitive personal income tax structure

Challenges

(1) Reliance on volatile non-renewable resource sector
(2) Economic diversification and weak demographics
(3) Significant unfunded pension liability
(4) Potential financing needs of the Lower Churchill Project

Financial Information

	For the Year ended March 31				
(all financial figures DBRS adjusted)	2012-13B	2011-12P	2010-11	2009-10	2008-09
Debt ($ millions)	9,102	8,990	9,019	8,971	9,058
Debt/GDP	27.0%	27.2%	32.0%	36.2%	29.4%
Surplus (deficit) ($ millions)	(691)	361	92	(255)	2,234
Surplus (deficit)/GDP	(2.0%)	1.1%	0.3%	(1.0%)	7.3%
Interest costs/total revenues	10.1%	8.7%	9.7%	11.6%	8.1%
Federal transfers/total revenues	13.9%	18.8%	21.8%	21.3%	29.8%
Nominal GDP ($ millions)*	33,769	33,026	28,192	24,762	30,785
Real GDP growth*	0.1%	4.3%	6.1%	-9.0%	-0.4%
Unemployment rate*	12.3%	12.7%	14.4%	15.5%	13.2%

Source: Province of Newfoundland and Labrador, Statistics Canada, DBRS calculations. B=Budget. P=Projected.
*Data as of December 31.

Rating Update (Continued from page 1.)

The Province is projecting another year in the red for 2013-14, with an as-reported deficit of $433 million expected (approximately $850 million DBRS-adjusted, given historical capital expenditure), as resource revenues continue to decline on falling production levels at mature offshore fields. The expected deficits are manageable, in light of the Province's credit profile. Anticipated growth in non-resource revenue has allowed for a small as-reported surplus of $44 million (or an approximately $400 million DBRS-adjusted deficit) to be planned for 2014-15. In order to meet this target, spending restraint will be necessary as program expenditure growth averaging more than 8% over the last five years is incompatible with declining revenue. However, as with all of the Province's fiscal forecasts, volatility in oil prices and production levels lend a degree of uncertainty to anticipated results.

Newfoundland continues to post robust economic indicators. Real GDP growth in 2011 is estimated by the Province at 4.3%, although preliminary information from Statistics Canada suggests growth may have been slower at 2.8%. Employment was up by 2.7%, which pushed unemployment down to 12.7%, a 36-year low. Average weekly wages in Newfoundland were the third highest in the country in 2011, and above the national average for the first time. Major capital projects related to resource development drove economic results. Real GDP in 2012 is expected by the Province to increase by only 0.1% due to falling production levels at offshore oil fields. The average of private sector forecasts tracked by DBRS predicts 1.8% real growth. In the absence of a rebound, oil prices that have tracked below the budget assumption of US$124.12 may dampen nominal GDP numbers.

The Province's debt-to-GDP ratio stood at 27.2% as of March 31, 2012, down from 32.0% the previous year and at the low end of the spectrum for the rating category. DBRS estimates that debt-to-GDP will stand at 27.0% on March 31, 2013. The Province does not intend to issue debt in the current year as cash on hand is sufficient to fund the expected deficit and would remain so even in the event of a large fiscal deterioration caused by low oil prices. However, as has been the case for a number of years, rising unfunded pension liabilities will offset maturing debt, keeping total debt stable. Uncertainty remains with regard to the Province's plan to develop the hydro potential of the lower Churchill River. Depending on the financing structure used and the level of recourse to provincial taxpayers, the rating could be materially affected, especially in the case of significant cost overruns. The Province has indicated that a final decision on the project will be made before the end of 2012.

Rating Considerations Details

Strengths

(1) Newfoundland has posted DBRS-adjusted surpluses in six of the last seven years, with a cumulative surplus since 2005-06 of $4.1 billion. Higher-than-expected oil prices and production levels get much of the credit for this performance but prudent fiscal management has also played a role. Spending has grown notably but has not outstripped revenue growth, and the Province has resisted the temptation to allocate unexpected surpluses to new spending. For example, one-third of the unplanned 2011-12 surplus was applied to the Province's significant pension shortfall, with the remainder retained to help offset financing needs of anticipated future deficits.

(2) A sizeable liquidity position is maintained by the provincial treasury, with cash and cash equivalents estimated by DBRS at $2.0 billion as of March 31, 2012. When combined with modest maturities over the next five years and a declining capital program, this cash position will limit future borrowing needs.

(3) Debt levels have remained relatively stable since 2006-07 as the repayment of maturing debt has offset increasing unfunded pension liabilities. Robust nominal GDP growth of 27% over this period has pushed the debt-to-GDP ratio to 27.2% as of March 31, 2012. DBRS estimates that debt-to-GDP will stand at 27.0% on March 31, 2013. This represents a low debt burden relative to the rating. Fixed-rate and foreign currency exposures are managed at prudent levels.

(4) Development of the Province's substantial offshore oil resources has had a dramatic impact on the economy and Newfoundland is now consistently one of the top-performing provinces on many economic indicators. Output at three projects currently in production – Hibernia, Terra Nova and White Rose – has peaked as these oil fields enter the mature years of their lifecycle. However, construction of the production platform for Hebron, the second-largest discovery to date after Hibernia, is currently underway, with first oil expected in 2017. Over the longer term, there remains the potential for further discoveries as much of the Province's seabed has yet to be explored.

(5) Newfoundland maintains a competitive personal income tax structure in comparison with its Atlantic peers. With the Province experiencing robust employment growth and challenging demographics, a competitive tax system should support labour retention and assist efforts to attract and repatriate highly skilled workers.

Challenges

(1) The Province's economic and fiscal results are heavily dependent on the oil industry, with approximately 33% of revenues in 2011-12 coming from petroleum royalties. This does not take into account the significant other fiscal revenues that are directly or indirectly derived from the industry. Such dependence complicates the budgeting process as a large proportion of revenue is subject to volatile oil prices and production levels that may be affected by a number of unpredictable factors. DBRS notes that, since the beginning of the fiscal year, Brent crude prices have averaged below the US$124.12 assumption in the current budget. In the absence of a rebound, this presents a significant downside risk to 2012-13 fiscal projections.

(2) While resource-based industries have injected vitality into the economy, a lack of economic diversification stands as perhaps the greatest impediment to ratings improvement. The majority of economic activity associated with the offshore is located in the St. John's area, with unemployment in rural areas remaining high. On a province-wide basis, the unemployment rate, while much reduced over the last ten years and currently at a 36-year low, remains the highest in Canada and substantially above the rate for Canada as a whole. Given the finite nature of offshore resources, diversification will be required to avoid fiscal and economic hardship when petroleum reserves reach their inevitable end. The Province also faces demographic challenges with one of the highest dependency ratios in the country and the associated negative consequences for future health-care costs.

(3) Unfunded pension liabilities remain sizeable at $3.1 billion in 2011-12 and are expected to grow to $3.4 billion in 2012-13. Despite some prudent payments related to the Atlantic Accord and surplus funds that have been applied to the pension deficit, these obligations continue to place a burden on the Province's finances and represent a significant part of the DBRS-adjusted debt burden.

(4) It is not yet clear how the Province intends to finance its portion of the estimated $4.4 billion construction cost of the Muskrat Falls hydroelectric facility and associated transmission lines to the island.. While DBRS is of the view that the long-term benefits of the Lower Churchill Project are substantial, the Province's rating could come under stress in the short to medium term, depending on the financing structure used and the extent of any cost overruns.

