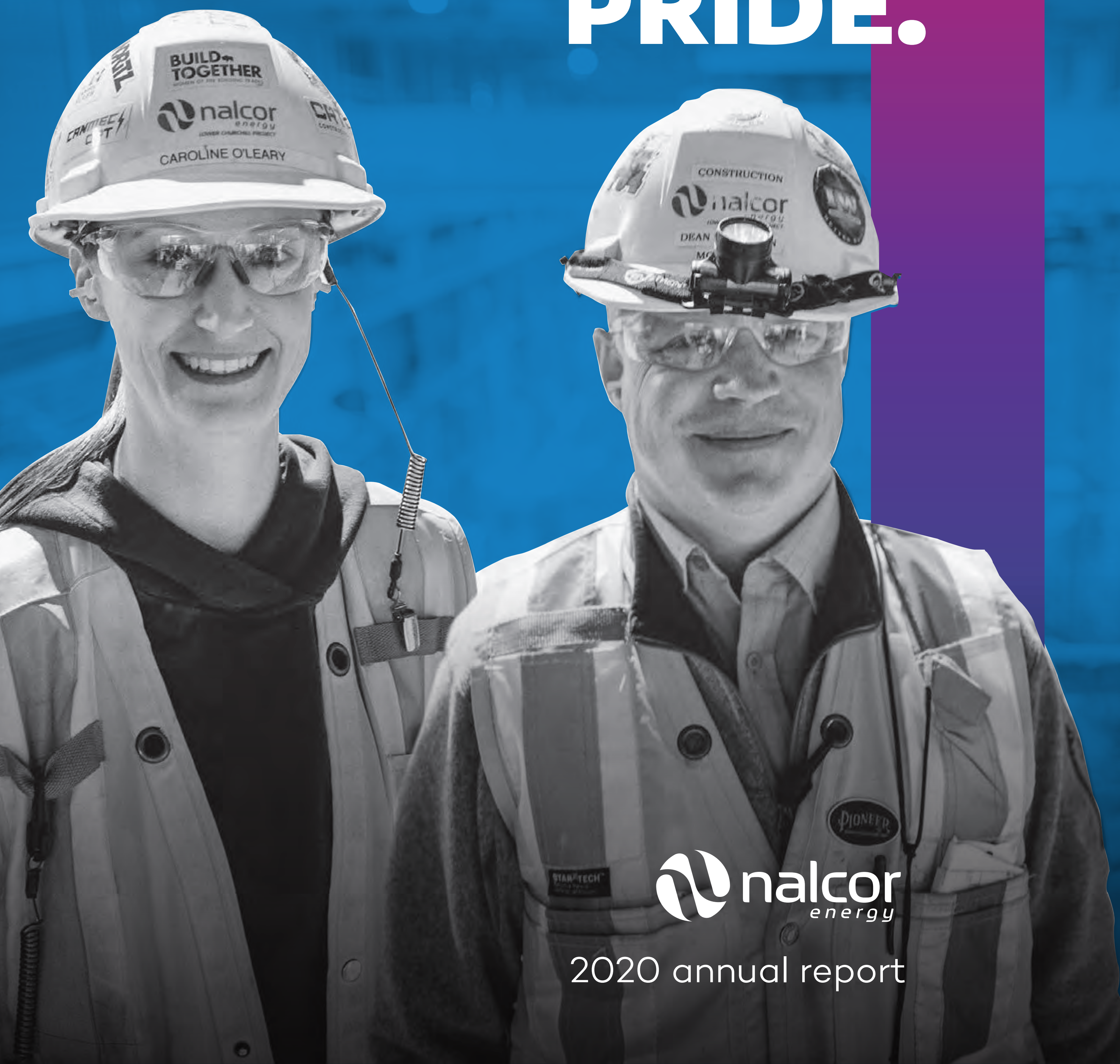
PEOPLE. PASSION. PRIDE.



nalcor energy

2020 annual report


PELICAN

contents

nalcor energy

NalcorEnergy.com

2020 brought unforeseen challenges to all areas of the province - from Snowmageddon to the COVID-19 pandemic. Despite these challenges, we also saw milestones and accomplishments across the organization made possible by the continued dedication of our employees.

Lower Churchill Project

The lower Churchill River is a significant hydroelectric resource in North America, with a combined capacity of more than 3,000 megawatts (MW) of power and almost 17 terawatt hours (TWh) of energy from Muskrat Falls and Gull Island. The Muskrat Falls hydroelectric generating facility and the Labrador-Island Link (LIL), which are near completion, are now delivering clean, renewable energy to our province and to markets in Atlantic Canada. Gull Island is one of the larger undeveloped hydroelectric resources remaining in North America and is in excess of 2,000 MW.

Newfoundland and Labrador Hydro

Hydro manages Newfoundland and Labrador's electricity system. Through our generation, transmission and distribution operations, we're committed to meeting the needs of our customers and providing residents, businesses and communities across the province with safe, reliable power.

Energy Marketing

Nalcor actively trades and sells the province's surplus power to customers in external energy markets.The Energy Marketing portfolio includes surplus Churchill Falls recapture power, long-term transmission rights and agreements with Hydro for the provision of external electricity marketing services.

Churchill Falls

One of the world's largest underground hydroelectric powerhouses with a rated capacity of 5,428 megawatts, Churchill Falls provides clean, renewable electricity to millions of consumers across North America.

Oil and Gas

Nalcor is a partner in the development of the Newfoundland and Labrador offshore, including the Hebron oil field, White Rose Growth Project and Hibernia Southern Extension.

2020 achievements

MUSKRAT FALLS PROJECT

Produced power at Muskrat Falls for the first time

Placed the first of four generating units into full service

Delivered power from Muskrat Falls over the LIL to island customers

Worked over 14 million hours (46 months) on the Muskrat Falls generation project without a single lost-time injury

Approximately 90 per cent of the 2020 workforce were Newfoundlanders and Labradorians

HYDRO

Announced the province's first fast-charging network for electric vehicles, with the first station coming online in Holyrood.

Hydro teams prepare for, and work through, Snowmageddon - the largest winter storm in recent history.

50 YEARS
HOLYROOD
THERMAL GENERATING STATION
Newfoundland & Labrador Hydro

CHURCHILL FALLS

100% of environmental targets completed

Ensured safety of employees and community during COVID-19 pandemic

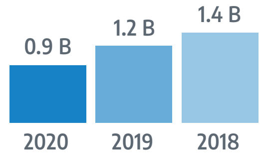
ENERGY MARKETING

95% of available recapture energy delivered to market

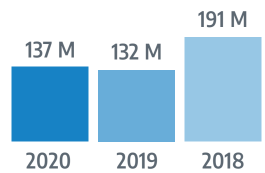
Sold surplus energy over the Maritime Link to export markets

FINANCIAL

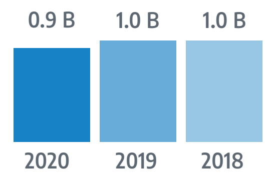
CAPITAL EXPENDITURE



OPERATING PROFIT

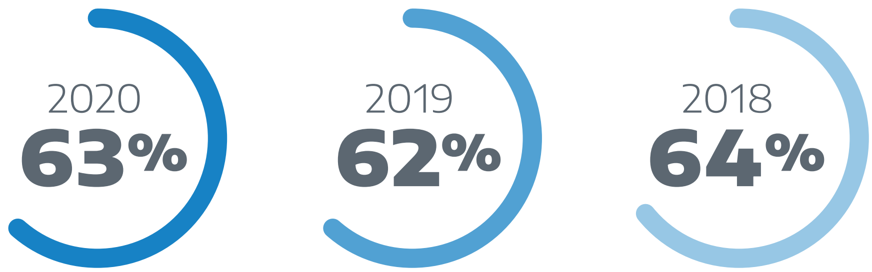


REVENUE



TOTAL ASSETS

DEBT TO CAPITAL



SAFETY AND HEALTH

CEA
PRESIDENT'S AWARD for Employee Safety

Hosted first Virtual Safety Summit

Led the planning and implementation of the Pandemic Response and Recovery Plan

ENVIRONMENT & SUSTAINABILITY

CEA
SUSTAINABILITY AWARD for Migratory Bird Program

100%
of environmental targets completed

PEOPLE

Focused on the importance of allyship throughout 2020

Recognized International Women's Day, D&I day, International Day of Persons with Disabilities, Pride and the Purple Ribbon Campaign

COMMUNITY

Supported groups helping those most affected by COVID-19

Provided safety equipment and expertise to local communities

message from the chair

John Green, Acting Chair, Board of Directors

In mid 2016, I was appointed to the Nalcor Energy Board of Directors, and to Nalcor's regulated utility Newfoundland and Labrador Hydro's (Hydro) Board as Chair. In September 2020, Brendan Paddick, Chair of the Nalcor Board, took leave from his duties to support Premier Andrew Furey's Provincial Rate Mitigation Team - a team whose goal is to negotiate an agreement with the Federal Government to help manage rising electricity rates in the Province as a result of the Muskrat Falls hydroelectric project. In turn, I accepted the role of Acting Chair of the Nalcor Board, in addition to my role as Chair of the Board of Hydro and continue in those capacities in 2021.

When I, along with my fellow directors, were appointed to the Board in 2016, we took on the daunting task of shepherding Nalcor Energy and its subsidiaries through a significantly challenging period following electricity system reliability issues and the Muskrat Falls hydroelectric mega project falling further behind budget and schedule. Despite the challenges we knew we would face, there were others we could not have anticipated. But we were confident in the leadership of newly appointed Chief Executive Officer Stan Marshall who brought over 35 years of leadership in the global utility industry to the table.

At the 2020 Annual General Meeting on June 10, 2021, CEO Stan Marshall will preside over his final AGM as he sets to retire on June 15, 2021, after serving five years on what was intended as a four-term. The significant achievements accomplished over the past five years, especially the challenges presented in 2020 as a result of COVID-19 and an unprecedented winter storm, would simply not have been possible without his leadership.

At the close of 2020, despite COVID-19, we produced power for the first time at Muskrat Falls. We placed the first of four generating units into full service, and delivered power from Muskrat Falls over the Labrador-Island link to island customers. And, we sold surplus energy over the Maritime Link to export markets. As we continue into 2021, the Muskrat Falls Project is near completion, and we are embarking upon the transformation of the electricity grid as we integrate the Muskrat Falls assets into the company's day-to-day operations.

At Hydro, we have steadily and continually increased electricity system reliability and confidence. In 2020, residential customers had a 90% satisfaction rate with service, and 97% satisfaction rate with service reliability. Despite the storm of the century in January, followed by COVID-19, Hydro teams focused on customers and the well-being of our workers while adjusting to ensure reliable operation of generation and transmission facilities. And finally, Hydro advanced the Province's first fast-charging network for electric vehicles with 14 charging locations from St. John's to Port aux Basques.

Since 2016, Nalcor has grown from $14.1 to $19.3 billion in assets and my fellow directors and I have taken great efforts to fulfill our fiduciary duties as Board members. We have presided over a multi-billion dollar company while completing the $10.1 billion Muskrat Falls project. The governance structure ensures effective and efficient oversight of the 12 separate legal entities with four standing committees and one special committee:

- Audit
- Corporate Governance
- Human Resources and Compensation
- Safety, Health, Environment and Community
- Special Committee of the Board of Directors on the Muskrat Falls Inquiry and Rate Mitigation Reference

Each year, Board members participate in anywhere from 12 Nalcor Board meetings, and up to as many as 67 combined Board and sub-committee meetings for these dozen legal entities. I want to thank my fellow Board members for their continued hard work and commitment. We take great care in stewarding the company on behalf of its shareholders, the people of Newfoundland and Labrador.

On behalf of the Boards of Directors, I thank Mr. Marshall for his unwavering commitment to company, regardless of the challenges thrown his way. I thank the Executives in all areas of the company for supporting Mr. Marshall and the Board to get us to this point. And finally, thank you to the employees who are the ones to have truly made the success happen.

John Green
Acting Chair, Board of Directors

> **At the close of 2020, despite COVID-19, we produced power for the first time at Muskrat Falls. We placed the first of four generating units into full service, and delivered power from Muskrat Falls over the Labrador-Island link to island customers. And, we sold surplus energy over the Maritime Link to export markets.**
>
> **John Green**
> **Acting Chair, Board of Directors**

Muskrat Falls powerhouse

message from the ceo

Stan Marshall, President and CEO

In April 2016, I joined Nalcor Energy as President and Chief Executive Officer (CEO) for an expected four-year term. I was very fortunate to have the support of Nalcor's highly-qualified and dedicated employees. With their assistance, and with the full support of the Board of Directors, we had to overcome many challenges. Now, after more than five years at the company, my tenure is coming to an end. As I reflect on my time at Nalcor, what stands out most for me is the quality of the people.

Nalcor directly employs roughly 1,600 people who live and work in communities throughout Newfoundland and Labrador. They have shown up every day, despite the criticism. In 2020, they were tested as never before but they never waivered in their commitment to the company.

In January of 2020, we experienced the storm of the century, 'snowmageddon', with over 30 inches of snow and winds gusting to 130km. Many employees worked long hours, unable to make shift changes due to the conditions, while others braved the elements to restore power to customers and others helped behind the scenes. The system experienced only minor issues because we were prepared. Over the past five years, significant emphasis was placed on service reliability, maintaining equipment and infrastructure, and making upgrades where necessary, while at the same time carefully managing capital and operating costs.

2020 brought with it the COVID-19 pandemic. Nalcor's Safety and Health teams were prepared with a Pandemic Plan which was implemented in mid-March, ensuring critical work continued even in the event of a complete shutdown. Business continuity plans were activated; IT worked to ensure that all employees able to work remotely had the tools they needed; and, procurement worked to secure the required COVID-19 personal protective equipment (PPE) and cleaning supplies for our facilities.

Operations across the Muskrat Falls Project were placed in care and maintenance mode in March, 2020. Following the subsequent easing of COVID-19 public health restrictions - and armed with extensive safety and health protocols - we gradually resumed work at Muskrat Falls in June. Since then, we have continued operations while protecting the health and safety of our workers, our contractors and the communities and people of our province. Four months construction time was lost and the workforce and productivity were reduced going forward. Despite this, in September we generated power for the first time at Muskrat Falls. In December, we successfully flowed electricity from Muskrat Falls to Soldiers Pond over the Labrador-Island Link (LIL) to island customers. And in May 2021, we successfully synchronized the second unit at Muskrat Falls to the electricity grid. The team continues to make great progress on commissioning of the remaining two generating units, which are scheduled for service in the coming months.

Significant progress has been made on commissioning of the 1,100-km LIL between Muskrat Falls and Soldiers Pond. With power flowing from Muskrat Falls over the LIL, the project is contributing to the energy supply for island customers. Surplus power is being sold to external markets providing revenue from export sales. In December, our Energy Marketing team exported Muskrat Falls energy over the Maritime Link between the island and Nova Scotia with power flowing to Atlantic Canada and beyond.