Province of Newfoundland and Labrador

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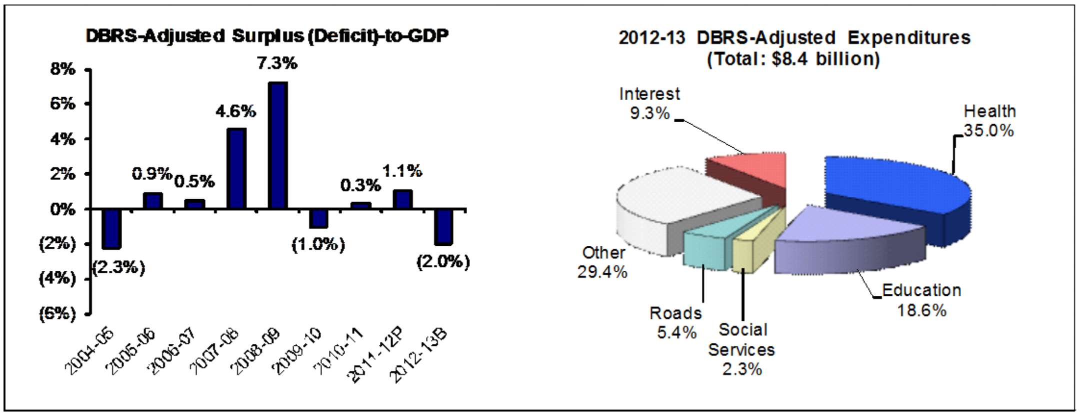
2012-13 Budget



An as-reported deficit of $258 million, which translates into a $691 million deficit in DBRS-adjusted terms, is expected in 2012-13. Federal government transfers will drop by over $500 million in 2012-13 as the Province will no longer accrue revenue related to the Atlantic Accord. In addition to this hit to revenue, production at both Terra Nova and White Rose will be shut down for planned maintenance periods of 21 weeks and 18 weeks, respectively, and the maturing Hibernia field is expected to produce 4.5 million fewer barrels than the previous year. Total production across all oil projects is expected to be 76.1 million barrels, down approximately 20% from the previous year. Taken together, lower federal transfers and lower petroleum royalties would result in a year-over-year loss in revenue of approximately $1.1 billion, assuming oil prices remained at forecast levels.

In recognition of the fiscal challenge presented by this loss in revenue, the Province will attempt to slow the vigorous rate of expenditure growth that has characterized recent years. While Newfoundland has usually met, or come close to meeting, its expenditure estimates over the last five years, the annual increase during this period has averaged over 8%. The current budget calls for expenditure growth of 2.2% on a DBRS-adjusted basis, factoring in capital expenditure. In light of recent experience, restraining expenditure growth to this level will be a test of the Province's fiscal discipline.

A deficit of $433 million on an as-reported basis is now projected for 2013-14, with a small as-reported surplus of $44 million planned in 2014-15 as own-source revenues grow to a level sufficient to offset lost federal funding. Based on historical levels of capital expenditure, DBRS-adjusted deficits of $850 million and $400 million are estimated for 2013-14 and 2014-15, respectively. In order to achieve these goals, expenditure growth is budgeted at 2% in 2013-14 and 1% in 2014-15. DBRS considers these targets ambitious.

Outlook

Perhaps the most important number in the Province's budget is the assumption for the average price of oil over the upcoming year. A $1.00 change in price results in an approximate $25 million change in revenue. Brent North Sea crude is the relevant benchmark for Newfoundland crude and an outside consultant is retained to provide an estimate of the expected price over the year. The average price used in formulating the 2012-13 budget was US$124.12 per barrel. Through the first four months of the fiscal year, the average price has been US$106.55. We estimate that the DBRS-adjusted deficit for 2012-13 could climb to over $1 billion if the average price remains at this level for the remainder of the year. Although the Province has not published its oil price assumptions for 2013-14 and 2014-15, below-forecast prices would likely necessitate a revised fiscal plan and a reexamination of spending plans.

The Province recognizes that volatile oil prices and declining production represent a fiscal challenge. To this end, a process of program review referred to as core mandate analysis has been initiated with a goal of reducing expenditure. A number of departments have already been consolidated in an effort to find savings. Reductions in travel expenses have been adopted and attrition management will be implemented in the public service. The results of these efforts will not be clear until the next budget.

Despite gyrations in crude prices, production may be ahead of forecasts. Planned maintenance of the White Rose production vessel is ahead of schedule and the field may resume production two to three weeks earlier than anticipated. The 21-week shutdown of Terra Nova is proceeding on schedule.

Twenty-eight of the Province's bargaining units, including teachers, nurses and public servants, are currently without a collective agreement and negotiations are underway with a number of the largest unions. Given the contradiction between the prevailing buoyant economic mood and the challenging fiscal realities that may materialize, DBRS expects negotiations to be difficult.

2011-12 Preliminary Results

Preliminary results for the year ended March 31, 2012, indicate that the Province finished the year with a $776 million surplus, or $361 million on a DBRS-adjusted basis. This is a substantial improvement over the $59 million as-reported surplus ($459 million DBRS-adjusted deficit) that had been estimated at the time of the 2011-12 budget. Personal income tax and harmonized sales tax collections were higher than expected, reflecting strength in employment, income and consumer confidence. However, as is often the case when fiscal results beat original estimates, higher-than-forecast oil prices and production of 15.7 million more barrels of oil than had been expected drove the upside deviation with offshore royalties coming in over $600 million above budget.

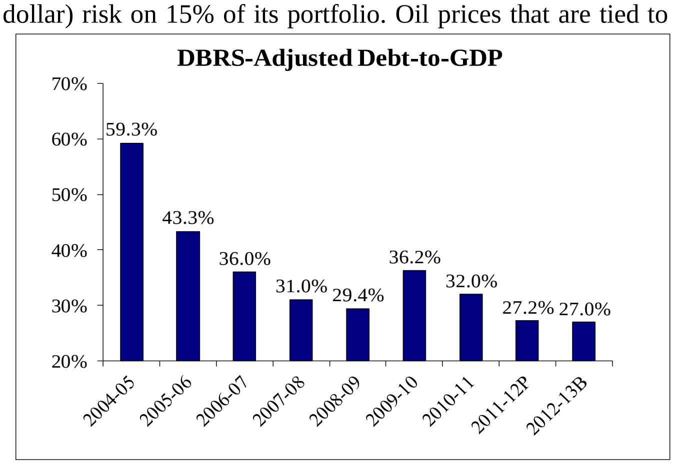
Program expenses again met budget expectations this year. With a much higher-than-anticipated surplus, the ability to hold spending close to budget indicates disciplined fiscal management and expenditure control.

As in prior years and per an election commitment, one-third of the surplus was directed toward the Province's unfunded pension liabilities. The balance was retained as cash on hand and will be used to reduce financing needs for anticipated deficits in 2012-13 and 2013-14.

Debt Profile

Based on preliminary estimates, DBRS-adjusted debt (total tax supported debt plus unfunded pension liabilities) remained relatively stable in 2011-12 at $9.0 billion. Maturing debt retired with cash on hand amounted to approximately $326 million but was almost perfectly offset by an increase in unfunded pension liabilities despite the application of surplus funds.

The Province has not incurred any new net debt since 2007. This is a notable accomplishment, especially in light of the fiscal pressure felt by all provinces in the wake of the 2009 recession. However, despite the paying down of market debt, the DBRS-adjusted debt burden has remained constant at around $9.0 billion as unfunded pension liabilities continue to grow, standing at $3.1 billion as of March 31, 2012, up $431 million from the previous year and projected to increase to $3.4 billion by the end of the current fiscal year. A reduction in the discount rate during 2011-12 exacerbated the problem. The Province recognizes that this is a challenge and has taken some measures to mitigate the liability, including application of a portion of the 2011-12 surplus. The Province maintains a prudent maturity profile and is exposed to foreign currency (U.S. dollar) risk on 15% of its portfolio. Oil prices that are tied to the U.S. dollar provide a natural hedge to this exposure. When combined with the growth in nominal GDP, the relatively stable debt level has allowed the DBRS-adjusted debt-to-GDP ratio to decline to 27.2%, a drastic improvement from ratios of over 80% seen in the 1990s.



Newfoundland retains a significant liquidity cushion of cash on hand, estimated by DBRS to stand at $2.0 billion as of March 31, 2012. This provides material support to the rating as this amount is sufficient to repay all commercial paper outstanding and all term maturities until approximately 2018.