While commissioning of the Muskrat Falls Project will continue throughout 2021, construction is complete. Getting here has been challenging. It has taken the will and commitment of not only our employees, but also over 8,200 other workers from Newfoundland and Labrador and others parts of Canada and around the world who have worked on the Muskrat Falls Project.
Understandably, the Muskrat Falls Project has taken most people's

attention over the past five years. But some areas did not receive the attention they deserve. First and foremost is safety. At the end of 2020, workers on the Muskrat Falls Project worked 44 months, or 14 million hours, without anyone losing time from work as a result of a workplace injury. And in recognition, the Building Trades Union awarded Muskrat Falls the Health and Safety Distinction Award in 2019. Also in 2019, and again in 2020 for the second year, Nalcor received the Canadian Electricity Association (CEA) President's Award of Excellence for Employee Safety in generation for operations at Churchill Falls and Hydro. This unwavering commitment to safety is at the core of every task within the company and it is a pleasure to see the employees recognized for their efforts.

Nalcor was also designated as a Sustainable Electricity Company by the CEA in 2018, one of only nine utilities in Canada. Employees continue to work hard to achieve success in our sustainability priorities of Safety and Health, Environment, Business Excellence, People and Community. The recognition from the CEA indicates that they are making progress they can be proud of. In the past five years, we have also set gender equity targets to focus on the recruitment and retention of women in areas of the business in which they are underrepresented. We still have much work to do in the field operations areas; however, I am pleased to see more women in Executive and managerial roles.

To the employees at Nalcor, the people who made this happen and deserve the accolades for all they have done over the past five years, I cannot thank them enough.

To my Executive team, thank you for your unwavering commitment.

To the Boards of Directors, thank you for the support you have given me.

Stan Marshall
President and CEO

covid-19
An Unprecedented Year

In early 2020, COVID-19 was beginning to spread throughout the world, and we knew it was only a matter of time before it would reach Canada and Newfoundland and Labrador. Given the importance of health and safety to our organizational culture, we quickly put together a team of employees from across all lines of business to determine what we would need to ensure our business, and our employees, were properly equipped to deal with the virus and the threat of a global pandemic.

Watching the impact being felt in other provinces, the team (led by corporate Safety and Health) quickly determined that the potential impact to our operations was vast and set about making sure we were prepared. To ensure critical work would continue even in the event of a shutdown, departments created business continuity plans; IT worked to ensure that all employees able to work remotely had the tools they needed; Procurement worked to secure the required COVID-19 personal protective equipment (PPE) and cleaning supplies for our facilities; and Safety and Health updated the corporate Pandemic Plan, developed and implemented control measures and monitored the situation internationally and nationally to ensure we were prepared for a number of possible scenarios.

On March 14, the province announced its first case of COVID-19, and our Pandemic Plan moved into the emergency phase. This was accompanied by workplace quiet mode, travel restrictions and other control measures necessary to preventing the spread of the virus to our worksites. On March 18, any employee who could work from home was asked to do so; facilities that were required to remain active were fitted with protective measures (e.g., plexiglass to separate work stations); employees were provided with the necessary PPE; regulations were implemented to ensure physical distancing; and preparations were made to ramp down operations across the Muskrat Falls Project and initiate care and maintenance mode—despite the fact that this would potentially put the project behind schedule. In all cases, decisions were made to ensure the health and safety of our workers, our contractors and the communities and people of our province.

As the pandemic persisted, and our employees continued to work from home or with limited contact at our workplaces, we knew that the mental health of our employees and their families was something that we could not overlook. To this end, we organized regular communications focused on how to deal with mental health issues, rolled out health and wellness challenges aimed at keeping people active and continued with our annual (virtual) Safety Summit, at which the keynote speaker addressed how to deal with the chaos related to COVID-19.

As the year came to a close, many employees had transitioned back to working in our buildings—albeit under strict health and safety guidelines.

2020 covid-19 timeline

COVID-19
DOING OUR PART TO STOP THE SPREAD

- **31.12.2019** A cluster of cases of pneumonia is reported in Wuhan, China

JANUARY 2020

- **13.01** First recorded case outside of China is confirmed in Thailand
- **27.01** First confirmed case in Canada

FEBRUARY

- **11.02** WHO officially names the disease COVID-19
- **27.02** Nalcor Pandemic Plan updated

MARCH

- **11.03** WHO declares COVID-19 a pandemic
- **12.03** Nalcor limits business travel to within NL only
- **14.03** NL announces first presumptive positive case
- **17.03** Nalcor moves to predominantly work from home
- **17.03** MF sites placed into care and maintenance mode
- **18.03** NL declares a public health emergency
- **20.03** 14 day self-isolation is required for anyone entering NL

APRIL

- **30.04** NL introduces Alert Levels to guide restrictions

MAY

- **13.05** Dr. Tam asks Canadians to wear non-medical masks when unable to physically distance
- **Late 05** Work resumes at Muskrat Falls and Soldiers Pond

JUNE

- **02.06** Pulse Survey asks employees for feedback on safety and health measures
- **30.06** First Virtual AGM

JULY

- **03.07** "Atlantic Bubble" created to allow travel between 4 Atlantic provinces without self-isolating

AUGUST

- **08.07** Re-entry process begins at remaining Nalcor sites and offices
- **24.08** NL requires non-medical face masks be worn in any indoor public space

SEPTEMBER

- **21.09** 14th annual Safety Summit held virtually

OCTOBER

- **05.10** 2nd Pulse Survey sent to Nalcor employees

NOVEMBER

- **22.11** NL leaves Atlantic Bubble due to increasing cases in NB and NS

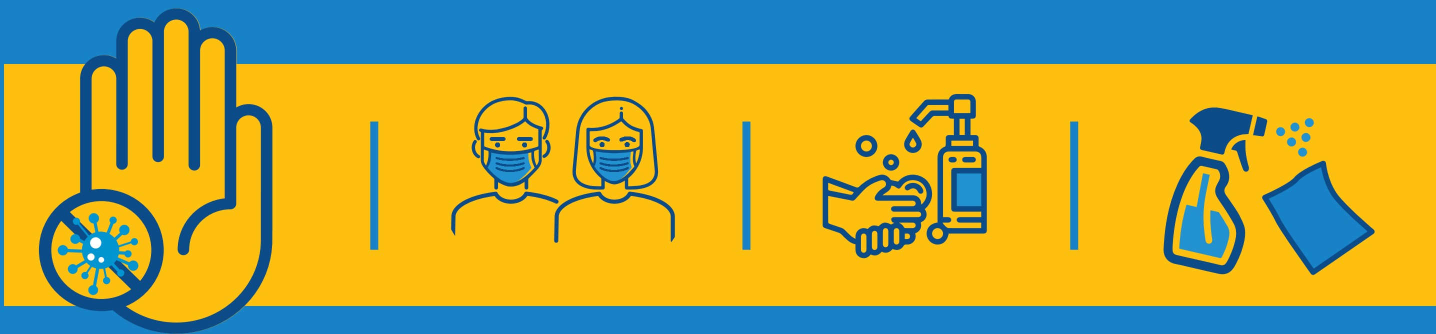
DECEMBER

- **26.12** Canada confirms first cases of UK variant

Making Re-entry Safe for Everyone

As the province moved through the Provincial Alert Level system implemented by the Department of Health and Community Services, we continued to work closely with our shareholder, as well as with stakeholder groups across the province. Our Pandemic Recovery Plan outlined how employees could safely return to the workplace while maintaining public health measures to prevent transmission of the virus. Of primary concern was the movement of workers in and out of our sites in Labrador. Given increased vulnerability due to isolation and demographics, we planned with an abundance of caution to ensure that workers and contractors going to work on-site would not threaten the health of our local communities.

Given the variety of buildings, sites and work environments our employees work in each day, the task of ensuring every eventuality was planned for fell to our COVID-19 team. Unlike some businesses, we had many projects that were deemed essential to continue and our safety experts worked to ensure those employees were kept safe through the use of PPE, modified work schedules and physical distancing regulations. Testing protocols were implemented for workers traveling to the Muskrat Falls site and quarantine schedules were maintained for workers from outside the province.



Our team worked to assess the safe capacity in each of our buildings and they were outfitted with physical distancing signage including decals on floors, walls and in elevators, where distancing wasn't possible plexiglass partitions were installed. Meeting rooms and common areas were assessed to determine maximum capacity while virtual meetings were encouraged whenever possible.

Our Pandemic Recovery Plan included guidelines and regulations aligned with the public health alert levels and allowed managers and supervisors to make the safest working decisions for their teams.

Preparing a Town for COVID-19

When COVID-19 began to impact our province, Churchill Falls management had to act fast. Not only were they responsible for the safety and well-being of our employees and worksites, but an entire community was looking to them for leadership. Churchill Falls is more than one of the largest underground hydro facilities in the world—it's the community in which our employees live. We stepped up to help create valuable online learning experiences, to ensure the local grocery store implemented COVID-19 protocols and to do our part to reduce the spread of the virus and keep our customers, our community and our front-line employees safe.

As with all lines of business, decisions were made and implemented quickly. On March 14, in-class learning was suspended at Eric G. Lambert School, three days later students had received two weeks' worth of work packages, and by April 2, they were completely transitioned to online learning. In the community, essential services were quickly identified, and safety measures and protocols were implemented at the local grocery store and the Fire & Security Department.

Even though COVID-19 restrictions meant we couldn't gather as we once did, we knew the importance of maintaining some annual events. Together we celebrated Environment Week, Canada Day and other events, albeit in a very non-traditional (and physically-distanced) way.

By the end of the year, with protocols and procedures safely in place, most community facilities were able to reopen with limited operations.

HOLYROOD THERMAL GENERATING STATION CELEBRATES 50 YEARS OF DEDICATED SERVICE

2020 marked the 50th anniversary of the commissioning of the Holyrood Thermal Generating Station, one of the first major pieces of infrastructure built to power the province of Newfoundland and Labrador.

On December 15, 1970, the Honourable Joseph R. Smallwood, then Premier of Newfoundland and Labrador, officially opened the generating plant in Holyrood with two units online at 300 MW.

The Holyrood Plant was the island's second major source of generation, with the first being the Bay d'Espoir Hydro Generating Plant, which celebrated a 50-year milestone in 2017.

After the Bay d'Espoir Plant and the associated transmission infrastructure were completed, demand for electricity on the island— created by both residential and industrial sectors— increased significantly.

Photos above show construction of the Holyrood plant in the late 1960s.
The smoke stacks of units 1 and 2 are 91m tall and the stack on unit 3 is 110m tall.

In 1980, the third unit at Holyrood was brought online, adding an additional 150 MW of power generation.

Today, the Holyrood Thermal Generating Station continues to serve customers on the island. To run reliably, the Holyrood Plant is staffed by many critical specialists including operators, electricians, welders, instrument technicians, chemists, environmental staff, warehouse workers, clerks, engineers and many other trades and professions.

Much of the work performed at Holyrood is unique. As the only thermal generating plant of its size in the province, it has required that our teams develop rare skills and expertise.

While the electricity system in Newfoundland and Labrador is once again going through significant change and development, the Holyrood Thermal Generating Station will always remain a significant part of the history of our provincial electricity system.

Powering Newfoundland since 1970

BUSINESS EXCELLENCE

muskrat falls project

DESPITE THE CHALLENGES and obstacles we faced throughout 2020, we achieved a number of milestones, allowing us to significantly advance the project towards completion.

Produced power at Muskrat Falls for the first time

Placed the first of four generating units into full service

Delivered power from Muskrat Falls over the LIL to island customers

Sold surplus energy over the Maritime Link to export markets

MUSKRAT FALLS PROJECT

Project Progresses Through COVID-19 Pandemic

TOP: Muskrat Falls powerhouse. BOTTOM: Transmission towers and electrical yard at the Muskrat Falls site.

Through leadership and teamwork, we made excellent progress on the Muskrat Falls Project in 2020. In early March, our project teams adapted quickly to the rapidly changing COVID-19 pandemic, shutting down project operations and temporarily putting our work sites into care and maintenance mode to keep people safe. Following the easing of COVID-19 public health restrictions in the province—and armed with extensive safety and health protocols—we safely and gradually resumed commissioning activities in early June.

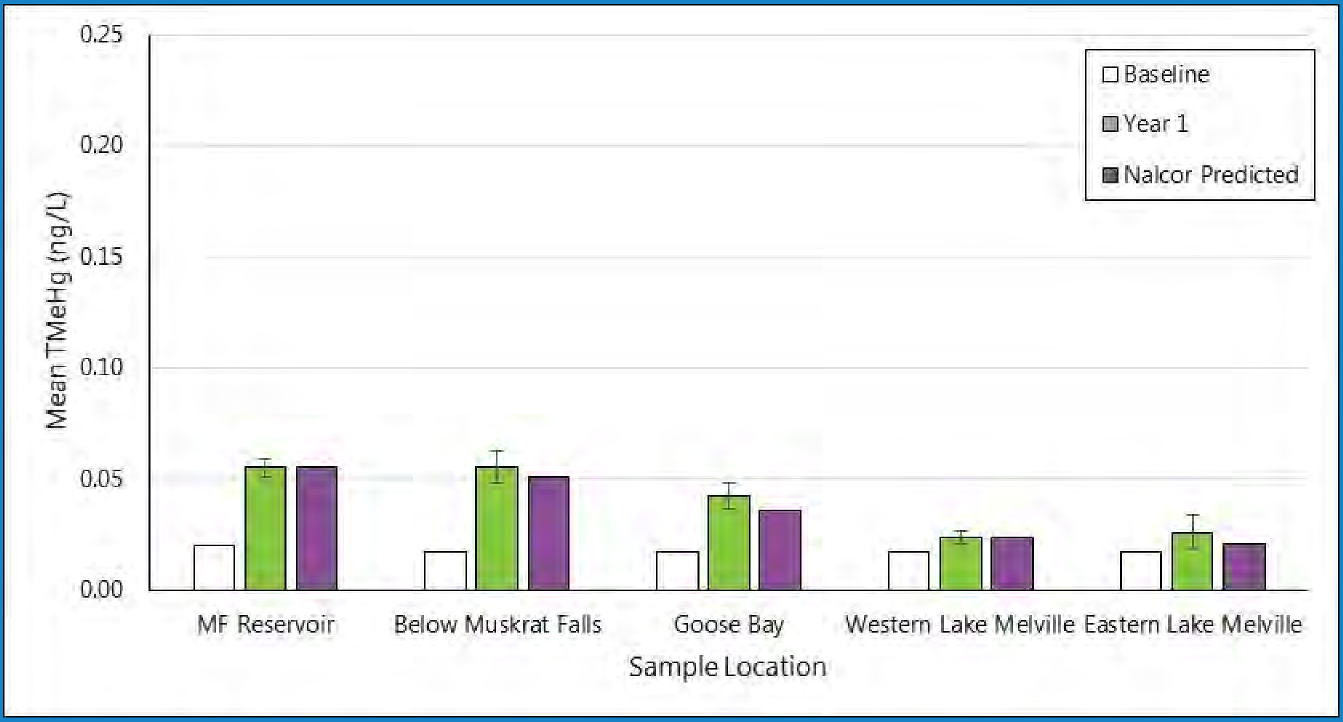
However, four months of lost construction time, a reduced workforce and lost productivity resulted in impacts to project cost and schedule. Prior to the escalation of the COVID-19 pandemic, the project remained on track to be completed within the 2017 budgeted construction costs. In September, the facilities capital budget was increased by $75 million to $10.2 billion. The overall project capital cost, including financing and interest costs, is now $13.1 billion. The timeline for completion of the project was also extended approximately one year.