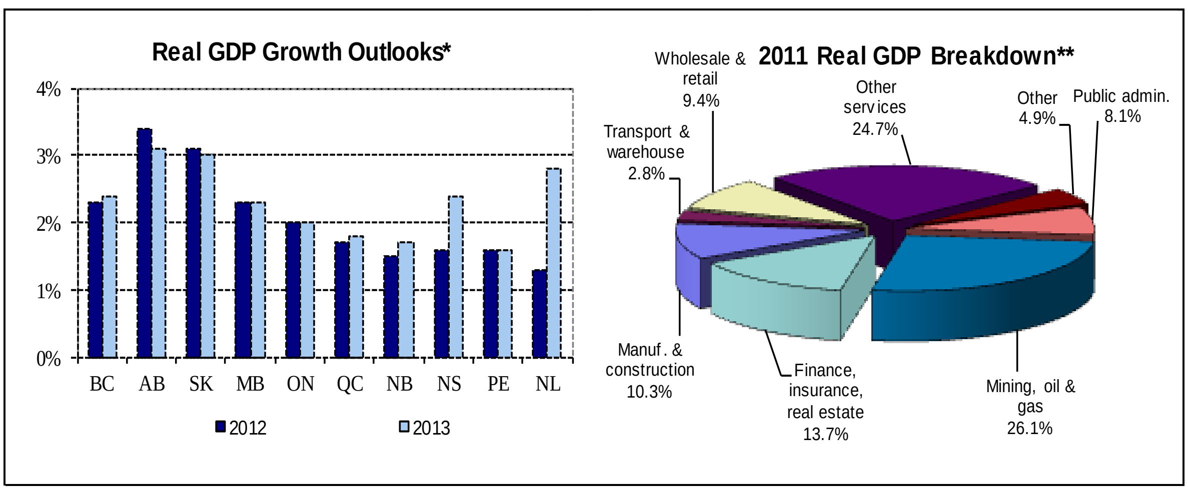
Outlook

No new debt is anticipated; debt maturing in 2012-13 is expected to be repaid with cash on hand. DBRS estimates that debt-to-GDP will stand at 27.0% on March 31, 2013. However, the financing of the Lower Churchill Project continues to weigh on the financial outlook. Depending on the financing structure selected and the extent of any potential cost overruns, the financing of project may result in debt needs that could have a negative impact on the rating.

High cash balances have been maintained for a number of years. DBRS expects that balances will be used to fund anticipated deficits and a portion of the Province's share of the Lower Churchill Project. DBRS notes that, in the event that oil prices remain at or below their current level and a DBRS-adjusted deficit of over $1 billion is recorded for 2012-13, cash on hand is sufficient to fund a deficit of this magnitude without resorting to debt issuance.

A long-term goal of lowering net debt per capita to the Canadian provincial average over ten years was introduced in the 2012-13 budget. The Province calculates net debt per capita to be just over $16,000 as of 2012-13 and cites a provincial average of approximately $14,000. This is a laudable goal and a credible one, given the recent track record of paying off debt. However, success on this front will very much depend on the fortunes of the petroleum sector, and in particular the long-run price of oil.

Economy



*Based on the major Canadian banks' forecasts at the time of this report. **Statistics Canada

Newfoundland continues to lead the country on a number of economic indicators. Real GDP growth in 2011 is estimated by the Province at 4.3%, the highest in the country, although preliminary information from Statistics Canada suggest growth may have been more modest at 2.8%. As has been the case in recent years, growth was fueled by capital investment, up by 21.9% year-over-year, as spending on major projects in the resource sector and government-funded infrastructure remained strong. Employment was up by 2.7%, the second highest growth rate in the country after Alberta, which pushed unemployment down to 12.7%, a 36-year low. The strength in the labour market has been reflected in rising wages. For 2011, average weekly wages in Newfoundland were the third highest in the country and above the national average for the first time. Solid employment and income growth buoyed consumer confidence, with retail sales up 5.1%.

Residential construction moderated after a number of strong years but non-residential expenditure was up by 38%, led by a number of large projects in the resource sector. The value of mineral shipments rose by 22% to a record high on account of both higher production levels and strong commodity prices. However, oil output decreased to 97.3 million barrels from 100.7 million in 2010 as unexpected shut ins at Terra Nova weighed on production.

Outlook

Real GDP in 2012 is forecast by the Province to increase by only 0.1%. Total oil production is expected to decline by approximately 20% to 76.6 million barrels due to declines at mature fields and planned maintenance shutdowns at Terra Nova and White Rose. The average of private sector forecasts tracked by DBRS predicts 1.8% real growth. However, in the absence of a rebound, oil prices that have tracked well below the calendar-year assumption of US$123.45 may further dampen nominal GDP numbers.

Notwithstanding GDP results, other economic indicators are expected to show continued robustness in 2012. Construction of the production platform for Hebron will be in full swing and will help push capital investment up by 30% from an already strong 2011. Non-residential construction is expected to be up by 41%, driven by peak activity at the Vale S.A. project in Long Harbour. Mineral shipments are expected to jump as expansions at Labrador mine sites come online. The Province is predicting another strong year in labour markets and is forecasting employment growth of 1.8%, pushing the unemployment rate down to 12.3% with both personal income and disposable income forecast to grow by 5.4%.

The $6.2 billion Lower Churchill Project will soon begin to have an economic impact, with its five-year construction phase currently scheduled to ramp up in 2012. In spite of any potential pressure that debt incurred to finance the project could have on the rating, the development should be of economic benefit as the ability to sell hydroelectric power into the Atlantic provinces and New England could diversity the Province's economy and revenue base. Furthermore, with both Terra Nova and White Rose expected to be depleted by 2020, the entry of Hebron into production, expected in 2017, will ameliorate declines in oil output.

Through the 1990s and early 2000s, the Province experienced 16 straight years of population decline, with the population falling from a peak of 580,000 to a recent low of 506,000 in 2008. The strength of the economy allowed this trend to reverse in 2009 when population growth resumed. Recently released information complied by Statistic Canada from 2011 census data shows a population increase of 1.8% between census counts in 2006 and 2011, with the total census count climbing from 505,469 to 514,536 over the period. It is expected that this will result in revised official population estimates as quarterly population estimates over the last five years appear to have underestimated growth. The Province predicts population growth of 0.5% in 2012 and 2013.

Province of Newfoundland and Labrador

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Province of Newfoundland and Labrador

For the year ended December 31

Economic Statistics	2013P	2012P	2011P	2010	2009	2008	2007
Nominal GDP ($ millions)	34,859	33,769	33,026	28,192	24,762	30,785	29,249
Nominal GDP growth	3.2%	2.2%	17.1%	13.9%	(19.6%)	5.3%	12.2%
Real GDP growth	4.1%	0.1%	4.3%	6.1%	(9.0%)	(0.4%)	9.2%
Population (thousands)	515.6	513.0	510.6	511.3	508.9	506.4	506.4
Population growth	0.5%	0.5%	(0.1%)	0.5%	0.5%	0.0%	0.2%
Employment (thousands) (annual average)	233.4	229.4	225.4	219.4	212.3	218.7	216.5
Unemployment rate	11.8%	12.3%	12.7%	14.4%	15.5%	13.2%	13.5%
Housing starts	3,363	3,371	3,488	3,606	3,057	3,261	2,649
Retail sales ($ millions)	8,650	8,146	7,830	7,451	7,120	7,009	6,528
Inflation rate (CPI)	2.1%	2.1%	3.4%	2.4%	0.3%	2.9%	1.5%
Personal income per capita	39,696	37,940	36,171	33,976	32,871	30,922	31,181

Source: Statistics Canada (actuals). Province of Newfoundland and Labrador, CMHC & DBRS (projections). P = Projected.

Budget Summary	Budget	Projected	Budget			
($ millions)	2012-13	2011-12	2011-12	2010-11	2009-10	2008-09
Revenue (DBRS adjusted)	7,662	8,534	7,848	8,084	7,246	8,585
Program expenditure (DBRS adjusted)	(7,576)	(7,431)	(7,551)	(7,208)	(6,662)	(5,653)
Program surplus (deficit)	86	1,103	297	876	584	2,931
Net interest charges	(777)	(742)	(756)	(784)	(839)	(697)
DBRS-Adjusted Surplus (Deficit)	(691)	361	(459)	92	(255)	2,234
Add: adjustment for GBEs	-	-	-	-	-	-
Add: adjustment for capital expenditures	433	416	518	506	223	117
Add: non-recurring revenues (expenditures)	-	-	-	-	-	-
Surplus (deficit), as reported	(258)	777	59	598	(33)	2,350
DBRS-Adjusted Debt Burden	9,102	8,990	9,149	9,019	8,971	9,058
Gross provincial cash requirements	(1,320)	411	769	959	1,371	(666)
Gross capital expenditure	1,576	738	1,418	495	685	788

Selected Financial Indicators (DBRS-adjusted)						
Debt as % of GDP	27.0%	27.2%	28.2%	32.0%	36.2%	29.4%
Accrual surplus (deficit) as % of GDP	(2.0%)	1.1%	(1.4%)	0.3%	(1.0%)	7.3%
Net interest charges as % of revenue	10.1%	8.7%	9.6%	9.7%	11.6%	8.1%
Total tax revenue as % of revenue	39.1%	32.2%	33.7%	33.0%	34.7%	29.8%
Federal transfers as % of revenue	13.9%	18.8%	21.4%	21.8%	21.3%	29.8%
Total expenditure/total revenue	109.0%	95.8%	105.8%	98.9%	103.5%	74.0%
Health spending as % of total expenditures	35.0%	35.0%	34.1%	33.3%	34.9%	37.0%
Total revenue growth	(10.2%)	8.7%	(2.9%)	11.6%	(15.6%)	21.1%
Program expenditure growth	2.0%	(1.6%)	4.8%	8.2%	17.8%	11.8%
Total expenditure growth	2.2%	2.3%	3.9%	6.6%	18.1%	10.4%

Political Background Information

Party in Power:	Progressive Conservative	Number of Seats:	37 of 48
Premier:	Kathy Dunderdale	Election required by:	October 2015

Province of Newfoundland and Labrador

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August 10, 2012

Province of Newfoundland and Labrador

Revenues	Budget	Projected	Budget			
($ millions)	2012-13	2011-12	2011-12	2010-11	2009-10	2008-09
Personal income tax	949	939	862	887	817	900
Retail sales tax	836	859	829	800	704	758
Gasoline tax	174	168	174	169	155	150
Corporate income tax	763	509	506	533	595	520
Payroll tax	83	79	71	70	64	62
Tobacco tax	136	136	135	135	123	112
Other	58	56	68	71	57	61
Total Taxes	3,000	2,747	2,645	2,664	2,516	2,562
Mining and offshore royalties	2,555	3,123	2,555	2,628	2,206	2,456
Liquor profits	140	138	138	132	130	123
Vehicle drivers' licences	69	69	69	69	70	67
Other fees and fines	186	186	165	213	187	171
Interest income	102	86	66	33	26	63
Lottery revenues	109	109	101	110	108	107
Net income of Nfld. and Labrador Hydro (4)	107	128	81	78	61	82
Other revenues	331	345	346	394	396	396
Total Own-Source Revenue	6,599	6,931	6,166	6,321	5,700	6,027
Equalization and offsets (1)	-	536	536	642	465	1,710
Canada Health and Social Transfer	618	625	622	598	686	537
Other federal sources	445	442	524	524	394	311
Total Federal Government Transfers	1,063	1,603	1,683	1,763	1,545	2,558
Total DBRS-Adjusted Revenue	7,662	8,534	7,848	8,084	7,246	8,585
Other non-recurring income (4)	-	-	-	-	-	-
Total revenue, as reported	7,662	8,534	7,848	8,084	7,246	8,585
Expenditures						
Health	2,921	2,862	2,836	2,662	2,620	2,347
Education	1,554	1,486	1,541	1,400	1,452	1,304
Child youth and family services	196	172	182	152	2	-
Resources and trade	353	397	342	418	404	263
Transportation and works	447	472	456	466	435	422
General government	576	504	492	502	517	395
Public protection	239	238	240	222	221	209
Other	859	884	944	879	788	597
Net capital expenditures	433	416	518	506	223	117
DBRS-Adjusted Program Expenditures	7,576	7,431	7,551	7,208	6,662	5,653
Net interest charges (2)	777	742	756	784	839	697
DBRS-Adjusted Expenditures	8,353	8,173	8,307	7,993	7,501	6,351
DBRS adjustment (sinking fund earnings)	54	49	49	53	51	47
Adjustments for capital expenditures (3)	(433)	(416)	(518)	(506)	(223)	(117)
Total expenditures, as reported	7,974	7,806	7,838	7,539	7,329	6,282

(1) Includes the effect of the 1985 and 2005 Atlantic Accords. (2) Interest costs are net of sinking fund income.
(3) DBRS recognizes capital expenditures as incurred (pay-as-you-go basis) rather than as amortized.
(4) Hydro net income excludes one-time impact of accounting change for recognition of gains on sinking fund investments in prior years.

Province of Newfoundland and Labrador

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Province of Newfoundland and Labrador

Consolidated Balance Sheet

($ millions)	As at March 31				As at March 31		
Financial Assets	2011	2010	2009	**Liabilities**	2011	2010	2009
Cash and marketable securities	2,213	1,922	2,267	Treasury bills	494	494	493
Accounts receivable	1,058	898	766	Payables and accrued li	1,694	1,472	1,446
Loans and investments	354	280	274	Unfunded pens. liab.	2,667	2,177	1,704
Equity in gov't enterprises	1,343	1,244	1,132	Debt	5,420	5,723	6,115
Other	5	5	11	Employee benefits	1,909	1,768	1,630
Total Financial Assets	4,974	4,349	4,450	Other liabilities	919	935	1,030
				Total Liabilities	13,103	12,569	12,418
				Net Debt	(8,129)	(8,220)	(7,969)
				Total	4,974	4,349	4,450

Public Sector Debt

($ millions) As at March 31	2013B	2012P	2011	2010	2009	2008	2007	2006
Direct debt	6,001	6,028	6,354	6,653	7,212	7,289	7,307	7,070
Less: sinking funds	(1,169)	(1,097)	(1,083)	(994)	(995)	(846)	(1,073)	(988)
Net Direct Debt	4,833	4,930	5,270	5,659	6,217	6,443	6,234	6,082
Housing	23	24	26	25	24	25	30	37
Municipal	380	431	424	494	533	580	655	643
Other	507	507	633	616	579	569	542	557
Total other tax-supported debt	909	962	1,082	1,134	1,137	1,174	1,227	1,236
Total Tax-Supported Debt	5,742	5,892	6,353	6,793	7,354	7,617	7,461	7,318
Newfoundland and Labrador Hydro	1,314.9	1,319	1,322	1,225	1,225	1,425	1,425	1,400
Less: sinking funds	(496.2)	(481)	(467)	(443)	(427)	(406)	(381)	(363)
Net hydro debt (1)	819	838	855	782	798	1,020	1,044	1,038
Total public sector debt	6,561	6,730	7,208	7,576	8,152	8,637	8,504	8,356
Unfunded Pension Liabilities (2)	3,360	3,098	2,667	2,177	1,704	1,459	1,925	2,201
Per Capita ($)								
Tax-supported debt	11,193	11,540	12,424	13,349	14,521	15,042	14,760	14,227
Tax-supported debt + unfunded pension liab.	17,742	17,607	17,640	17,627	17,887	17,923	18,568	18,506
As a % of GDP								
Tax-supported debt	17.0%	17.8%	22.5%	27.4%	23.9%	26.0%	28.6%	33.3%
Tax-supported debt & unf. pension liab.	27.0%	27.2%	32.0%	36.2%	29.4%	31.0%	36.0%	43.3%
Direct Debt Breakdown by Currency (3)								
CAD pay	84.5%	84.6%	85.3%	85.5%	83.1%	86.6%	83.7%	82.7%
Non-CAD pay	15.5%	15.4%	14.7%	14.5%	16.9%	13.4%	16.3%	17.3%
Direct Debt Breakdown by Interest Rate Type (3) (4)								
Fixed Rate	91.3%	87.8%	88.4%	88.9%	89.1%	90.3%	92.4%	91.2%
Floating Rate	8.7%	12.2%	11.6%	11.1%	10.9%	9.7%	7.6%	8.8%
Interest Burden (Interest Charges/Total Revenue)								
Accrual basis	10.1%	8.7%	9.7%	11.6%	8.1%	9.8%	13.1%	16.2%