History was made in September as we generated power for the first time at Muskrat Falls and delivered electricity to customers in Labrador. In December, following this significant milestone, the first flow of electricity from Muskrat Falls to Soldiers Pond over the Labrador-Island Link (LIL) successfully delivered up to 150 megawatts (MW) of power to island customers. Later that same month, the first of four generating units was turned over from project construction to our operations team, who now operate the unit. The Muskrat Falls generation team is continuing to make great progress on commissioning of the remaining three units, which are expected to be put into service in 2021.

We also made progress on commissioning of the 1,100-km LIL between Muskrat Falls and Soldiers Pond. The LIL was constructed as a bipole transmission line, meaning it has two wires and can deliver power over one or both wires. During the pandemic, the LIL contractor continued with software development and, despite a setback following the malfunction of some electrical equipment in August, commissioning of pole 1 was restarted in November. Commissioning of pole 2 started in early 2021, followed by commissioning of both poles as a typical bipole system.

With power flowing from Muskrat Falls over the LIL, the project contributed to the energy supply for island customers for the very first time. It also provided us with the opportunity to sell surplus power to external markets, thereby increasing our revenue from export sales. In December, our Energy Marketing team exported six gigawatt hours (GWh) of Muskrat Falls energy over the Maritime Link between the island and Nova Scotia with power flowing to Atlantic Canada and beyond.

UNDERSTANDING METHYLMERCURY



The chart shows the mean average water sample results of total methylmercury versus those predicted for the first year after impoundment (September 2019 to August 2020). These values are consistent with what was predicted and expected in the first year following the creation of the reservoir.

What Is Methylmercury?

Mercury is naturally present in soil, air, plants and animals, lakes and rivers, as well as in many of the foods we eat every day. When reservoirs are created for hydroelectric dams, soils and vegetation are flooded, and naturally occurring mercury in the soils are converted into a different form known as methylmercury. Vegetation in the flooded area (plants, leaves, moss, etc.) provides food for bacteria that convert mercury into methylmercury. As a result, methylmercury levels increase in reservoirs and downstream of reservoirs at hydroelectric developments after water levels rise with flooding. However, these increases are temporary.

Protecting the safety and health of people living in the project area is the most important thing we can do on the Muskrat Falls Project. Our team is focused on understanding methylmercury in the lower Churchill River system, particularly downstream of Muskrat Falls.

We continue to work closely with technical experts and consultants from across the country on this complex topic, and years of research and data have been collected in the local area to help inform decisions made about the project. One of the recommendations made by the Independent Expert Advisory Committee (IEAC) was for us to conduct additional water and sediment sampling in the lower Churchill River and Lake Melville to determine if there are increased levels of methylmercury as we increase the water level in the Muskrat Falls reservoir (called impoundment).

In 2016, and before any changes were made to the water levels in the river, additional sampling for methylmercury began upstream of the Muskrat Falls facility and as far downstream as Rigolet. Since that time, almost 2,000 samples have been collected and analyzed from 13 locations.

Experts say that methylmercury concentrations in water reach their peak quickly after impoundment and then begin to decline. The measured values in water for the first full year after impoundment (September 2019 to August 2020) are very similar to those previously predicted by the scientists we engaged as part of work undertaken for the IEAC and are within safe consumption limits.

Scientists taking water and fish samples along the lower Churchill River.

In addition to water sampling, fish samples are also collected every year for target species from the area. Based on the fish species and its diet, increases would not be expected to happen until three to five years after impoundment. Samples taken from 2019 show no changes in methylmercury levels in fish; samples taken in the first full year after impoundment (September 2019 to August 2020) are awaiting final lab analysis and will be reported in 2021. Monitoring and the sharing of data is important for people who harvest country food in and around the lower Churchill River, and we are committed to conducting ongoing monitoring to inform and protect the health of people in the area. To date, the data collected from the lower Churchill River and downstream supports the conclusion that country foods are safe, and that people should continue to eat their traditional food the same way they always have.

The Power of People

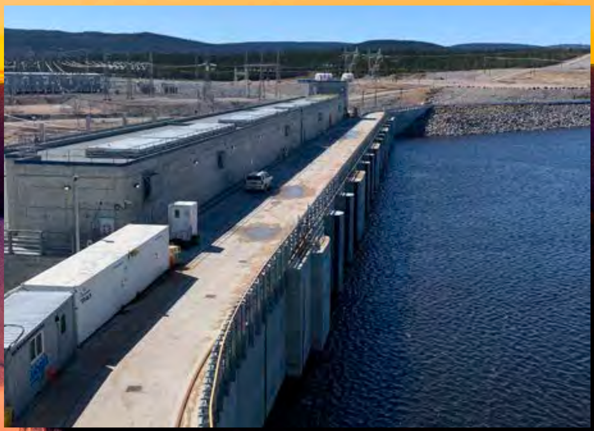
We are well on our way to transforming the electricity system in our province. Upon completion of the Muskrat Falls Project, we will have constructed the second largest hydro project in Atlantic Canada, built capacity to eliminate greenhouse gas emissions from burning oil at the Holyrood Plant and increased our ability to sell surplus energy to external markets.

We are very pleased with the progress that we have made this year. We still have challenges ahead of us but with the hard work of the thousands of Newfoundlanders and Labradorians working on or supporting the project, we will continue to push hard and reach new milestones, while keeping one another safe.

Worked over 14 million hours (46 months) on the Muskrat Falls generation project without a single lost-time injury

Approximately 90 per cent of the 2020 workforce were Newfoundlanders and Labradorians

"We have met unprecedented challenges this year and successfully implemented protocols to ensure the safe return to commissioning at Muskrat Falls and Soldiers Pond, as well as the ongoing operation of our facilities during the COVID-19 pandemic."



TOP: Upstream view of the Muskrat Falls intake and powerhouse. MIDDLE: Aerial view of the Muskrat Falls transmission yard. BOTTOM: The Muskrat Falls spillway and North Dam.

newfoundland labrador hydro
a nalcor energy company

BUSINESS EXCELLENCE

hydro

WHY WE'RE HERE – Hydro is focused on delivering safe, reliable power to our customers. We generate more than 80 per cent of Newfoundland and Labrador's total power supply. As a provincial, crown-owned utility, the people of this province are our owners—and we are a company of people who work hard for every person we serve.

We pride ourselves on being strong and steady, tried and true, while taking an innovative approach to our business. We value our employees, we take care of each other, we recognize excellence, we respect individuality and we work hard to create an inclusive and welcoming workplace.

Hydro operates in a high-hazard industry; in everything we do, our foremost commitment is to the safety of our employees, customers and the public.

As a utility that is publicly owned by the people of Newfoundland and Labrador and overseen by our provincial regulatory board, it is our responsibility to make sustainable investments in the electricity system that make it possible to balance reliability with affordability.

This means keeping the lights on for customers while carefully managing our company's capital and operating costs, continuing to maintain our equipment and infrastructure, and making upgrades where necessary—all to meet our customers' needs and enhance service where possible.

Delivering During a Year Like No Other

97%

SATISFACTION with service reliability

90%

OVERALL SATISFACTION among residential customers

For everyone, 2020 was a year of unprecedented challenges. In Newfoundland and Labrador, it began with "Snowmageddon"—a severe winter blizzard—and was followed by the global pandemic.

In responding to COVID-19, health and safety remained our first priority. As a company, we made certain we were always in step with the guidance and requirements of government and health authorities for safe work practices.

We remained focused on the well-being of our workers while adjusting to ensure reliable operation of our generation and transmission facilities. Many of our employees are responsible for overseeing and carrying out critical work; those employees remained in the field and at our facilities, ensuring we could continue to reliably and safely deliver electricity. We were also strategic in planning and prioritizing the execution of critical capital projects. Above all, we made sure that our people were going home safe at the end of each workday.

To best support our customers throughout the COVID-19 pandemic we elevated our customer service efforts and provided flexible bill payment options, details on interest relief, updates and answers to frequently asked questions, as well as other helpful information.

In spite of the challenges, we ended 2020 with positive results:

Strong safety performance. Despite the added disruptions and the many adjustments that had to be made, we achieved one of our lowest all-injury frequency rates in the past 10 years.

Success in serving customers. Hydro's reliability performance was strong overall, and we continued to keep our customers' needs first and foremost in everything we did. All critical work and winter readiness work was completed, and we experienced no bulk supply interruptions for our customers.

Remained focused on managing and reducing costs to benefit our customers.

Due to the extreme volume of snow that fell during the blizzard, electrical equipment at many sites—like the transformer shown above in Holyrood— quickly became covered in snow.

Hydro Teams Step Up During the Storm of the Century

On January 16, our province was preparing for a winter storm, one that carried much uncertainty but was expected to be significant. Our teams were actively preparing, as they always do. All generation was tested and made available to serve our customers, crews were stationed in key areas, equipment was tested, snow machines and vehicles were fueled, and preparedness and safety information was being actively shared with customers. What materialized was a storm like many have never witnessed before, and most likely never will again. The storm is now commonly known as Snowmageddon.

> "Our system performed exactly as it should with minimal issues—due to the fact that teams were prepared and took the event very seriously."

Many of our teams worked very long hours, unable to make shift changes due to the conditions, and others had to head out to restore customers who were without power. Others were behind the scenes providing support. After passing through the first few days, our crews also stepped in to help Newfoundland Power. On February 26, we received a visit from the Honourable Siobhan Coady, then Minister of Natural Resources, who joined teams at Hydro Place to give thanks for the planning, commitment and hard work not just during the storm, but in the months and years leading up to the storm, which ensured that our system performed exactly as it should—providing a reliable supply of electricity to our customers.

Energy You Can Count On

Looking ahead, we continue to actively plan and keep our regulator informed about future system requirements, risks to reliability and asset planning. And we remain committed to building on our strong safety culture, pursuing continuous improvement in our performance and evolving the way we do business, always ensuring that we are being cost-conscious while providing customers with safe, reliable service. At Hydro, we are always looking forward, striving to serve the people of this province—ultimately, our shareholders—appropriately and effectively.

Hydro Advances the Province's First Fast-Charging Network for Electric Vehicles

Electric vehicle (EV) travel in Newfoundland and Labrador received a significant boost in 2020, with the first provincial fast-charging network announced by Hydro in partnership with the provincial and federal governments.

The network includes 14 charging locations from St. John's to Port aux Basques, enabling electric vehicle owners to travel long distances across the island portion of the province and removing one of the largest barriers to ownership cited by consumers. With this network, EV users will have access to fast chargers at locations averaging every 70 km along the TCH, as well as one charger in Gros Morne National Park. Once complete, the project will see the installation of 62.5kW Direct Current Fast Chargers, located at popular rest stops and service stations, with sufficient power to fast-charge an electric vehicle to 80 per cent in under an hour.

Establishing the fast-charging network is an important first step to making EV use more accessible all around the province. This initiative provides an opportunity for increased domestic ownership of electric vehicles that will both help reduce carbon emissions and support the province's electrification efforts.

The first charging station in our provincial network came online in Holyrood at the end of 2020, marking a critical milestone in the journey to make EV use more feasible in the province. The remaining 13 charging stations will be ready for use in early 2021, with additional locations anticipated around the island and in Labrador through future expansion of the network.

We are excited to advance this initiative, support a greener future for our province and provide clean, renewable, road-trip-ready energy.

LEFT: The first of 14 stations in our EV fast-charging network came online in Holyrood at the end of 2020, marking a critical first step to making EV use more feasible in the province. RIGHT: Hydro President Jennifer Williams joins Minister Siobhan Coady and Minister Seamus O'Regan to announce details of the province's first EV fast-charging network in July 2020.

Street Light Upgrades Provide Improved Lighting and Energy Savings in Remote Communities

Over the past few years, Hydro has been replacing traditional street lights with modern, energy-saving light-emitting diode (LED) fixtures in communities that rely on diesel power for their electricity.

On average, LED street lights last much longer and use about 60 per cent less electricity than traditional High-Pressure Sodium street lights. Plus, LED fixtures have an average lifespan of 15-20 years, resulting in significant savings in both energy and maintenance costs.

Hydro first tested this initiative through a 2015 pilot project in Nain where 125 street lights were replaced with LEDs. In that community alone, the retrofit has yielded savings of approximately 45 megawatt hours of electricity annually, offsetting the need for us to purchase nearly 12,000 litres of diesel fuel that would otherwise be required to generate the same amount of electricity.

LED street lights, like the one shown above, use about 60 per cent less electricity than traditional fixtures.

After seeing this degree of success in Nain, we moved forward to replace the street lights in all diesel-powered communities around the province. By the end of 2020, this resulted in approximately $110,000 in savings annually, not to mention less maintenance, increased energy efficiency and reliability, and better-quality lighting for customers. Going forward, we plan to install LED street lights in all service areas whenever existing, traditional fixtures require replacement.

The sun rises over the St. Mary's River Energy solar farm, ready to produce and store energy for use in the community.

Mary's Harbour Making the Most Of Renewable Energy

For many rural and remote communities in Newfoundland and Labrador, diesel fuel is the sole source of electricity, being the most affordable, reliable option for firm supply. But in Mary's Harbour on the southern Labrador coast, other solutions are springing up. One proponent is pursuing opportunities that reduce the community's reliance on fossil fuels by adding new, renewable energy sources—including the province's first-ever utility-scale solar farm.

St. Mary's River Energy has worked with Hydro for the past few years to make this project a reality. They completed the first phase in 2018, refurbishing a previously decommissioned 240 kW hydroelectric power plant, which we integrated into the existing local isolated electricity grid. Mary's Harbour residents are now supplied with energy produced from the plant.

Work is now underway on the next phase: building a 190 kW solar photovoltaic plant with 335 kW of lithium-ion battery storage. St. Mary's River Energy will own and operate the solar farm, which, when complete, will use energy from the sun to produce and store electricity to be used by local homes and businesses.

The combination of solar and hydro electricity will reduce the amount of diesel burned in Mary's Harbour by up to 30 per cent annually and provide renewable power sources that benefit the community.

BUSINESS EXCELLENCE

churchill falls

SINCE the first delivery of power in 1971, the Churchill Falls Generating Station has been safely producing and delivering clean, renewable energy to its customers. It is one of the largest underground hydroelectric powerhouses in the world, with 11 turbines generating 5,428 megawatts of power. With their commitment to safety and operational excellence, our diverse and dedicated employees are the driving force behind our success, ensuring the continued delivery of safe and reliable power from this world-class facility.

95%
PERFORMANCE

GWAC
GUARANTEED WINTER AVAILABILITY CONTRACT SEASON

COMPLETION OF
100%
ENVIRONMENTAL TARGETS

While 2020 presented a host of new workplace challenges due to COVID-19, employees rose to the challenge and achieved completion of approximately 90 per cent of their Annual Work Plans.

Adding to the COVID-19 challenges, on October 29, an equipment failure on a switchyard transformer resulted in a fire, which subsequently released luminol oil, a product with a low- environmental impact due to its high rate of biodegradability. The Churchill Falls team safely and swiftly mobilized response teams to contain and control the release.

Environmental response and transformer repairs and installation continued throughout the majority of November, with safety protocols consistently in place.

Installation of new transformer in the Churchill Falls Switchyard.