Gross Market Debt Maturity Profile (5)

As at March 31, 2011	2012-13	2013-14	2014-15	2015-16	2016-17	2018-22	2023+	Total
Direct provincial debt ($ millions)	523	82	450	271	-	929	3,773	6,028
- % of total	8.7%	1.4%	7.5%	4.5%	0.0%	15.4%	62.6%	100.0%

(1) Guaranteed by the Province.
(2) Includes unamortized experience gains and losses.
(3) Including hedges (if any).
(4) Floating rate debt is defined as debt that matures or is repriced within 12 months.
(5) Does not include all debt.
P = Projected. B = Budget.

Province of Newfoundland and Labrador

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Rating

Debt	Rating	Rating Action	Trend
Short-Term Debt*	R-1 (low)	Confirmed	Stable
Long-Term*	A	Confirmed	Stable

* Issued/guaranteed by the Province, including Newfoundland and Labrador Hydro and Newfoundland and Labrador Municipal Finance Corporation.

Rating History

	Current	2011	2010	2009	2008	2007
Short-Term Debt	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)
Long-Term Debt	A	A	A	A	A	A (low)

Related Research

- 2012 Provincial Government Fact Sheet, August 10, 2012.

Note:
All figures are in Canadian dollars unless otherwise noted.

Moody's INVESTORS SERVICE

Announcement: Moody's Issues Annual Report on the Province of Newfoundland and Labrador

Global Credit Research - 22 Jul 2013

Toronto, July 22, 2013 -- Moody's Investors Service says in its annual credit report on Newfoundland and Labrador that the Aa2 debt rating with stable outlook assigned to the province reflects a favourable debt profile and low debt service which has enhanced the province's financial position. Moody's further notes that the rating also reflects an anticipated weaker medium-term financial performance as the province forecasts deficits through 2014-15.

Bolstered by strong offshore revenues which have allowed the province to record a series of consolidated surpluses, Moody's report indicates that the province's debt burden has improved considerably over the past decade. Net direct and indirect debt has fallen from 153.9% of revenues in March 2004 to an estimated 71.0% in March 2013. This level is the lowest among Moody's Aa2-rated Canadian provinces.

Offshore royalties also introduce volatility in the province's financial position, which is also reflected in the rating. "While clearly positive to the financial health of the province, the increase in offshore royalties corresponds to an increase in the variance from budget to actual performance", noted Michael Yake, Moody's Assistant Vice-President and lead analyst for the province. To balance this downside, the report highlights that the province's liquidity has also increased in recent years, equivalent to 44.9% of net debt in 2012. "From a debt repayment standpoint, having secured resources available to ensure timely debt repayment should planned revenues fail to materialize further strengthens the credit profile", added Mr. Yake.

The Aa2 rating also takes into consideration the province's unfunded pension liability. While the report notes that the pension liability has grown in recent years, it also highlights that the province is intending to undertake a review of its pension plans in conjunction with key stakeholders to ensure funding will be sustainable in the future.

Moody's report "Credit Analysis Newfoundland and Labrador" is a yearly update to the markets and does not constitute a rating action. The report is available at www.moodys.com.

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STANDARD & POOR'S

Standard & Poor's Research

Province of Newfoundland and Labrador

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Province of Newfoundland and Labrador

Major Rating Factors

Issuer Credit Rating
A+/Stable/A-1+

Strengths:

- Strong resource-based economy
- Positive financial management
- Low debt burden
- Very positive liquidity

Weaknesses:

- Moderating budgetary performance
- Risks related to the Lower Churchill project

Rationale

The ratings on the Province of Newfoundland and Labrador reflect Standard & Poor's Ratings Services' view of the province's strong economy, positive financial management, low debt burden, and very positive liquidity. Its moderating budgetary performance and risks related to the Lower Churchill hydroelectric project constrain the ratings, in our view.

Newfoundland's vibrant resource-based economy supports our assessment of the ratings. Its large and active offshore oil and mining sectors contribute strongly to its high wealth, with nominal GDP per capita of approximately C$50,000 (by our estimate). The province's resource industries, especially offshore oil, also pay large extraction royalties that have given it strong internal financing capacity to pay down debt, improve tax competitiveness and make strategic capital investments.

However, Newfoundland's resource production represents slightly more than 40% of GDP, leaving economic output subject to commodity price volatility and individual project operating risks. Provincial revenues are also sensitive to changes in resource production values, with royalties accounting for an estimated 40% of the province's adjusted operating revenues in fiscal 2012.

Nevertheless, under our base case scenario, we expect Newfoundland's economy to benefit from sustained high capital investment in the next two years, largely thanks to construction of the Hebron offshore oil project and Lower Churchill. We expect these to generate further steady improvement in employment that will support provincial taxation revenues.

Newfoundland's positive financial management under our criteria also supports the ratings. In our view, the province possesses several attributes that mitigate the potential downside effect of its high fiscal dependence on resource royalties. Chief among them are its accumulation of large cash balances, which are available as a potential fiscal stabilizer. The province has also chosen to allocate past operating surpluses primarily to non-recurring capital investments, as opposed to base budget increases. We expect its conservative management practices to continue in the next two years.

The province also has the third lowest debt burden among Canadian provinces. We estimate its tax-supported debt at about 75% of operating revenues in fiscal 2012 (year ended March 31), down from 180% in fiscal 2005. It has not issued debt in five years. However, we expect it to return to the debt markets in the next several years, although the timing and magnitude of its borrowing will depend on its cash flow generation, preferred minimum cash balances, and Lower Churchill's financing strategy.

We consider Newfoundland's moderating budgetary performance due to the end of 1985 Atlantic Accord payments and lower royalties to be a ratings constraint. Under our base case scenario, we expect the province's operating surplus to average approximately 4% of adjusted operating revenues from fiscal years 2013-2015, compared with an estimated average of 15% from fiscal 2010-2012. We also expect its after-capital account balance to swing to deficit, averaging approximately 8% of adjusted total revenues.

Newfoundland's potential funding requirements and contingent liabilities related to Lower Churchill also constrains the ratings. Although the decision to proceed with the project bodes well for the economy, it could expose the province to substantial construction risk and borrowing requirements in the next several years. We understand the province and its energy subsidiary, Nalcor Energy, will fund C$6.2 billion of the project's estimated construction costs, while Emera Inc. will fund C$1.2 billion. We also understand the project's financing strategy is not finalized, nor is the planned funding contribution, although the federal government has agreed to provide some form of loan guarantee.

Liquidity

Newfoundland's liquidity is very positive under our criteria. By our estimate, its free cash and liquid investments provide significant debt service coverage, exceeding the province's next twelve months' debt service by over three times. The province also maintains what we consider to be strong capital market access.

Outlook

The stable outlook reflects our view that Newfoundland's economy will continue to have elevated capital investment related major resource developments during our two-year rating horizon, supporting employment and provincial tax revenues. Under our base case scenario, we assume the province will need to make significant capital expenditures and investments that will lead to moderate after-capital deficits in the next two years. We expect this, along with the province's reduced internal financing capacity due to smaller operating surpluses, to require the province to draw on its liquidity and potentially issue new debt. However, we expect Newfoundland to keep free cash and liquid investments above 80% of the next 12 months' debt service, and tax-supported debt below 120% of operating revenues in the next two years.