Impacted sites from the oil release continue to be monitored. The successful efforts made by the Churchill Falls team are a testament to their commitment and dedication to safety, teamwork and environmental protection.

Despite our challenges, we achieved a successful Guaranteed Winter Availability Contract (GWAC) season, achieving 95 per cent performance, surpassing our target of 94 per cent.

Further to our commitment to operational excellence, we recognize the importance and value of being an environmental leader. Our operations are environmentally governed by ISO 14001 Certified Environmental Management Systems and, even in the face of COVID-19, our operations reached 100 per cent of our environmental targets and milestones.

Beyond the Workplace and into Our Community

Churchill Falls not only operates one of the largest underground hydro facilities in the world, it also manages and operates the community in which our employees live—a true company-owned town. So when COVID-19 started to become a reality across our province, Churchill Falls management staff knew that the safety and well-being of employees at worksites was far from their only concern—an entire community was also depending on their leadership. From important decisions on how to create valuable online learning experiences for our all-grade school to ensuring the local grocery store implemented appropriate COVID-19 protocols, Churchill Falls stepped up to keep our employees and community safe.

Keeping a Focus on Community in the Midst of a Pandemic

Like every city and town across the nation, businesses and services considered non-essential came to an abrupt halt in mid-March due to COVID-19. Leadership quickly identified essential services for the community and began implementing safety measures and protocols in essential facilities, such as our local grocery store, as well as emergency services response protocols for the Fire & Security Department. Community members were kept up-to-date with the ever-changing pandemic protocols through the community's website and a community email service.

While COVID-19 brought communities to a standstill, leadership found ways to safely keep some annual events on the community agenda, such as Environment Week, Canada Day and Fire Prevention Week. While there were no traditional celebrations or gatherings, residents were encouraged to participate safely in the comfort of their homes.

With COVID-19 protocols and procedures safely in place, the majority of community facilities were reopened with limited operations by the end of 2020.

BUSINESS EXCELLENCE

energy marketing

OUR ENERGY MARKETING TEAM works 24/7 to maximize the value of power exported from Newfoundland and Labrador to external markets in Eastern Canada and the United States. The team continuously pursues opportunities to optimize exports of the province's surplus electricity, while maintaining our steadfast focus on reliable and flexible service to our customers.

In 2020, 95 per cent of available Recapture energy from the Churchill Falls Generating Station was delivered to market, providing 1.264 terawatt hours (TWh) of energy to customers in New York, New England, Ontario and the Maritimes and realizing revenues of $29 million.

Over the past year, our team also worked 24/7 alongside Hydro and the Muskrat Falls Project to schedule energy for Muskrat Falls and Labrador-Island Link commissioning activities, which occurred over the last quarter of 2020.

We continue to work with our industry counterparts and Hydro to make cost-saving energy purchases over the Maritime Link for the benefit of Newfoundland and Labrador's electricity customers. Using our market knowledge and capabilities, we imported approximately 173 gigawatt hours (GWh) of lower-cost energy last year from various regions across Eastern Canada and the Northeastern United States to help displace fuel consumption at the Holyrood Thermal Generating Station.

Exports from Muskrat Falls

Shortly after the commissioning of the first generating unit at Muskrat Falls, our Energy Marketing team began exporting Muskrat Falls power that was surplus to Hydro's needs. This was an important milestone – as the remaining assets come online, the volume of exports our team manages will be nearly three times the levels seen in recent history.

95%

1.264
TERAWATT HOURS
of RECAPTURE ENERGY
sold to markets in

- NEW YORK
- NEW ENGLAND
- ONTARIO
- THE MARITIMES

24/7

Reliable and flexible service

173
GIGAWATT HOURS
of Maritime Link imports for Hydro customers

BUSINESS EXCELLENCE

oil & gas

ON JANUARY 1, 2020, our existing equity interests in offshore developments became managed by the Oil and Gas Corporation of Newfoundland and Labrador (Oil and Gas Corp.) under a management services agreement. At that time, Nalcor Oil and Gas (O&G) employees moved to Oil and Gas Corp., and all intellectual property and contracts associated with offshore exploration (not related to existing assets) were transferred to the Corporation. Nalcor will no longer undertake new offshore oil and gas developments.

O&G is a joint venture working interest partner in three developments in the province's offshore, and we own working interest in the Hebron oil field, White Rose and Hibernia Southern Extension which produced oil in November 2017, May 2010 and June 2011 respectively.

The COVID-19 pandemic had a significant impact on demand for fuels and on crude oil prices in 2020. In March, Husky Energy announced that it would be temporarily suspending major construction activities related to the West White Rose project. As a result of continuing delays from COVID-19 and market uncertainty Husky Energy announced that it would be completing a full review of the scope, schedule and cost of the West White Rose project and in October, announced that the construction of the West White Rose platform would continue to be suspended through all of 2021.

In April 2020, the Hibernia Management Development Corporation announced that drilling activities from Hibernia would be temporarily suspended, which is currently anticipated to be for a period of two years.

pride.

IN SEPTEMBER, power was generated for the first time at Muskrat Falls and electricity delivered to customers in Labrador. Then, in December, the first flow of electricity from Muskrat Falls to Soldiers Pond over the Labrador Island Link successfully delivered up to 150 megawatts of power to island customers.

SAFETY excellence is more than a way of operating – it's an integral part of our identity. Each and every employee at Nalcor shares the responsibility of making sure we all make it home safely at the end of the day.

For the second consecutive year, the Canadian Electricity Agency (CEA) presented us with their President's Award of Excellence for Employee Safety in Generation in Group 2 - an award given to electricity providers that achieve top-ranking Total Recordable Injury Frequency amongst comparable utilities. This acknowledgement is a true testament to our employees and partners who prioritize safety on our worksites every single day.

We are constantly working to achieve success in our sustainability priorities of Safety, Environment, Business Excellence, People and Community and continuing to make progress we can be proud of.

safety & health

SAFETY EXCELLENCE is more than a way of operating – it's an integral part of our identity. Each and every person at Nalcor shares the responsibility of making sure we all make it home safely at the end of the day.

2020 CEA President's Award of Excellence for Employee Safety

Lost-Time Injury Frequency Rate:
Target: 0.15 Actual: 0.08

Lead/Lag Ratio:
Target: 1000:1 Actual: 1323:1

Down 14.1%
in submissions to our Safe Workplace Observation Program

Safety Summit

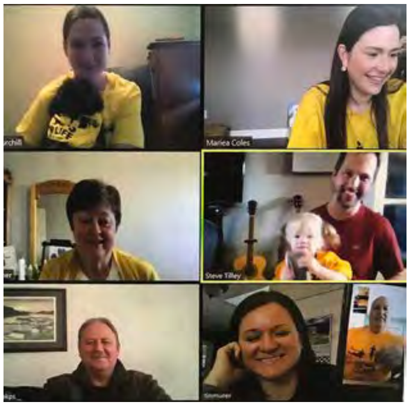
In 2020, our annual Safety Summit went virtual for the first time due to COVID-19 restrictions. While this meant that the usual day-long event with multiple speakers and sessions wouldn't be possible, it did provide the opportunity to livestream our keynote speaker to employees across the province. New York Times best-selling author Neil Pasricha presented the timely and engaging, "Cultivating Calm During the Coronavirus Chaos". Responding to the spike in anxiety, stress and mental health challenges as a result of the pandemic, Neil provided more than 500 viewers with concrete methods to face the challenges and thrive in our new environment.

Neil Pasricha – *Cultivating Calm During the Coronavirus Chaos*

CEA Award for Safety

For the second consecutive year, the Canadian Electricity Agency (CEA) presented us with their President's Award of Excellence for Employee Safety in Generation in Group 2. This prestigious award, given to electricity providers that achieve top-ranking Total Recordable Injury Frequency amongst comparable utilities, recognizes the collective efforts of the Nalcor and Hydro generation teams in demonstrating safety excellence.

It is this relentless commitment to safety, and a continual improvement mindset that provides a safe working environment for our employees. We recognize the importance of establishing, promoting and maintaining a physical and psychologically healthy and safe work environment and are committed to preventing injury and illness among our workers. The President's Award is a testament to this commitment.



ABOVE: The Safety & Health team take part in the virtual Steps for Life event to support the families of workplace tragedies.
RIGHT: Live Line Program participants – following COVID-19 safety protocols.

Mental Health Matters

The importance of mental health supports was made even more evident in 2020 as we dealt with the changes and uncertainty brought about by the global pandemic. For several years, we have made mental health awareness and training a priority across our organization. Because of this, we were able to provide supports for our employees from the very start, as well as throughout the pandemic.
In addition to promoting the services of our Employee and Family Assistance Program (EFAP), we provided mental health strategies in our regular employee communications, on our intranet and during virtual meetings. We also implemented the Guarding Minds at Work survey, which assesses psychological health and safety work-related risk factors.

Live Line Program

Using Live Line maintenance techniques reduces customer outages, expands the maintenance and upgrade season to year-round and improves power line technician recruitment and retention by exercising their core trade techniques. We have been engaged in the Live Line Program since 2018 and have made significant strides in training and qualifying line crews throughout the province. We use experts to establish a training and qualification program that is aligned with CAN/ULC-S801-14 and deliberate in re-establishing rubber glove, bare hand and transmission/distribution hot stick techniques. Despite the additional precautions and procedures related to COVID-19, Live Line techniques Live Line techniques reduced potential outages for our customers by approximately 272,700 hours throughout 2020.

Contractor Safety Management

As part of our commitment to safety, and to enhance our contractor data management processes, Nalcor, and all of our subsidiaries, are now using ISNetworld, an online contractor and supplier management platform. Used to help manage companies' record-keeping needs and improve reporting, this management tool has become increasingly common in several industries. Any contractor wishing to bid on "high risk" work for Nalcor or any of our subsidiaries is required to subscribe to ISNetworld by June 1, 2021.

Implementing ISNetworld will ensure companies that do business with us are compliant with our safety and health standards and policies. Also, this tool will help track contractor safety and health performance and provide a more effective, efficient and timely contractor selection and procurement process, while also helping meet regulatory compliance and safety qualification requirements.

Pandemic Response and Recovery Plan

Creating the corporate COVID-19 Pandemic Response and Recovery Plan required a great deal of time and energy from many employees across all lines of business in 2020. The year started with just a few cases of COVID-19 in China and quickly spread to affect countries around the world.

In February 2020, our corporate Safety and Health team quickly recognized the significance of this virus and its potential to become a pandemic and acted swiftly to review and revise our Pandemic Response Plan. Meetings were held with representatives from all corporate service departments to ensure that preparations were being made from an IT/IS perspective to enable all employees to work from home; personal protective equipment and other necessary supplies were being procured; office equipment and other supplies were being arranged for by facilities management; the required human resources policies relating to travel and sick leave were being created; and that timely and frequent communication of information relating to the pandemic and our response plan was being relayed.

In addition, Business Continuity Plans were submitted by each of the regions and departments to identify essential/critical services that needed to continue throughout the course of the pandemic, and a committee to oversee the completion of these plans was created. We created an Operations Readiness Committee to provide input on the pandemic response plan from an operations perspective, and the Executive Oversight Committee was put in place to provide corporate-level direction on the implementation of the Pandemic Response Plan.

We also created and implemented a number of policies and procedures (e.g., vehicle travel, mask wearing, physical distancing, travel, etc.) over the course of the year to prevent the spread of the virus in the workplace, including our Pandemic Recovery Plan, which helped guide the return of employees and staff back into the workplace as the spread of the virus in NL began to slow down.

All of the control measures implemented as part of our Pandemic Response and Recovery Plan were still in effect at the end of 2020, as case numbers continued to rise and the second wave of the pandemic played out in other jurisdictions across the country.

> "Our Health and Safety team have been some of the most proactive in the province, ensuring our safety at work throughout the pandemic. The protocols we have in place are designed to keep our employees safe, and are fully in line with the Public Health guidelines, and in some cases even more stringent."
>
> – Mike Roberts, Executive VP Corporate Services and Chief Human Resources Officer

community

GIVING BACK to our communities is an important part of who we are as employees and as an organization. Corporately, and through Hydro, Churchill Falls (CF) and Indigenous Affairs and Community Relations (IA), our Community Investment Programs (CIP) support registered not-for-profit organizations with donations, volunteer hours and in-kind work and contributions. Corporately we support a number of areas including STEM education & youth leadership, safety & mental health, environment & sustainability, diversity & inclusion and social & community well-being, with Hydro, Churchill Falls and our Indigenous Affairs team supporting areas closely aligned to their business and their communities. From St. John's to Churchill Falls, Happy Valley-Goose Bay to Port Aux Basques and many communities in between, we are delighted to work with and support organizations across our province.

nalcor energy COMMUNITY INVESTMENT PROGRAM

Supporting Our Communities During COVID-19

IN MARCH when COVID-19 arrived in the province, it became clear that the most vulnerable members of our community were feeling the greatest impact. We made the decision to refocus our corporate efforts to support organizations caring for those most in need – food banks, community shelters, mental health supports and health care organizations. Throughout the year, with this new model in place, we were able to provide our support as the province moved through the various stages of the pandemic ensuring we helped the most people possible.

CANADIAN RED CROSS

MurphyCentre

Stella's Circle Hope Lives Here

Canadian Cancer Society

Kids Help Phone

Community Food Sharing Association

the gathering place

Big Brothers Big Sisters

bridges to hope NEIGHBOURS FEEDING NEIGHBOURS

Holiday Giving

The holidays are a difficult time for many in our province, and this hardship was magnified in 2020. In keeping with our decision to support community and social organizations throughout the pandemic, our annual holiday donations were shared between several organizations including the VOCM Happy Tree, Single Parent Association of Newfoundland and Labrador, First Light, Association for New Canadians and seven community food banks across the province. With these donations we were able to help ease the burden for families in Newfoundland and Labrador.

Supporting Communities and Indigenous Groups or Peoples

We work closely with Indigenous communities and partners in all areas of our business in Labrador. Through our Indigenous Affairs and Community relations department we are proud to support a number of charitable initiatives throughout the region.

Safety in our Communities

This year, Nalcor supported the Happy Valley-Goose Bay Ground Search and Rescue (GSRT) Team's purchase of a Fast Rescue Jet Boat. This craft will improve the effectiveness of GSRT's search and rescue capabilities in the region.

Other safety initiatives included supporting the purchase of an Automated External Defibrillator by the North West River Volunteer Fire Department, as well as safety signage for the Grand River Snowmobile Club and the Labrador Hunting and Fishing Association

Safety signage for the Grand River Snow Mobile Club

Support for Indigenous Communities

Held annually every September 30, Orange Shirt Day opens the door to global conversation on all aspects of Residential Schools and is an opportunity to create meaningful discussion about the effects of these schools and the impact they have left behind. This year, we supported the purchase of orange shirts for students in the Innu communities of Sheshatshiu and Natuashish.

Furthermore, we are proud to provide ongoing support for the Sheshatshiu Innu First Nation annual gathering at Gull Island. This event is about returning to traditional lands that have supported Innu for generations and remains a significant spiritual site for Innu Nation members.

Other partnerships included support for the Labrador Friendship Centre, First Light (formally St. John's Friendship Centre), and various food sharing initiatives in Indigenous communities.