We would raise the ratings if, all else being equal, we foresaw a material reduction in potential contingent liabilities, which we do not expect until after Lower Churchill's transition to operation, coupled with significantly reduced pension deficiencies and stronger-than-expected budgetary results. Conversely, we could lower the ratings if we came to expect sustained deterioration in economic prospects or liquidity, or greater major contingent liabilities associated with Lower Churchill. Currently, we have no visibility of such developments in either direction.

Peer Comparison

Newfoundland's immediate peer group comprises the Canadian provinces of Prince Edward Island (A/Stable/A-1), New Brunswick (A+/Stable/A-1+), Nova Scotia (A+/Stable/A-1+), and Quebec (A+/Stable/A-1+); and the Swiss canton of Geneva (AA-/Stable/--).

Newfoundland's economy compares well with its peer group in terms of average wealth and economic growth (see table 1), although we believe its reliance on offshore oil represents a large sector concentration and source of potential volatility. Its offshore oil and mining also generate significant provincial revenues through royalties, which have been a key driver behind its exemplary budget performance relative to peers. Of note, the province's three-year average operating and after-capital margins were the highest in the group. However, we believe its budgetary performance will decline closer to the middle of the peer group in the next two years.

Newfoundland's dependence on federal transfers is less than all peers expect Geneva. This primarily reflects the province's move off federal equalization in fiscal 2009, together with the end of its 1985 Atlantic Accord transfers in fiscal 2012.

Newfoundland has made great strides in reducing its debt burden in recent years. Its tax-supported debt as a share of operating revenues was the lowest in the peer group in fiscal 2012. We expect the province's debt to remain low relative to its peers in the next two years.

Table 1

Province of Newfoundland and Labrador--2012 Peer Comparison

	Newfoundland (Province Of)*	New Brunswick (Province Of)*	Nova Scotia (Province Of)*	Prince Edward Island (Province Of)*	Quebec (Province Of)*	Geneva (Republic And Canton Of)§
Issuer credit rating as of Nov. 29, 2012	A+/Stable/A-1+	A+/Stable/A-1+	A+/Stable/A-1+	A/Stable/A-1	A+/Stable/A-1+	AA-/Stable/--
	--Five-year averages (two years of actual data, current budget, and two years of Standard & Poor's forecast)--					
Operating balance (% of adjusted operating revenues)	13.9	(1.7)	(0.2)	(3.6)	4.1	3.18
Balance after capital accounts (% of adjusted total revenues)	1.1	(9.4)	(7.4)	(10.7)	(4.9)	(5.75)
	--Year ended Dec. 31, 2011--					
Total adjusted revenues	7,827.2	7,845.0	8,634.8	1,408.3	84,518.0	8,478.6
Modifiable revenues (% of adjusted operating revenues)	82.1	61.5	67.6	60.4	78.9	85.3
Capital expenditures (% of total adjusted expenditures)	10.9	9.8	6.8	11.9	9.7	9.4
Direct debt (at year-end)	4,930.2	8,472.0	12,708.4	2,036.0	159,434.0	12,074.0

Table 1

Province of Newfoundland and Labrador--2012 Peer Comparison (cont.)						
Direct debt (% of adjusted operating revenues)	63.0	111.8	148.0	144.6	188.6	145.7
Tax-supported debt (at year-end)	5,891.2	10,139.0	12,708.4	2,172.0	159,434.0	12,846.7
Tax-supported debt (% of operating revenues)	75.3	133.8	148.0	154.2	188.9	138.6
Interest (% of operating revenues)	4.9	8.5	9.8	7.4	11.2	3.9
Population	512,700	7,554,335	948,438	145,695	7,977,989	440,983
Unemployment rate (%)	12.7	9.5	8.8	11.3	7.8	N.A.
Nominal GDP per capita (unscaled)	50,000.0	40,734.4	39,912.8	33,023.0	41,861.2	100,221.6
Real GDP growth (%)	3.0	0.0	0.5	1.6	1.9	N.A.

*All figures for fiscal 2012 (estimate; year-ended March 31) except population, unemployment, and GDP, which are for 2011. §All figures for fiscal 2012 (estimate; year-ended March 31) except unemployment and GDP, which are for 2011; and population, which is for 2008.

Institutional Framework: Predictable And Well-Balanced

We view the Canadian federal-provincial intergovernmental system as being "well-balanced and predictable" under our criteria, because of its maturity and stability, moderate degree of mismatching of revenues and expenditures, high level of transparency and accountability, and strong likelihood of extraordinary support from the federal government.

The intergovernmental system is mature and has been stable in the long term. The Canadian constitution establishes the division of powers between the two levels. Historically, changes to the system have been evolutionary and gradual, due largely to the difficulty of amending the constitution. Of the three main federal transfer programs benefiting the provinces, one -- the equalization program -- is established in the constitution.

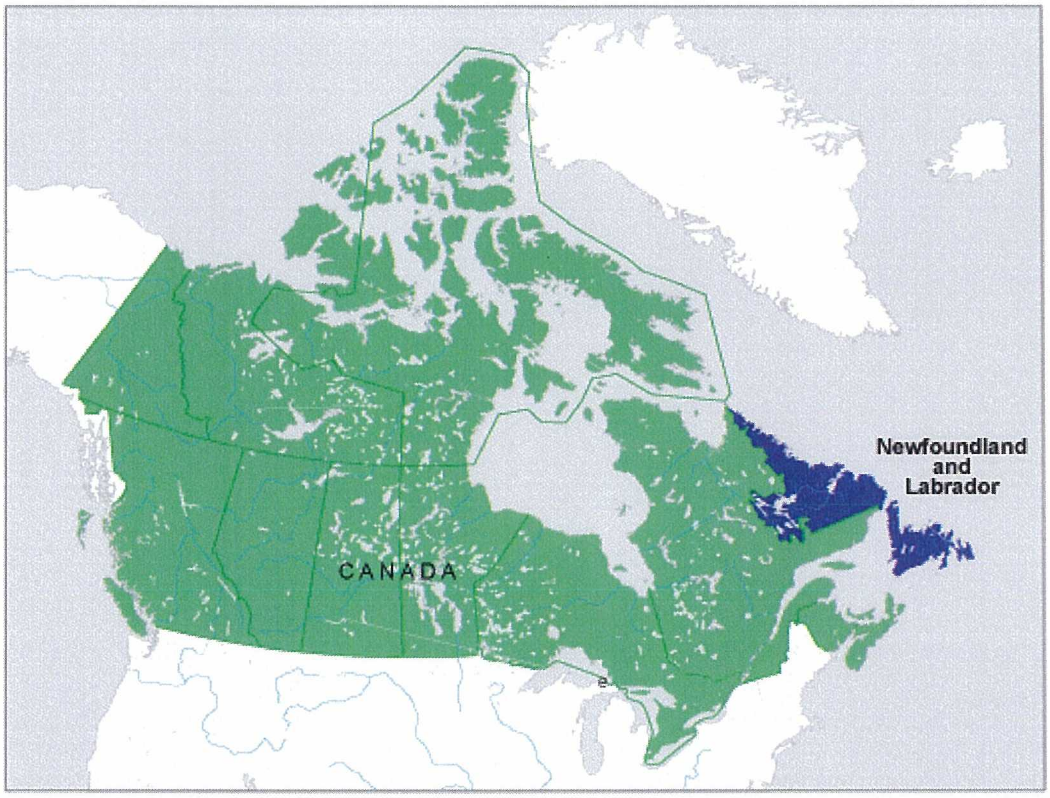
The provinces have direct control over the majority of their revenues except for federal transfers. The main own-source revenues are personal income, corporate income, and sales taxes. Despite the high degree of revenue autonomy, tax competitiveness factors constrain revenue-raising capability. On the expenditure side, the Canadian constitution mandates the provinces to deliver certain key services, in particular health and education. Health spending presently represents approximately 40% of provincial budgets, and will further limit expenditure flexibility as the Canadian population continues to age. The federal government does not impose financial control or regulatory systems.