Healthy Communities

Due to COVID-19, there were no organized sporting events held in Newfoundland and Labrador this summer, with the exception of golf and tennis. We were approached by residents in Sheshatshiu and Happy Valley-Goose Bay to start an Indigenous/Youth Golf program and, following discussions with Innu Leadership, we agreed to support this program through junior golf memberships, golf clubs, a junior golf learning centre, shirts, hats and weekly prizes. For some time, residents had also expressed interest in upgrading the trail to view the Churchill Falls. This trail is one of interest to both Indigenous and non-Indigenous people of Labrador. In 2020, we began Phase I of the three-phase upgrading process, establishing a vegetation management program and making other improvements. Phase II will consist of trail infrastructure improvements to walkways, bridges and lookout points, along with enhanced safety barriers at appropriate locations. Phase III will include Indigenous signage, translated into Indigenous languages, to reflect the cultural significance of the falls.

Other healthy community initiatives included continued support of the construction of the Labrador Wellness Centre and sponsorship of the Trapline Marathon in Labrador.

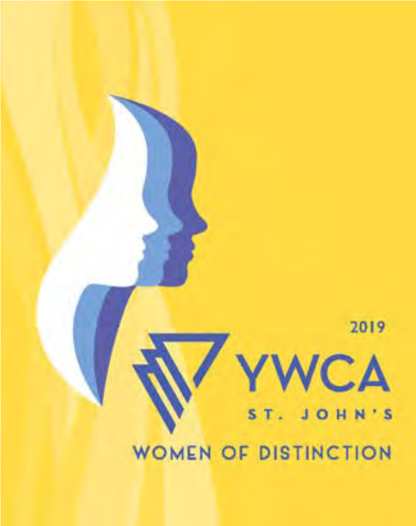
Giving Back to the Community

We support a number of not-for-profit organizations in the Labrador region. In 2020, these included The Housing Hub, an overnight shelter for the transient population of Upper Lake Melville; Mokami Status of Women's Women Helping Women Program, which provides basic hygiene products to women and their families; and Libra House, an emergency domestic violence shelter for women and children in Labrador.

Supporting Community Events

Providing support for events that matter to the community matters to us. This year, we sponsored Cain's Quest, an epic 3,100-km snowmobile endurance race that is the pride of Labrador. We were also a sponsor of Expo Labrador, the region's premier economic development conference.

Our employees share their time with community organizations across the province, including the Jimmy Pratt Memorial Soup Kitchen.



YWCA Women of Distinction Awards

We continued our support of the Women of Distinction Awards in 2020. These awards both celebrate the achievements and recognize the leadership of women who contribute to the development and well-being of other women and inspire and motivate others to learn, achieve and participate. We also provided strategic and graphic design support in rebranding the look and feel of the Women of Distinction Awards.

Women in Resource Development Corporation (WRDC)

In 2020, we continued to support initiatives that raise awareness of the boundless career opportunities available to women in STEM-related fields. Hydro is proud to support WRDC in their transition from traditional, in-person programming to online offerings like the STEMforGIRLS Club, where young girls can connect with role models virtually, build skills and knowledge and explore future career opportunities. We also partnered with WRDC once again to award five $1,500 scholarships to women from Newfoundland and Labrador who are pursuing careers in trades and technology.

Jimmy Pratt Memorial Soup Kitchen

For the last four years, our employees have dedicated one Friday morning a month to preparing and serving hot meals, provided by Nalcor and Hydro, to the patrons of Jimmy Pratt Outreach Centre in downtown St. John's. While volunteering was put on hold for much of the year due to the pandemic, we continued to support the kitchen monetarily—and when they did re-open to outside volunteers, our employees were there to help.

Ronald McDonald House

Hydro's employees were proud to support programming and services that help keep families close when they need it most, by participating in fundraising initiatives like Sock it for Sick Kids. And for the ninth

year running, Hydro was presenting sponsor for the Red Shoe Crew Walk for Families, helping to raise a grand total of $226,000 with this year's Your Walk Your Way event throughout September.

Helping Improve the Future of Firefighting in Rural Communities

Many communities in Newfoundland and Labrador rely on volunteer fire departments to protect their residents and properties—including many Hydro facilities—when fire strikes. But as populations in a number of areas are aging and declining, it is becoming increasing difficult to find volunteers and respond efficiently.

To address these challenges, the Fisheries and Marine Institute and the provincial fire commissioner's office are conducting research aimed at finding solutions for improving firefighting methods and equipment used in rural areas of Newfoundland and Labrador.

Hydro is providing an initial $10,000 in funding toward the research through our Community Investment Program. We will also be sharing our valuable knowledge of and experience in electrical fire safety at later phases of the two-year project.

Churchill Falls Donates Emergency Fire Pump to a Community in Need

After hearing news of a house fire in Black Tickle, Labrador, in early 2020, the Churchill Falls Fire & Security Department donated surplus equipment to the community. On October 23, 2020, an emergency water pump and 600 feet of fire hose were delivered to the community that, until then, had no fire emergency equipment. The Department also provided training to community members on how to safely use the donated equipment.

Conservation Corps Newfoundland and Labrador

Through our continued support of the Green Team Program in 2020, we facilitated valuable skills development, training and employment opportunities for youth on Fogo Island and in North West River in the areas of environmental and cultural conservation.

Nature Newfoundland and Labrador

We helped make it easier for people of all ages to connect with nature by supporting Nature NL's Birdwatching Backpack Accessibility Program, a pilot project at local public libraries that offers backpacks filled with everything needed to try birdwatching. Hydro looks forward to expansion of this program in 2021.

Kids Eat Smart Foundation

For 20 years, Hydro has proudly supported Kids Eat Smart and school breakfast programs around the province. Our strong partnership continued in 2020, helping the transition to grab-n-go breakfasts and providing children with the energy they need to start their day right in a safe, healthy way.

Matthew Brenton, Fire & Security Officer, ensures Black Tickle trainees get hands-on experience learning how to use their new emergency fire pump.

Autism Society Newfoundland and Labrador

We worked with the Autism Society to purchase and install solar panels for their community greenhouse, extending its operation year-round and helping expand training and gardening programs for youth and adults with Autism Spectrum Disorder.

Heart & Stroke Foundation

Helping to build healthy communities is a priority for Hydro. Our continued support of the HeartSmart Kids™ program helps educators teach children and their families how to lead healthy lifestyles using free virtual resources for every student in grades K-6 in schools across Newfoundland and Labrador.

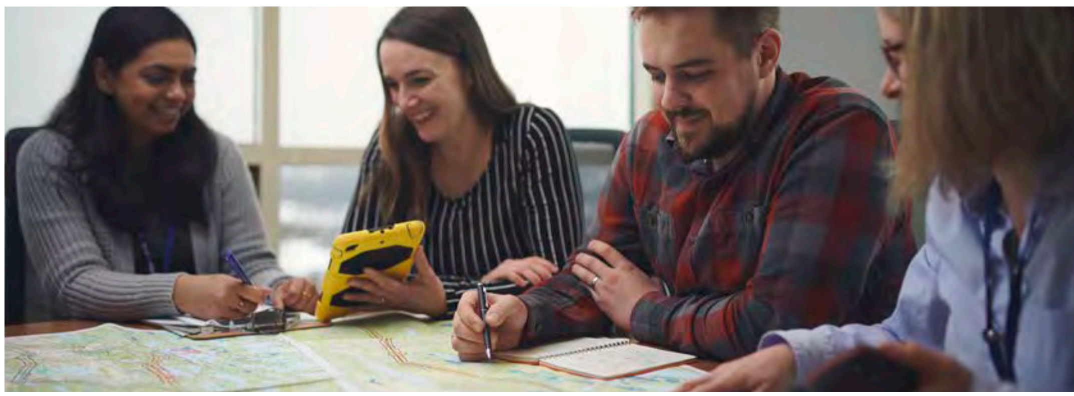
passion.

ENVIRONMENTAL protection is a global effort, and we are passionate about developing and managing the natural environment in which we work every day. We are committed to any opportunity to be proactive in the reduction of our carbon footprint and in the protection of wildlife that live in areas where we operate. Giving back to our communities is an integral part of who we are as employees and as a company. Through our Community Investment Program, Nalcor and Hydro support registered not-for-profit organizations with donations, volunteer hours and in-kind work and contributions. With the implications stemming from province-wide pandemic measures this looked a little different this year as we worked to focus on organizations directly impacted by COVID-19.

From St. John's to Churchill Falls, Happy Valley-Goose Bay to Port Aux Basques, we are always delighted to work with and support organizations across our province.

environment

ENVIRONMENTAL PROTECTION is a global effort, and we manage our activities and develop our projects in a way that preserves and protects the natural environment in which we work every day. We are committed to looking for opportunities to be proactive – whether it be in the reduction of our carbon footprint, or the protection of wildlife that live in the areas in which we operate.



In 2020, we maintained our commitment to environmental leadership, and our efforts were recognized by the Canadian Electricity Association (CEA) who honoured us with their 2020 Continuous Performance Improvement Award for our Migratory Bird Program. This award is given to a company that has demonstrated a commitment to sustainability performance improvement through new projects, programs and initiatives.

COMPLETION OF
100%
ENVIRONMENTAL TARGETS

CEA Environment Award - Migratory Bird Management

Rehabilitation of Access Roads and Quarries for LTA and LIL

Completion of 100% Environmental Targets

As part of our ISO 14001 registration, we are required to demonstrate our commitment to continuous improvement of our environmental performance.

To measurably demonstrate this requirement each year, we set environmental targets across all of the company, as well as a corporate target. This process has been recognized by our internal and external auditors as a strong aspect of our environmental management system. In 2020, 104 targets were developed across various areas of our business, and we set a corporate goal to complete 95 per cent of these targets.

At the end of March 2020, the environmental targets were put at risk due to the global pandemic. Targets were impacted by travel and other restrictions required to work safely, and many of our environmental employees have a dual role with safety and as such they were focused on supporting and implementing the measures needed to ensure employees could work safely. The first step that we took to mitigate this risk was a full analysis of each area's targets. We then provided a report to the environmental representatives committee and, based on this information, a recovery plan was put in place for at-risk targets.

Newly installed bridge for LIL with erosion protection

Faced with the challenges of COVID-19, we looked to find alternative ways to meet our targets, such as moving to online training for our Migratory Bird Awareness Training Program. Operationally, many employees stepped up and worked tirelessly to complete targets in the fall as revised pandemic restrictions allowed some on-hold activities to move forward. With the support of leadership, this team effort enabled us to complete 100 per cent of all 104 environmental targets, which ranged in scope from the development of our Migratory Birds Training Program to efforts by the grocery store in Churchill Falls to eliminate plastic bags and other single-use plastics where possible.

Another timely initiative included the development of an online program for Environmental Emergency Response training. Targets were also completed to ensure we're ready to take on our new electricity assets while continuing to achieve improvements in our existing assets, such as the Storm Petrel protection and mitigation implemented at Holyrood.

Rehabilitation of Access Roads and Quarries for LTA and LIL

As a part of the remediation program for the Labrador-Island Link (LIL) and the Labrador Transmission Assets (LTA), more than 300 stream crossings were remediated. Of these, half required upgrading of the culvert size or the addition of an overflow culvert to meet regulatory requirements. In a couple of locations, we were required to install a new bridge. Remediation efforts also included the placement of material to prevent the occurrence of sedimentation and erosion events.

The remediation program also included work in approximately 170 quarries in Newfoundland and Labrador. Remediation in these quarries included blocking access to quarry sites (to help reduce illegal dumping), draining standing water, encouraging revegetation and ensuring the slope of the terrain meets regulatory requirements.

On-site environmental monitors provided "boots on the ground" along the more than 1,400 km of transmission line to ensure environmental protection measures were in place and that our regulatory requirements were being met.

Churchill Falls Environmental Stewardship Award

This year, the Churchill Falls Environmental Stewardship Award was awarded to 10-year-old Aaron Parsons, a conscientious young man passionate about the environment and global sustainability.

Whether it's organizing neighbourhood cleanups, growing his own vegetables, composting or finding ways to reuse materials, Aaron is well-educated on the topics he cares about and takes action to enlighten others as well.

He knows that doing your part to help the environment can be hard work and not necessarily "fun," but that doesn't stop him from trying to make the most of it with his friends. When referring to the neighbourhood cleanup he organized for Environment Week, Aaron says, "It doesn't need to be fun, but you need to try and make a little bit of fun out of it. The more the merrier. And it makes it a lot more fun when all my friends help out too."

Aaron is even sustainably conscious when it comes to his toys. "When you buy toys," he says, "you should think about things you'd actually use and not just throw out really quick. You want something that's useful for everybody and [that] you can have fun with for a long time."

Aaron aspires to be an environmentalist or archaeologist because they are both science-related and will allow him to help the environment. Regardless of his future plans, we can all feel hopeful for the future of our planet when there are people like Aaron who are willing to spark and implement a positive change.

Migratory Bird Management

While the generation and transmission of electricity is the foundation of our business, we are also committed to supporting and protecting the communities in which we operate. We believe that we can safely and reliably supply electricity while protecting our environment, in particular our local bird populations. We also believe that we can be a leader in protection, research and knowledge-sharing within our industry.

To this end, we have implemented many projects and programs focused on protecting migratory birds and biodiversity. We have created standard operating procedures that allow us to operate and maintain our transmission lines and work in our electrical yards and stations while protecting migratory birds and their nests.Through a partnership with Birds Canada, we also support ongoing migratory bird research that will benefit the province as a whole. We have also adjusted the lighting in our coastal facilities to mitigate impacts to coastal seabirds.

TOP: Installation of Automated Recording Unit for bird survey program in partnership with Birds Canada. BOTTOM: Stranded Storm Petrel awaiting release back into its natural environment.

people.

OUR PEOPLE are the foundation of our company. Together, we are creating an inclusive and diverse workforce that enables people to feel comfortable and engaged at work, making us a better company and strengthening our commitment to the communities in which we serve.

This year, our safety measures were taken to a whole new level with preparation and implementation of our corporate COVID-19 pandemic response and recovery plan. We work hard to foster a safe and healthy work environment for all, as we continue to focus on sustainability in everything we do and everywhere we operate.

It's not possible to talk about the safety and health of our employees without acknowledging the important partnerships with our unions. These partnerships have resulted in many ongoing safety and health programs and have been instrumental in building our safety culture.




people

OUR PEOPLE are the foundation of our company. Together, we are creating an inclusive and diverse workforce that enables people to feel comfortable and engaged at work and makes us a better company, strengthening our commitment to the communities we serve. We work hard to foster a safe and healthy work environment, as we continue to focus on sustainability in everything we do and everywhere we operate.

6 webinars
(Provided learning opportunities for D&I day, Intl. Day of Persons with Disabilities and with our WLN)

2 flag raising events
(Pride, Purple Ribbon Campaign)

Diversity & Inclusion

Let's Talk Allyship

We pursued the theme of allyship throughout the year in various presentations, including one from InclusionNL on the International Day of Persons with Disabilities that highlighted the varied experiences of persons living with disabilities and ways we can be an ally.

We held our 3rd annual Diversity and Inclusion (D&I) Day in October. This year's theme, "Let's Talk Allyship," reminded employees that our workplace—and the world—is made better by diversity, inclusion and collaboration and and also encouraged employees to make a conscious effort to be an ally every day.