Financial information is typically timely, accurate, and comprehensive. Although no national standards exist concerning disclosure, provincial financial administration statutes mandate certain requirements (such as budgets and public accounts). Strong national accounting standards exist for all governments based on accrual accounting.

The federal government has a substantial track record of extraordinary support for natural disaster recovery and infrastructure. The federal government can provide extraordinary support through its grant-making powers and significant financial resources.

Wealthy-But-Concentrated Economy

Newfoundland And Labrador (Province Of)



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Newfoundland (see map) is Canada's second-smallest province by population, with about 512,700 at July 31, 2012. While relatively small, it has an abundance of natural resources, including numerous offshore oil and gas deposits along its coastline (its eastern frontage is about equivalent to the U.S. Atlantic coastline). Well-developed mining and fishing industries further contribute to its large resource base, while public administration, ocean technology, and forestry sectors add modest diversification. Resource royalties, particularly related to offshore oil, have factored heavily into the province's revenue base in recent years.

High wealth versus that of peers

We estimate Newfoundland's nominal GDP per capita to be about C$50,000, which is high compared with that of its domestic and international peers. Our estimate of the province's nominal GDP excludes nonresident income on major resource projects, such as Voisey's Bay and Hibernia. We expect the direct and spin-off effects of major capital investments, including Hebron, Lower Churchill, and the province's capital budget, to generate moderate increases in

Newfoundland's nominal GDP per capita in the next two years.

High economic concentration in natural resources

Newfoundland's chief economic drivers are offshore oil and mining. Projects within these sectors require high capital investment and labor input during development, supporting domestic demand. During operations, offshore oil projects are less labor intensive than mining projects, but generate much larger provincial royalties.

In the past decade, proliferation of these sectors has proportionately overwhelmed Newfoundland's traditional fishing, forestry and public sector-oriented economy, leaving the province's total economic output concentrated. Offshore oil and mining make up approximately 30% and 9% of nominal GDP, respectively. Within these sectors, a relatively small number of mega projects dominate total production. Newfoundland has four producing oil fields (Hibernia, Terra Nova, White Rose, and North Amethyst), three iron ore producing mines (Iron Ore Co. of Canada, Wabush Mines, and Labrador Iron Mines Holdings Ltd.), the Vale nickel mine, and several smaller mining operations. As a result, commodity markets and individual project operating risks can materially impact aggregate production values, injecting volatility into the province's economic output and royalty revenues.

Nevertheless, we consider the prospects for the offshore oil and mining industry to be sound. We understand Hebron is on course to achieve first oil in 2017. Companies are also considering various expansions to existing projects that could provide operational diversification and mitigate the impact of natural production declines at existing wells. We also believe the industry's ongoing exploration, including a major hydrocarbon discovery (Mizzen) in the Flemish Pass, bodes well for the sector's long-term production potential.

GDP is likely to remain volatile

We expect a decline in oil production value to cause Newfoundland's real GDP to contract moderately in 2012. Fuelling the production decline will be temporary maintenance-related shutdowns at Terra Nova and White Rose; natural production declines at existing wells; and weaker-than-expected average Brent Crude prices. However, we expect large capital investments elsewhere, including Vale Inco's nickel processing facility and the province's budgeted capital expenditures, to partly offset the impact of lower oil production values on the province's real GDP.

We also expect Newfoundland's real GDP to remain volatile in the next two years, rising strongly in 2013, but contracting modestly in 2014. Our view reflects a potential rebound in oil production in 2013. It also reflects anticipated ramp-up in capital investment on Hebron and Lower Churchill. We believe these will mitigate the impact of a wind-down of capital investment on Vale Inco's nickel processing facility in 2013 and a slight decline in oil prices (we forecast Brent prices of US$80-US$90 per barrel from 2013-2014). Moreover, because this volatility reflects changing production values, we expect it to largely affect the projects' nonresident owners, overshadowing continued steady growth in most other domestic economic indicators.

Falling unemployment rate

Job opportunities related to the development of major resource projects in Newfoundland and elsewhere, notably in Alberta's oil sands, have tightened the province's labor market. Newfoundland's unemployment rate was 12.7% in 2011 (see table 2), versus Canada's rate of 7.4%. Its unemployment rate surpassed 20% following the federal moratorium on cod fishery in 1992.

Employment related to major resource projects tends to be highest in the development stage (for example, during the fabrication and pre-engineering of oil rigs). As a result, we think Newfoundland's job market conditions can vary according to project timelines. However, with Hebron, Lower Churchill in ramp-up mode, we expect the province's unemployment rate to fall below 12% in the next two years.

Rising population

We believe employment growth from major resource projects has reversed Newfoundland's long-standing trend of net interprovincial out-migration by attracting its large base of expats (an estimated 50,000 people left the province during the mid-to-late 1990s). The province's fertility rate has also contributed modestly to population growth. Newfoundland's population rose a compound annual growth rate of 0.3% from 2007-2011. We expect the province's population to remain at least stable over the next two years.

Table 2

Province of Newfoundland and Labrador Economic Statistics

	--Year ended Dec. 31--				
(% change)	**2012f**	**2011f**	**2010**	**2009**	**2008**
Real GDP	0.1	3.0	6.3	(10.3)	(1.0)
Employment	1.8	2.7	3.5	(2.9)	1.0
Unemployment rate (%)	12.3	12.7	14.4	15.5	13.2
Retail sales	4.0	5.1	4.6	1.6	7.4
Consumer prices	N.A.	3.4	2.4	0.3	2.9

f--Forecast. N.A.--Not available.

Positive Financial Management

Newfoundland's financial management practices support our assessment of the ratings. For the province, we consider budgeting, long-term planning, and liquidity to be the most critical management subfactors. Natural resource developments and strong fiscal capacity growth in the past decade has caused the province to transition away from reliable federal transfers to larger and more market-driven royalty revenues. Although this has produced much stronger cumulative budget balances, it has also made provincial revenues more volatile, producing large and sometimes unexpected budget swings, with less visibility on future revenue flows.

The province follows several strategies to manage this. It has allocated large budgetary windfalls, which arose when royalties truly surged in fiscal 2008, to lower debt, stockpile reserves and improve tax competitiveness. It has also generally used what we consider to be conservative underlying budget assumptions.

In addition, Newfoundland has established the objective of lowering its net debt per capita to the all-provincial average over 10 years. It also intends to direct one-third of any budget surplus towards its unfunded pension liabilities. We believe these measures will instill fiscal discipline and better position Newfoundland to withstand external shocks.

The province also maintains large cash balances that represent a potential fiscal shock absorber. It does not have a specific minimum or desired cash balance policy. Also, like most other Canadian provinces, its bank credit facility is not committed. However, its historically large cash balances versus financial obligations, and strong bond market access reduces the importance of specific cash balance policies and committed bank facilities, in our view.

We also think the Progressive Conservative Party's large majority, with 36 of 48 seats in the House of Assembly, gives the government strong political wherewithal to implement fiscal reforms to achieve long-term policy goals. The next provincial election is scheduled for October 2015.

Budgetary Flexibility: High Own-Source Revenues, But Low Capital Spending

Newfoundland derives significant flexibility from its high share of modifiable revenues, which made up an estimated 83% of adjusted operating revenues in fiscal 2012. Its other (nonmodifiable) revenues are from the federal government, which provides funding to provinces largely through its equalization program, Canada Health Transfer, and Canada Social Transfer. Newfoundland does not receive equalization, given its transition to a "have" province under the equalization formula in fiscal 2009. In addition, its federal transfers related to the 1985 Atlantic Accord ended in fiscal 2012, when they accounted for an estimated 7% of adjusted operating revenues.

In our view, the province's capital spending as a share of total revenues is relatively low. It accounted for an estimated 11% of total adjusted expenditures in fiscal 2012. We believe a low capital spending rate points to reduced budgetary flexibility, all else being equal, because capital investments are typically easier to defer than program spending in times of stress. However, we expect Newfoundland's capital investment to track above historical levels in the next couple of years. Still, we believe a notable portion of its spending will go to high-priority resource projects and deferred infrastructure requirements. As a result, we believe its leeway to cut capital spending materially will remain limited.