Moving to a virtual offering because of the pandemic, our D&I Champions and Women's Leadership Network offered three informative webinars on how to be an ally to under-represented groups. The Association for New Canadians discussed racism, discrimination and the experience that newcomers to the province can have, while sharing tangible ways to combat racism and be an ally. A local Red Seal electrician shared her personal experience as a woman in trades and offered ways to be an ally to women within our industry. Finally, a speaker on justice, equity and human rights incorporated strategies and best practices into their discussion with employees about what it means to be an ally.

Hydro President Jennifer Williams was joined by Cheri Butt, CEO of Women in Resource Development Corp. for a Coffee & Conversations Q&A session in celebration of International Women's Day. Jennifer spoke about her background, career path and perspectives on leadership.

GENDER EQUITY TARGETS

In 2017, we set gender equity targets to focus on the recruitment and retention of women in areas of the business in which they are underrepresented. Our whole organization thrives when we focus on creating a diverse and inclusive environment and, although we recognize that there is still more work to be done, we continued to make progress in our established targets in various occupational groups through 2020.

OCCUPATIONAL GROUP	REPRESENTATION OF WOMEN				
	2017	2018	2019	2020	TARGETS
Executive	15%	24%	30%	22%	30%
Management	32%	33%	34%	33%	35%
Engineers (Including Engineers in Training)	21%	21%	22%	25%	30%
Technicians and Technologists	6%	6%	7%	8%	10%
Field Supervisors	5%	5%	5%	4%	6%
Skilled Trades (Including Apprentices)	4%	6%	6%	7%	10%
Manual Workers	16%	17%	19%	20%	20%

*Includes Nalcor Energy and subsidiaries representation as of December 2020.

Employee Pulse Surveys

While working though the COVID-19 pandemic, we checked in with employees throughout the year to better understand how they were doing. Pulse surveys allowed employees to provide their input on the perceptions of health and safety, organizational support, expectations and working conditions, among other areas.

Overall, employees shared that they understood the steps taken to ensure their health, safety and well-being; that they understood expectations of them; that they were satisfied with the flexible arrangements provided to them; and that their current working conditions allowed them to perform work effectively.

We are pleased to know that our employees felt safe and supported throughout the pandemic, as it was one of our key focuses. This mechanism allowed employees to ask questions they had related to the pandemic and to provide a forum for feedback to consider for continuous improvement.

Employee Recognition

In the fall, as part of our annual employee recognition program, we took the opportunity to recognize employees who went above and beyond in 2020—and especially in the context of the pandemic—to help drive important work within the company while working in the best interest of the people of our province. Many employees were identified by their peers for their hard work and determination throughout the year in the categories of Safety & Health, Environment, Business Excellence, People and Community. A number of these individuals were then recognized in a virtual event with our CEO and members of the senior leadership team.

sustainability

SUSTAINABILITY is understanding that we need to conduct our business in a manner that is environmentally and socially responsible, while ensuring the long-term viability of our business.

Safety and Health

- Occupational Health and Wellness
- Corporate Emergency Response
- Public Safety
- Improving Safety Performance and Safety Culture

Business Excellence

- Fiscal Responsibility, Transparency and Accountability
- Climate Change Risk Assessment of Assets
- Life Cycle Approach to Capital Projects
- Reliability
- Responsible Procurement/ Supplier Diversity
- Interconnection with the North American grid
- Grid/Electricity Portfolio Growth Plan

Environment

- EMS Improvement and Expansion
- Climate Change Mitigation and Adaptation
- Energy Use/Energy Savings
- Renewable Energy in Isolated Communities
- Emission Reduction/ Displacement

People

- Diversity and Inclusion
- Employee Engagement
- Attraction and Retention

Community

- Community Investment Program
- Economic Impact
- Customer Satisfaction
- Stakeholder Engagement and Indigenous Partnerships

Committed to a Sustainable Future

In 2020 the Canadian Electricity Association (CEA) recognized our commitment to both Occupational Health and Safety and Sustainability with two awards – **the CEA President's Award of Excellence for Employee Safety in Generation** and the **CEA's Sustainable Electricity program's 2020 Commitment to Continuous Performance Improvement through Projects, Programs and Initiatives.**

2020 marked the second year the CEA presented us with their President's Award of Excellence (pg. 28) and the second time we were recognized with a Sustainable Electricity award for our commitment to our Migratory Bird Program (pg. 36).

While operating and maintaining a reliable electrical system can involve activities such as vegetation management and equipment use that can result in impact to migratory birds and nests, we apply measures to avoid such harm.

Standard operating procedures are in place for operations and maintenance on our lines, and for bird nests in our yards and stations. In 2019 and 2020, those procedures were updated and relayed to personnel across the province. We are also developing a migratory bird awareness program for our personnel.

We also worked closely with the Canadian Wildlife Service and Birds Canada to obtain migratory bird data for the province's first Breeding Bird Atlas and have committed to providing our mapping for trails, lines and roadways to enable access to typically inaccessible remote birding areas.

In 2020 we also continued our programs in our coastal facilities to mitigate impacts to storm petrels by adjusting our facility lightning and completing surveys to find stranded petrels. These petrels were then safely released back into the environment.

We are constantly working to achieve success in our sustainability priorities of Safety and Health, Environment, Business Excellence, People and Community. The recognition from the CEA indicates that we continue to make progress to be proud of.

APPROVED Sustainable Electricity Company™ | Canadian Electricity Association

Years ended December 31	**2020**	2019	2018	2017	2016
INSTALLED GENERATING CAPACITY (rated megawatts)					
Churchill Falls	**5,428**	5,428	5,428	5,428	5,428
Hydro - Hydraulic					
Hydraulic	**956**	956	956	956	956
Thermal	**741**	741	741	741	741
Diesel	**66**	66	67	67	66
Menihek	**19**	19	19	19	19
Total	**7,210**	7,210	7,211	7,211	7,210
ELECTRIC ENERGY GENERATED, NET (gigawatt hours GWh)					
Churchill Falls	**32,731**	34,982	35,598	30,927	33,806
Hydro					
Hydraulic	**4,508**	4,525	4,944	4,507	4,380
Thermal	**986**	1,259	1,118	1,725	1,740
Diesel	**46**	51	52	50	53
Muskrat Falls	**29**	-	-	-	-
Menihek	**47**	46	49	45	46
Total	**38,347**	40,863	41,761	37,254	40,025
ELECTRIC ENERGY SALES (GWh)					
Churchill Falls Export	**28,997**	28,944	28,970	28,970	27,995
Hydro					
Utility	**5,529**	5,926	5,839	5,895	5,845
Rural	**1,108**	1,148	1,151	1,104	1,068
Industrial	**2,455**	2,437	2,080	2,340	2,267
Export	**1,280**	1,319	1,562	1,594	1,627
Menihek Export	**47**	46	49	45	45
Total	**39,416**	39,820	39,651	39,948	38,847
TRANSMISSION LINES (kilometres)					
Churchill Falls					
735 kV	**608**	608	608	608	608
230 kV	**-**	-	-	-	471
Hydro					
230 kV	**2,251**	2,251	2,251	2,251	1,609
138 kV	**1,533**	1,533	1,533	1,533	1,500
69 kV	**628**	628	628	628	634
Menihek					
69 kV	**39**	39	39	39	39
Total	**5,059**	5,059	5,059	5,059	4,861
PEAK ELECTRICITY DEMAND (megawatts)					
Churchill Falls	**5,706**	5,636	5,531	5,611	5,670
Hydro System	**1,516**	1,651	1,503	1,540	1,521
Island System	**1,657**	1,784	1,640	1,714	1,673
PETROLEUM AND NATURAL GAS PROPERTIES					
Oil Production (Thousands Barrels of Oil Equivalent (BOE)/day)					
White Rose Growth Lands	**0.67**	0.38	0.80	1.38	0.86
Hibernia Southern Extension	**4.74**	4.10	5.05	7.38	5.22
Hebron	**6.94**	5.47	3.02	1.10	-
Remaining Reserves (Proven and Probable) (Millions BOE)					
White Rose Growth Lands	**7.48**	7.59	7.36	8.43	5.66
Hibernia Southern Extension	**9.18**	12.10	15.25	18.20	23.53
Hebron	**32.20**	34.20	35.49	36.03	34.35
STAFFING LEVELS					
Full-time equivalents	**1,485**	1,592	1,566	1,528	1,490

FINANCIAL STATISTICS

Years ended December 31 (millions of dollars)	2020	2019	2018	2017	2016
OPERATING RESULTS					
Continuing operations					
Revenue					
Energy sales	**913**	1,016	1,005	854	779
Other revenue	**17**	22	24	23	24
	930	1,038	1,029	877	803
Expenses					
Fuels and power purchased	**249**	319	276	301	229
Operating costs[1]	**211**	226	216	214	201
Production, marketing and transportation costs[1]	**39**	36	42	30	26
Transmission rental	**26**	26	25	25	22
Depreciation, depletion, amortization and impairment	**437**	197	189	300	135
Exploration and evaluation	-	33	29	1	2
Net finance expense	**109**	92	83	66	72
Other expense (income)[1]	**(37)**	18	33	27	1
Regulatory adjustments	**(14)**	(36)	(46)	(91)	(1)
	1,020	911	847	873	687
(Loss) Profit for the year from continuing operations	**(90)**	127	182	4	116
Discontinued operations					
(Loss) profit for the year from discontinued operations	**-**	(1)	(2)	47	20
(Loss) Profit for the year	**(90)**	126	180	51	136
SEGMENT EARNINGS[2]					
Continuing operations					
Hydro	**42**	27	30	36	16
Hydro Regulated	36	30	28	36	19
Hydro Non-Regulated	6	(3)	2	-	(3)
Power Development	**(6)**	(1)	(2)	(53)	(1)
Muskrat Falls	(6)	(1)	(2)	(2)	(1)
Other - Power Development	-	-	-	(51)	-
Power Supply	**4**	24	58	43	62
LCP Transmission	(25)	(13)	2	(1)	1
Churchill Falls	33	35	32	33	41
Energy Trading	(5)	-	23	15	17
Other - Power Supply	1	2	1	(4)	3
Offshore Development	**(112)**	96	125	(3)	58
Oil and Gas	(112)	96	125	(3)	58
Corporate	**(18)**	(19)	(29)	(19)	(19)
(Loss) Profit for the year from continuing operations	**(90)**	127	182	4	116
Discontinued operations					
Offshore Development	**-**	(1)	(2)	47	20
Bull Arm Fabrication	-	(1)	(2)	47	20
(Loss) Profit for the year	**(90)**	126	180	51	136
FINANCIAL POSITION					
Total current assets	**1,609**	2,042	2,493	2,751	2,098
Total current liabilities	**750**	718	687	970	1,750
Net working capital	**859**	1,324	1,806	1,781	348
Property, plant and equipment, cost	**19,178**	18,330	17,119	15,760	12,414
Accumulated depreciation, depletion and impairment	**1,950**	1,532	1,364	1,195	997
Property, plant and equipment, net	**17,228**	16,798	15,755	14,565	11,417
Sinking funds (long-term portion)	**217**	209	200	192	230
Long-term investments	**-**	100	130	332	34
Regulatory deferrals (net)	**155**	110	88	38	(184)
Other assets	**81**	69	56	34	120
Long-term debt	**9,577**	9,649	9,688	9,386	5,873
Other liabilities	**2,794**	2,706	2,590	2,529	1,828
Shareholder's equity	**6,169**	6,255	5,757	5,027	4,264
CAPITAL EXPENDITURES[3]	**855**	1,223	1,399	3,424	3,286

1. Comparative figures have been reclassified to conform to the basis of presentation adopted during the current reporting period.

2. The operating structure as at December 31, 2020 is comprised of five business segments. Effective January 1, 2020, the shares of Bull Arm Fabrication were distributed to the new Crown corporation, Oil and Gas Corporation of Newfoundland and Labrador. The designation of segments is based on a combination of regulatory status and management accountability.

3. Capital expenditures includes tangible and intangible expenditures.

(listed as of Dec. 31, 2020)

NALCOR ENERGY BOARD OF DIRECTORS

BRENDAN PADDICK* [5]
Chairperson, Nalcor Energy
CEO Columbus Capital Corp.

JOHN GREEN, Q.C.** [2, 5]
Lawyer, McInnes Cooper

GEOFF GOODYEAR [1***, 2, 4]
Retired Executive, Universal Helicopters
Newfoundland and Labrador LP

JACK HILLYARD [1, 3]
Retired BMO Executive

MARK MACLEOD [2, 3, 5]
Formerly President and CEO, C-Core

STAN MARSHALL
President and Chief Executive Officer, Nalcor Energy

DEBBIE MOLLOY [1, 3, 4]
President and Chief Executive Officer, WSCC,
Northwest Territories and Nunavut

DEREK PURCHASE [1]
Retired EY Partner, Sustainability Consultant

DAVID OAKE [1, 3, 5]
President Invenio Consulting Inc.

EDNA TURPIN, ICD.D [2, 4]
Corporate Director

1 - Audit Committee, 2 - Corporate Governance Committee, 3 - Human Resources & Compensation Committee, 4 - Safety, Health, Environment & Community Committee, 5 - Special Committee of the Board of Directors on the Muskrat Falls Inquiry and Rate Mitigation Reference Reports

*On Leave of Absence as of Sept. 4, 2020
**Acting Chairperson as of Sept. 4, 2020
***Resigned from Audit Committee Nov. 27, 2020
Note: Christopher Hickman was a Director for part of 2020 but resigned prior to year-end (effective November 18, 2020)

NALCOR ENERGY OFFICERS

STAN MARSHALL
President and Chief Executive Officer

GILBERT BENNETT
Executive Vice President, Power Development

JIM HAYNES
Executive Vice President, Power Supply

JIM KEATING
Executive Vice President, Corporate Services and
Offshore Development

MIKE ROBERTS
Executive Vice President, Corporate Services and
Chief Human Resources Officer

CARLA RUSSELL
Executive Vice President, Finance and
Chief Financial Officer

PETER HICKMAN
Senior Vice President, Chief Legal Officer and
Corporate Secretary

ROBERT HENDERSON
Vice President, Transition to Operations

AUBURN WARREN
General Manager, Financial and Risk Management

MEREDITH BAKER
Assistant Corporate Secretary

NEWFOUNDLAND AND LABRADOR HYDRO BOARD OF DIRECTORS

JOHN GREEN Q.C.
Chairperson
Lawyer, McInnes Cooper

STAN MARSHALL
President and CEO, Nalcor Energy

DONNA BREWER
Retired Deputy Minister of Finance

CHRIS LOOMIS
Retired Professor, Memorial University of Newfoundland

BRENDAN PADDICK*
CEO, Columbus Capital Corp.

DAVID OAKE
President, Invenio Consulting Inc.

FRASER EDISON
President and CEO, Rutter Inc.

JOHN MALLAM
Retired Newfoundland and Labrador Hydro Executive

WILLIAM NIPPARD**
Director of Operations, Qulliq Energy Corp.

BRIAN WALSH
Retired FortisTCI Executive

NEWFOUNDLAND AND LABRADOR HYDRO OFFICERS

STAN MARSHALL
Chief Executive Officer

JENNIFER WILLIAMS
President

KEVIN FAGAN
Vice President, Regulatory Affairs and Customer Service

TERRY GARDINER
Vice President, Engineering and Technology

LISA HUTCHENS
Vice President, Financial Services

MICHAEL LADHA***
Legal Counsel and Assistant Corporate Secretary

RONALD LEBLANC
Vice President, Operations and NLSO

GEOFF YOUNG****
Corporate Secretary and General Counsel

*On Leave of Absence as of Sept. 4, 2020
**Resigned Dec. 31, 2020
***Appointed Vice President, General Counsel, Corporate Secretary and Commercial on Jan. 8, 2021
****Retired Jan. 8, 2021

BRENDAN PADDICK, ICD.D
(Independent)
Board Chair*

Brendan Paddick is a renowned CEO and corporate director. He has extensive capital markets, corporate governance, major capital project and international business experience. He is the founder and former chief executive officer of Columbus International Inc., a diversified telecommunications company. In March 2015, Columbus merged with Cable & Wireless Communications PLC in a transaction that valued Columbus at over CDN$4.4 billion. In May 2016, Liberty Global PLC acquired Cable & Wireless-Columbus for an enterprise value of approximately CDN$11.1 billion.

Mr. Paddick holds a Bachelor of Commerce and a Master of Business Administration from Memorial University of Newfoundland and graduated from the Advanced Management Program at Harvard University. Mr. Paddick has extensive capital market experience and was recognized as one of Canada's Top 40 under 40 in 2000. He has been named one of Atlantic Canada's Top 50 CEO's by Atlantic Canadian Business Magazine on the maximum five occasions and as such, has been inducted into the Top 50 CEO Hall of Fame. Brendan was Memorial University's Faculty of Business Alumnus of the Year for 2002. He was named Ernst & Young's Atlantic Canadian Business-to-Business Entrepreneur of the Year in 2011 and was honoured as Memorial University's Alumnus of the Year in 2013. In 2018, he was inducted into the Junior Achievement NL Business Hall of Fame. In 2019, Brendan was awarded EY Canada's Special Citation Award for Master Entrepreneur for his career body of work.

BOARDS AND COMMITTEES AS MEMBER	2018	2019	2020*
Nalcor Energy Board and AGM	10 of 10	10 of 10	7 of 12
Special Committee of the Board of Directors on the Muskrat Falls Inquiry and Rate Mitigation Reference Reports**	N/A	N/A	0***
Newfoundland and Labrador Hydro Board	7 of 7****	8 of 8	5 of 8
Nalcor Energy - Oil and Gas Inc. Board	4 of 4	8 of 8	5 of 7
LIL Operating Corporation Board	2 of 2	2 of 2	1 of 2
LIL Holding Corporation Board	2 of 2	2 of 2	1 of 2
Labrador Transmission Corporation Board	3 of 3	2 of 2	1 of 3
LCP Group Meeting	3 of 3	3 of 3	2 of 4
CFLCo Board	5 of 5	4 of 4	2 of 4
Total of Meetings Attended as Member	36 of 36	39 of 39	24 of 42

** B. Paddick – Leave of Absence taken as of Sept. 4, 2020*
*** Special Committee of the Board of Directors on the Muskrat Falls Inquiry and Rate Mitigation Reference Reports formed June 26, 2020.*
****Leave of absence taken prior to first meeting.*
*****Joined Newfoundland and Labrador Hydro Board as member after third meeting was held.*

BOARDS AND COMMITTEES AS NON-MEMBER	2018	2019	2020
Nalcor Energy Governance Committee	1 of 4	0 of 2	1 of 4
Nalcor Energy HR & Compensation Committee	6 of 8	2 of 6	3 of 5
Nalcor Energy Audit Committee	5 of 6	4 of 6	3 of 7
Nalcor Energy SHEC Committee	2 of 3	0 of 3	0 of 3
Lower Churchill Management Corporation Board	2 of 2	2 of 2	1 of 2
Muskrat Falls Corporation Board	2 of 2	2 of 2	1 of 3
LIL General Partner Corporation Board	3 of 3	2 of 2	1 of 3
Nalcor Energy - Bull Arm Fabrication Inc. Board	1 of 3	1 of 2	N/A
Nalcor Energy Marketing Corporation Board	1 of 2	2 of 3	0 of 2
CFLCo Audit Committee	2 of 4	0 of 5	0 of 5
Total of Meetings Attended as Non-member	25 of 37	15 of 33	10 of 34

Total of Meetings Attended	61 of 73	54 of 72	34 of 76

REMUNERATION FOR BOARDS:	Nalcor	Bull Arm	CFLCo	NL Hydro
	NIL	N/A	Not taken	Not taken

AGM - Annual General Meeting, **LIL** - Labrador Island Link, **LCP** - Lower Churchill Project, **CFLCo** - Churchill Falls (Labrador) Corporation Ltd., **SHEC** - Safety, Health, Environment and Community

(listed as of Dec. 31, 2020)

JOHN GREEN, Q.C.
(Independent)
Acting Board Chair*

While practising with law firm McInnes Cooper, John Green represented provincial, national and international clients, and a significant part of his practice was in the oil and gas, utility, mining and forestry sectors. He worked principally in the general corporate and commercial law fields with a focus on mergers and acquisitions, securities and related matters. Mr. Green has represented venture capital investors, private placement companies, publicly listed issuers and underwriters.

Mr. Green has been an active member of the Canadian Bar Association and the Law Society of Newfoundland and Labrador, and he has served as a member of the Canadian Bar Association's National Executive. Mr. Green has a Bachelor of Arts from Memorial University of Newfoundland (1966) and a Bachelor of Laws from Dalhousie University (1969). He has also served as a director of a number of private, public and not-for-profit boards.

BOARDS AND COMMITTEES AS MEMBER	2018	2019	2020*
Nalcor Energy Board	9 of 9	9 of 9	11 of 11
Nalcor Energy Governance Committee	4 of 4	2 of 2	4 of 4
Special Committee of the Board of Directors on the Muskrat Falls Inquiry and Rate Mitigation Reference Reports**	N/A	N/A	8 of 8
Newfoundland and Labrador Hydro Board *(Board Chair)*	7 of 7	8 of 8	8 of 8
CFLCo Board	5 of 5	4 of 4	4 of 4
CFLCo Audit Committee	4 of 4	5 of 5	5 of 5
CFLCo SHE Committee	1 of 1	N/A	N/A
Nalcor Energy Marketing Corporation Board	2 of 2	3 of 3	2 of 2
LCP Group Meeting	3 of 3	3 of 3	4 of 4
LIL General Partner Corporation Board	3 of 3	2 of 2	3 of 3
Total of Meetings Attended as Member	38 of 38	36 of 36	49 of 49

** J. Green – Appointed Acting Chair (B. Paddick takes Leave of Absence) Sept. 4, 2020*
***Special Committee of the Board of Directors on the Muskrat Falls Inquiry and Rate Mitigation Reference Reports formed June 26, 2020.*

COMMITTEES AS NON-MEMBER	2018	2019	2020
Nalcor HR & Comp. Committee	N/A	N/A	2 of 5
Newfoundland and Labrador Hydro Audit Committee	3 of 3	5 of 6	5 of 6
Newfoundland and Labrador Hydro Governance Committee	N/A	3 of 3	3 of 3
Total of Meetings Attended as Non-member	3 of 3	8 of 9	10 of 14
Total of Meetings Attended	41 of 41	44 of 45	59 of 63

REMUNERATION FOR BOARDS	Nalcor	Bull Arm	CFLCo	NL Hydro
	NIL	N/A	$15,520	$28,870

LIL - Labrador Island Link, **LCP** - Lower Churchill Project, **CFLCo** - Churchill Falls (Labrador) Corporation Ltd., **SHE** - Safety, Health and Environment

STAN MARSHALL
President and CEO

Stan Marshall was named CEO, Nalcor Energy in April 2016. Previous to his time at Nalcor, he served as President and CEO and was on the Board of Directors of Fortis.

Stan has held many senior executive positions throughout his career. His time with Fortis spanned 35 years and he was at the helm as President and CEO for more than 18 years. He was a director and/or senior officer of many Fortis companies including FortisBC, FortisAlberta, FortisOntario, Maritime Electric, Belize Electricity, CH Energy, Caribbean Utilities, FortisTCI and Newfoundland Power.

Stan is currently an independent director of Enerflex Ltd and is Chair of its Human Resource Committee. He is also an independent director of Trans Mountain Corp. and is Chair of the Expansion Project Oversight Committee overseeing construction of its pipeline expansion project. Previously he served as an independent director of Toromont Industries Ltd.

He is a retired member in good standing of the Law Society of Newfoundland and Labrador and retired member in good standing of Professional Engineers and Geoscientists Newfoundland and Labrador. Mr. Marshall holds a Bachelor of Applied Science Degree in Chemical Engineering from the University of Waterloo and Bachelor of Law from Dalhousie University.

BOARDS AND COMMITTEES AS MEMBER	2018	2019	2020
Nalcor Energy Board and AGM	10 of 10	10 of 10	12 of 12
Newfoundland and Labrador Hydro Board	7 of 7	8 of 8	8 of 8
Labrador Transmission Corporation Board	3 of 3	2 of 2	3 of 3
Lower Churchill Management Corporation Board	2 of 2	2 of 2	2 of 2
Muskrat Falls Corporation Board	2 of 2	2 of 2	2 of 2
LIL General Partner Corporation Board	3 of 3	2 of 2	3 of 3
LCP Group Meeting	3 of 3	3 of 3	4 of 4
Nalcor Energy - Bull Arm Fabrication Inc. Board	2 of 3	2 of 2	N/A
Nalcor Energy Marketing Corporation Board	2 of 2	1* of 3	N/A
CFLCo Board	5 of 5	4 of 4	4 of 4
Nalcor Energy - Oil and Gas Inc. Board	4 of 4	8 of 8	7 of 7
Total of Meetings Attended	43 of 44	44 of 46	45 of 45

Attended first meeting then resigned.

REMUNERATION FOR BOARDS:	Nalcor	Bull Arm	CFLCo	NL Hydro
	NIL	NIL	NIL	NIL

AGM - Annual General Meeting, **LIL** - Labrador Island Link, **LCP** - Lower Churchill Project, **CFLCo** - Churchill Falls (Labrador) Corporation Ltd.

(listed as of Dec. 31, 2020)

GEOFF GOODYEAR
(Independent)

Geoff Goodyear spent the majority of his working career as a helicopter pilot. He recently retired as the President and CEO of Universal Helicopters Newfoundland and Labrador LP. During his tenure with Universal, he received Transport Canada's Aviation Safety Award and also received the first Innovation in Safety Award presented by Eurocopter Canada.

Geoff has served in a number of official roles throughout his aviation career, including serving as chair of several organizations such as the Helicopter Association of Canada and NavCanada's Advisory Committee. Geoff is also a Past Director, Institute for Environmental Monitoring and Research.

In addition to his career interests, Geoff has also contributed his expertise to the Labrador North Chamber of Commerce and the Battle Harbour Historic Trust as a board member, and he also served as president of the Happy Valley-Goose Bay Rotary Club. He is a co-founder of the Labrador Peregrine Falcon Monitoring Program and was recognized as an Honorary Colonel for 5 Wing, Goose Bay.

BOARDS AND COMMITTEES AS MEMBER	2018	2019	2020
Nalcor Energy Board	9 of 9	9 of 9	11 of 11
Nalcor Energy SHEC Committee	3 of 3	3 of 3	3 of 3
Nalcor Energy Governance Committee	4 of 4	2 of 2	4 of 4
Nalcor Energy Audit Committee	N/A	2* of 6	7 of 7**
LCP Group Meeting	3 of 3	3 of 3	4 of 4
LIL Operating Corporation Board	2 of 2	2 of 2	2 of 2
LIL General Partner Corporation Board	3 of 3	2 of 2	3 of 3
CFLCo Board	N/A	4 of 4	4 of 4
CFLCo SHE Committee	N/A	2 of 2	2 of 2
Total of Meetings Attended	24 of 24	29 of 33	40 of 40

**Appointed to Nalcor Energy Audit Committee after the fourth meeting was held.*
***Resigned from Nalcor Energy Audit Committee after seventh meeting was held.*

REMUNERATION FOR BOARDS	Nalcor	Bull Arm	CFLCo	NL Hydro
	NIL	N/A	$8,500	N/A

LIL - Labrador Island Link, **LCP** - Lower Churchill Project, **CFLCo** - Churchill Falls (Labrador) Corporation Ltd., **SHE** - Safety, Health and Environment

CHRISTOPHER HICKMAN*
(Independent)

Christopher Hickman, Marco Chair and CEO, leads the entire Marco team and provides strategic direction for the company. He has received numerous awards over the years for business leadership and acumen. In 2011, he was inducted into the Top 50 CEO Hall of Fame by Atlantic Business Magazine – an honour awarded to Top 50 CEOs who have made this list for five consecutive years. These awards recognize individuals who display corporate leadership excellence and advance their respective industries and improve the quality of life for all Atlantic Canadians.

BOARDS AND COMMITTEES AS MEMBER	2018	2019	2020
Nalcor Energy Board	4 of 9	5 of 9	8 of 9
Nalcor Energy Audit Committee	4 of 6	5 of 6	6 of 6
Nalcor Energy SHEC Committee	3 of 3	3 of 3	1 of 2
LCP Group Meeting	1 of 3	3 of 3	3 of 3
LIL Operating Corporation Board	2 of 2	1 of 2	1 of 2
Muskrat Falls Corporation Board	2 of 2	1 of 2	1 of 2
Total of Meetings Attended	16 of 25	18 of 25	20 of 24

REMUNERATION FOR BOARDS	Nalcor	Bull Arm	CFLCo	NL Hydro
	NIL	N/A	N/A	N/A

Christopher Hickman resigned on November 18, 2020.

LIL - Labrador Island Link, **LCP** - Lower Churchill Project, **SHEC** - Safety, Health, Environment and Community

(listed as of Dec. 31, 2020)

J. J. (JACK) HILLYARD
(Independent)

J. J. (Jack) Hillyard is the former Vice President of BMO Bank of Montreal, Newfoundland and Labrador. During his 37-year career with the financial institution, Mr. Hillyard was a leader in achieving corporate results through corporate planning, strategic development, financial analysis, financial management, budgeting and forecasting, operational management and leadership development. Mr. Hillyard is a graduate of Memorial University of Newfoundland (B.Comm) in St. John's, Newfoundland and Labrador, and in 2002 earned his MBA in financial management from Dalhousie University in Halifax, Nova Scotia.

Active in his community, Mr. Hillyard has served as a Director and Chairman of the Governance Committee of the Federal Government of Canada's – Canada Development Investment Corporation (CDEV) from 2009-2015, a member of the Provincial Advisory Council on the Economy, a member of the City of Corner Brook Economic Development Committee, a Vice-Chairman of the Western Memorial Hospital Foundation, a Chairman of the Faculty of Business Advisory Board for Memorial University of Newfoundland, a past member of the Newfoundland Ocean Industries Association, and the St. John's Board of Trade.