Budgetary Performance To Moderate Over Next Two Years

We adjust the published figures of all rated local and regional governments to better reflect budgetary balances on a cash basis. The adjustments result in a closer connection between budgetary balances and debt movements, in our view. They also minimize presentation inconsistencies, which facilitates better peer comparison.

Table 3

Province of Newfoundland and Labrador--Financial Statistics

	--- Year Ended March 31 ---					
(%)	**2013b**	**2012e**	**2011**	**2010**	**2009**	**2008**
Operating balance/operating revenue	6.9	18.2	16.6	9.3	26.2	19.3
After-capex surplus (deficit)/total revenue	(13.1)	9.5	6.8	0.9	15.4	13.5
Capital expenditure/total expenditure	19.6	10.9	11.9	10.6	13.2	7.7
Modifiable revenues/operating revenue	88.4	82.1	79.8	81.6	81.9	79.1
Interest/operating revenue	5.2	4.9	5.6	6.9	6.6	8.7
Tax-supported debt/operating revenue	82.5	75.3	87.0	107.0	104.5	127.2

b--Fiscal 2010 budget estimates. e--Estimated.

Newfoundland's budgetary results, under our cash-based adjustments, were the strongest of the Canadian provinces from fiscal 2010-2012. The province's operating surplus as a share of adjusted operating revenues averaged an estimated 15% over the period. Its after-capital surplus averaged an estimated 6% of total adjusted revenues.

The province's strong budgetary performance was mostly revenue-driven, with more lucrative offshore oil royalty rates, together with increased oil and mineral production keeping royalty revenues at historically elevated levels. This, combined with increased taxation revenue due to strong domestic demand, caused the province's operating revenues to well-exceed operating expenditures (see table 3).

End of Atlantic Accord marks beginning of moderated budgetary performance

We expect Newfoundland's budgetary performance to weaken over our two-year rating horizon. Under our base case scenario, we expect the province's operating surplus as a share of adjusted operating revenues to average approximately 4% from fiscal 2013-2015. We also expect its after-capital account balance to swing to deficit, averaging approximately 8% of adjusted total revenues over the same period. However, we believe Newfoundland will be able to internally fund a substantial portion of these potential after-capital deficits, given its high cash reserve levels.

Under our base case scenario, much of the province's budgetary weakening comes from operating revenues, which we expect to fall in fiscal 2013 with the absence of Atlantic Accord federal transfers. We also expect royalty revenues to fall due to temporary maintenance-related shutdowns at Terra Nova and White Rose, together with lower-than-expected Brent Crude prices, which are currently tracking below the province's fiscal 2013 budget assumption of US$124 per barrel. We expect the province's operating revenues to rebound in 2014 and 2015, but remain below the fiscal 2012 level. This in part reflects our current view that Brent Crude prices will remain relatively stable (US$80-US$90 from 2013-2014), mitigating growth in the province's royalty revenues.

Also embedded in our base case scenario is the assumption that Newfoundland will undertake spending controls to limit operating expenditure growth to approximately 2% per year from fiscal years 2013-2015. For the purposes of our forecast, we assume the province will ultimately make some form of funding contribution towards Lower Churchill. We further assume the province will borrow externally to avoid putting undue pressure on its cash reserves, causing interest expenditures to grow modestly.

Royalty revenues increase volatility and reduce visibility in budgetary performance

In our view, Newfoundland's budgetary performance is subject to considerable volatility, given its high reliance on resource royalties, which accounted for an estimated 40% of adjusted operating revenues in fiscal 2012. Resource royalties are a function of production levels, commodity prices, and exchange rates, all of which can fluctuate. According to the province, a US$1 change in the price of oil per barrel, or a one Canadian cent change in the Canadian-U.S. exchange rate, equals an estimated C$22.4 million-C$31.3 million in royalties.

Very Positive Liquidity Thanks To Recent Budgetary Surpluses

In our view, Newfoundland maintains large cash reserves to fund debt serving, working capital and potential equity investments in major resource projects. By our estimates, its free cash, and liquid investments is over three times the size of its next 12 months' debt service. This measure excludes the province's sinking fund, which was in excess of C$1 billion as of March 31, 2012. Instead, we subtract the province's sinking fund from its debt burden in our analysis.

We expect smaller operating surpluses will cause the province's self-financing capacity to fall to more historical levels in the next two years. At the same time, we assume Newfoundland may be called upon to make significant investments in Lower Churchill and other strategic projects, stressing its cash reserves. Under our base case scenario, we assume the province will hold, throughout the next two years, free cash and liquid investments larger than 80% of its next 12 months' debt service. We also expect the province to maintain strong access to the domestic capital markets, as well as a well-laddered debt maturity profile and continued good visibility on operating expenditures.

Debt Set To Rise Moderately After Prolonged Period Of Decline

Newfoundland's debt burden is the third-smallest of the Canadian provinces, behind that of Alberta and Saskatchewan. Its burden has fallen dramatically since fiscal 2005, because strong royalty-driven operating surpluses gave the province significant self-financing capacity to fund capital investments and debt repayments. Its tax-supported debt as a share of operating revenues fell to an estimated 75% in fiscal 2012 from 180% in fiscal 2005. Similarly, its interest as a share of adjusted operating revenues fell to an estimated 5% from 13%.

We expect Newfoundland's debt burden to increase in the next two years, with its capital expenditure and investment requirements well-exceeding its operating surpluses under our base case scenario. However, we assume its tax-supported debt as a share of operating revenue will remain below 120% in the next two years, while its interest expenditures will remain below 9%.

Large unfunded pension liabilities

Newfoundland's defined-benefit pension plans had a net unfunded liability of C$4.6 billion, or an estimated 59% of fiscal 2012 adjusted operating revenues, as of Dec. 31, 2011. The province intends to allocate one-third of future budget surpluses toward reducing this deficit.

Contingent Liabilities

In our opinion, Newfoundland's primary contingent risk relates to its local energy provider, Nalcor Energy, a holding company that owns Newfoundland and Labrador Hydro (NLH). NLH's consolidated operations include a vertically integrated, regulated electrical utility in St. John's.; a 65.8% interest in Churchill Falls (Labrador) Corp. (CFLCo.); and a 51% interest in Lower Churchill Development Corp. Ltd. CFLCo in turn has voting control of and holds a 33% interest in Twin Falls Power Corp. Ltd. CFLCo's key asset is the Labrador-based 5,428 MW Churchill Falls hydroelectricity generating plant. Nalcor also owns Nalcor Energy-Oil and Gas Inc., which owns small equity stakes in offshore oil projects; Nalcor Energy-Bull Arm Fabrication Inc.; and Gull Island Power Co.

Newfoundland has guaranteed NLH's debt, which stood at an estimated C$838 million (net of face-value sinking funds), or an estimated 11% of the province's adjusted operating revenues, in fiscal 2012. We consider this debt to be self-supporting, given our assessment of Nalcor's business and financial risk profiles. We also believe Newfoundland has an incentive to provide extraordinary government support to Nalcor in the event of financial stress. This view primarily stems from the essential nature of NLH's service responsibilities, as well as the high-profile and economic importance of Nalcor's other project developments, such as the proposed approximately C$6 billion project to develop Muskrat Falls hydroelectric generation (824 MW).

Related Criteria And Research

Methodology For Rating International Local And Regional Governments, Sept. 20, 2010

Ratings Detail (As Of November 29, 2012)	
Newfoundland and Labrador (Province of)	
Issuer Credit Rating	A+/Stable/A-1+
Senior Unsecured	A+
Senior Unsecured	AA-/Stable
Issuer Credit Ratings History	
03-Mar-2011	A+/Stable/A-1+
21-Nov-2008	A/Positive/A-1
19-Jul-2006	A/Stable/A-1

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.