BOARDS AND COMMITTEES AS MEMBER	2018	2019	2020
Nalcor Energy Board	6 of 9	8 of 9	10 of 11
Nalcor Energy Audit Committee	6 of 6	6 of 6	7 of 7
Nalcor Energy HR & Compensation Committee	8 of 8	6 of 6	5 of 5
Nalcor Energy Marketing Corporation Board	N/A	1* of 3	2 of 2
LCP Group Meeting	2 of 3	2 of 3	4 of 4
LIL Holding Corporation Board	1 of 2	1 of 2	2 of 2
Muskrat Falls Corporation Board	1 of 2	1 of 2	3 of 3
Total of Meetings Attended	24 of 30	25 of 31	33 of 34

**Joined Nalcor Energy Marketing Corporation Board after second meeting was held.*

REMUNERATION FOR BOARDS	Nalcor	Bull Arm	CFLCo	NL Hydro
	NIL	N/A	N/A	N/A

MARK MACLEOD
(Independent)

Mark MacLeod holds a Bachelor of Science degree in earth science from LaSalle University and a Master of Science degree in geophysics from Stanford University. Mark MacLeod's career with Chevron began in 1980 in San Francisco after completing his Master's Degree. While in the US, he held positions in exploration, development and upstream research. In 1996, Mr. MacLeod transferred to Aberdeen, Scotland and was appointed UK Exploration Manager. In 2000, Mr. MacLeod moved to Calgary to work on the Hebron project and in 2004 he opened Chevron's office in St. John's, Newfoundland. In 2007, he moved to Oslo where he was Country Manager for Chevron's Norway operations. In 2009, he transferred back to St. John's to take on the role of Vice President, Atlantic Canada for Chevron. Mark retired from Chevron in 2016 after 36 years of service.

Mark serves on the Stella's Circle Foundation Board and the C-CORE Board.

BOARDS AND COMMITTEES AS MEMBER	2018	2019	2020
Nalcor Energy Board	9 of 9	9 of 9	11 of 11
Nalcor Energy Governance Committee	4 of 4	2 of 2	4 of 4
Nalcor Energy HR & Compensation Committee	8 of 8	6 of 6	5 of 5
Special Committee of the Board of Directors on the Muskrat Falls Inquiry and Rate Mitigation Reference Reports*	N/A	N/A	8 of 8
LCP Group Meeting	3 of 3	3 of 3	4 of 4
Nalcor Energy - Oil and Gas Inc. Board	4 of 4	8 of 8	6 of 7
Nalcor Energy - Bull Arm Fabrication Inc. Board	3 of 3	2 of 2	N/A
Total of Meetings Attended	31 of 31	30 of 30	38 of 39

**Special Committee of the Board of Directors on the Muskrat Falls Inquiry and Rate Mitigation Reference Reports formed June 26, 2020.*

REMUNERATION FOR BOARDS	Nalcor	Bull Arm	CFLCo	NL Hydro
	NIL	$600 **	N/A	N/A

***Amount paid for 2018 and 2019.*

(listed as of Dec. 31, 2020)

DEBBIE MOLLOY
(Independent)

Debbie Molloy is an experienced board member and executive leader with 30 years of experience in government, healthcare, energy and hospitality sectors. She has worked in both the public and private sectors and brings a broad understanding of the challenges and opportunities facing today's competitive, fast paced work environment. She has stewarded organizations through periods of challenge and adapting to changing realities. Her career path has allowed her to develop expertise in the areas of organizational leadership and effectiveness, talent development and conflict management.

Ms. Molloy holds both a Bachelor of Commerce (Co-operative) and Masters of Education (post-secondary studies) degrees from Memorial University of Newfoundland.

BOARDS AND COMMITTEES AS MEMBER	2018	2019	2020
Nalcor Energy Board	9 of 9	5 of 8	11 of 11
Nalcor Energy Governance Committee	3 of 4	1* of 2	N/A
Nalcor Energy SHEC Committee	2 of 3	3 of 3	3 of 3
Nalcor Energy Audit Committee	3 of 6**	6 of 6	7 of 7
Nalcor Energy HR & Compensation Committee	N/A	1 of 6***	4 of 5
LCP Group Meeting	2 of 3	3 of 3	3 of 4
Nalcor Energy - Bull Arm Fabrication Inc. Board	3 of 3	2 of 2	N/A
Nalcor Energy Marketing Corporation Board	2 of 2	3 of 3	2 of 2
Total of Meetings Attended	24 of 30	24 of 33	30 of 32

**Attended first Nalcor Energy Governance Committee meeting then resigned.*
***Appointed to Nalcor Energy Audit Committee after third meeting was held.*
****Appointed to Nalcor Energy HR Compensation Committee after fifth meeting was held.*

REMUNERATION FOR BOARDS	Nalcor	Bull Arm	CFLCo	NL Hydro
	NIL	$120*	N/A	N/A

**Amount paid for 2019.*

LCP - Lower Churchill Project, **SHEC** - Safety, Health, Environment and Community

DAVID OAKE
(Independent)

David Oake holds a Bachelor of Commerce (Honours) degree from Memorial University of Newfoundland and a Master of Business Administration degree (specializing in Finance and International Business) from Queen's University. His career began in the public service in several executive roles with the Government of Newfoundland and Labrador, including Deputy Minister of Treasury Board and Deputy Minister of Industry, Trade and Technology. He was deeply involved in negotiations with Hibernia and Terra Nova project proponents regarding royalty, project finance, taxation and industrial benefits issues. On entering the private sector, he served in successively more senior roles in the Canadian telecommunications sector, and from 2000 to 2008, he served as Executive Vice-President (Corporate Development) of Stratos Global Corporation, the world's largest provider of remote satellite communications services.

Mr. Oake has served on the boards of several private companies and not-for-profit organizations, including as a director of Stratos Global Corporation, Moscow Teleport Ltd., Navarino Telecom, xwave and as Chairman and director of Marystown Shipyard Ltd., Bull Arm Site Corporation and C-CORE (1995 -2001 and 2008-2020).

BOARDS AND COMMITTEES AS MEMBER	2018	2019	2020
Nalcor Energy Board	9 of 9	9 of 9	11 of 11
Nalcor Energy Audit Committee	6 of 6	6 of 6	7 of 7
Nalcor HR & Compensation Committee	7 of 8	5 of 6	5 of 5
Special Committee of the Board of Directors on the Muskrat Falls Inquiry and Rate Mitigation Reference Reports*	N/A	N/A	8 of 8
Newfoundland and Labrador Hydro	4 of 4	8 of 8	8 of 8
Newfoundland and Labrador Hydro Audit Committee	3 of 3	6 of 6	6 of 6
Nalcor Energy - Oil and Gas Inc. Board	N/A	6** of 8	6 of 7
LCP Group Meeting	2 of 3	3 of 3	4 of 4
LIL Operating Corporation Board	1 of 2	2 of 2	2 of 2
Nalcor Energy - Bull Arm Fabrication Inc. Board	3 of 3	2 of 2	N/A
CFLCo Board	N/A	4 of 4	4 of 4
CFLCo Audit Committee	N/A	5 of 5	5 of 5
Total of Meetings Attended	35 of 38	56 of 59	66 of 67

**Special Committee of the Board of Directors on the Muskrat Falls Inquiry and Rate Mitigation Reference Reports formed June 26, 2020.*
***Joined Nalcor Energy - Oil and Gas Inc. Board after fourth meeting was held, but attended two meetings as non-member.*

REMUNERATION FOR BOARDS	Nalcor	Bull Arm	CFLCo	NL Hydro
	NIL	$600***	$10,000	$18,500

******Amount paid for 2018 and 2019.*

(listed as of Dec. 31, 2020)

DEREK PURCHASE*
(Independent)

From more than three decades with Ernst & Young LLP, Derek Purchase possesses a unique combination of Board skill sets spanning governance, strategy, risk management and operations. He served on EY Canada's Partnership Board, and the EY Americas Partners Advisory Board. As Senior Partner specializing in public company audits, he has attended over 350 Audit Committee and Board meetings of some of EY's largest clients in North America in a variety of sectors, including power and utilities. He has held many global and Canadian EY leadership roles over the course of his career, including Power and Utilities Industry Leader for Canada.

Mr. Purchase also has significant expertise in Corporate Purpose and Sustainability, and is Chairman of VeriStell Institute, a global research think tank dedicated to Corporate Purpose. He also serves in an advisory role as Chief Development Officer of Goodman Sustainability Group, and is a past Board member and executive treasurer of the St. John's Board of Trade.

Mr. Purchase holds a B.Comm (Honours) from Dalhousie University, received his CPA in 1985, completed programs from Northwestern University (Executive Development), Institute of Corporate Directors (Directors Education Program) and is currently enrolled in the Sustainable Investment Professional Certification program at Concordia University.

BOARDS AND COMMITTEES AS MEMBER	2020
Nalcor Energy Board	6 of 11**
Nalcor Energy Audit Committee	4 of 7***
LCP Group Meeting	2 of 4****
Total of Meetings Attended	12 of 22*****

**Appointed to Nalcor Energy Board of Directors on June 19, 2020.*
***Appointed after 5th meeting*
****Appointed after 3rd meeting*
*****Attended after 2nd meeting*
******From date of appointment to year end attended 12 of 12 meetings.*

REMUNERATION FOR BOARDS	Nalcor	Bull Arm	CFLCo	NL Hydro
	NIL	N/A	N/A	N/A

DR. EDNA TURPIN, ICD.D
(Independent)

Dr. Turpin, who holds a doctorate in education, is recognized globally as a leader, policy maker, strategic planner, educator and communicator, and is a Certified Psychologist. She has played a leadership role in the development of the education system of Newfoundland and Labrador at both the secondary and post-secondary levels. She was the President and Chief Executive Officer of the Cabot College of Applied Arts, Technology and Continuing Education and held various positions within the Department of Education at the assistant deputy minister and director level. Dr. Turpin was also the director of marketing and international development at the College of the North Atlantic and worked with the aerospace industry in public relations and marketing.

Dr. Turpin has served as a member of the Board of Directors – Newfoundland and Labrador Hydro, prior to working with Nalcor Energy. She completed the Rotman Directors Education Program acquiring the ICD.D designation. Dr. Turpin is currently a member of the St. John's Rotary Club and the NL Provincial Court Judicial Adjudications Tribunal (public representative). She has served with various other community and business organizations including Canadian Mental Health Association. President and Chair NL Division, Newfoundland Ocean Industries Association, St. John's Board of Trade, Institute of Chartered Accountants public representative of Newfoundland and Labrador, St. Patrick's Mercy Home Board of Governors, St. John's Civic Centre, YM/YWCA, the Bannerman Park Revitalization Project, and Canadian Red Cross Corporate Campaign.

BOARDS AND COMMITTEES AS MEMBER	2018	2019	2020
Nalcor Energy Board	9 of 9	8 of 9	11 of 11
Nalcor Energy SHEC Committee	2 of 3	3 of 3	3 of 3
Nalcor Energy Governance Committee	N/A	1* of 2	4 of 4
Nalcor Energy - Bull Arm Fabrication Inc. Board	2 of 3	2 of 2	N/A
Nalcor Energy Marketing Corporation Board	N/A	1** of 3	2 of 2
LCP Group Meeting	2 of 3	3 of 3	4 of 4
LIL General Partner Corporation Board	2 of 3	2 of 2	3 of 3
Muskrat Falls Corporation Board	1 of 2	2 of 2	3 of 3
Total of Meetings Attended	18 of 23	22 of 26	30 of 30

**Appointed to Nalcor Energy Governance Committee Board after first meeting was held.*
***Appointed to Nalcor Energy Marketing Corporation Board after second meeting was held.*

REMUNERATION FOR BOARDS	Nalcor	Bull Arm	CFLCo	NL Hydro
	NIL	$480***	N/A	N/A

****Amount paid for 2018 and 2019.*

BOARD OF DIRECTORS

The principal functions of Nalcor Energy's Board of Directors include:

(a) developing Nalcor's approach to corporate governance;

(b) reviewing and approving the business, financial, strategic and other plans to enable Nalcor to execute its strategy;

(c) adopting processes for monitoring the company's progress toward its strategic and operational goals;

(d) approving the audited financial statements and Management's Discussion and Analysis;

(e) ensuring that Management has a process for identifying the principal business risks;

(f) overseeing the integrity of the internal control systems;

(g) ensuring that Nalcor has processes for operating within applicable laws and regulations;

(h) ensuring the company has a compensation philosophy and framework;

(i) ensuring a process is in place to measure the performance of senior executives of Nalcor;

(j) ensuring Management creates a culture of integrity throughout the organization; and

(k) ensuring that succession plans are in place for senior Management, including the President and CEO.

The Board also has four standing committees and one special committee:

1. Audit[1,2]
2. Corporate Governance[1]
3. Human Resources and Compensation
4. Safety, Health, Environment and Community[2]
5. Special Committee of the Board of Directors on the Muskrat Falls Inquiry and Rate Mitigation Reference Reports

Nalcor has the following subsidiary companies (in addition to Newfoundland and Labrador Hydro), each with its own Board of Directors (listed as at Dec. 31, 2020).[3]

[1] Newfoundland and Labrador Hydro has its own Audit Committee and Corporate Governance Committee. The Corporate Governance Committee also deals with Regulatory, Human Resources and Compensation matters.

[2] Churchill Falls (Labrador) Corporation Limited has its own Audit Committee and Safety, Health and Environment Committee.

[3] Excludes currently inactive legal entities Gull Island Power Company Limited and Lower Churchill Development Corporation Limited.

CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED

BRENDAN PADDICK*
Chairperson
CEO, Columbus Capital Corp.

PIERRE GAGNON
Executive Vice President, Corporate Affairs and Chief Governance Officer, Hydro Quebec

GEOFF GOODYEAR
Retired Executive, University Helicopters Newfoundland and Labrador LP

JOHN GREEN, Q.C.**
Lawyer, McInnes Cooper

JEAN-HUGHES LAFLEUR
Executive Vice President and Chief Financial Officer, Hydro Quebec

STAN MARSHALL
President and CEO, Nalcor Energy

DAVID OAKE
President, Invenio Consulting Inc.

BOB WARR
Managing Director, Nor-Lab Limited

*On Leave of Absence as of Sept. 4, 2020
**Acting Chairperson as of Sept. 4, 2020

Note: David Murray was a Director for part of 2020 but resigned prior to year-end (effective June 17, 2020)

NALCOR ENERGY – OIL & GAS INC.

BRENDAN PADDICK*
Chairperson
CEO, Columbus Capital Corp.

JUSTIN LADHA
CEO, KMK Capital Inc.

MARK MACLEOD
Formerly President and CEO, C-Core

STAN MARSHALL
President and CEO, Nalcor Energy

DAVID OAKE
President, Invenio Consulting Inc.

*On Leave of Absence as of Sept. 4, 2020

TWIN FALLS POWER CORPORATION LIMITED

JIM HAYNES
President
Executive Vice President, Power Supply, Nalcor Energy

ORAL BURRY
Manager, Safety, Health and Environment, CF(L)Co

MAURICE MCCLURE
Vice President Finance and Strategy, Iron Ore Company of Canada

JIM MEANEY
Vice President, Finance, Power Supply, Nalcor Energy

BENOIT PALMER
Chief Counsel, Canadian Mining Businesses, Legal Services, Rio Tinto

DANA POPE
Controller, Finance CFLCo, Power Supply, Nalcor Energy

MIKE ROBERTS
Executive Vice President, Corporate Services and Chief Human Resources Officer, Nalcor Energy

Note: Rob Hull was a Director for part of 2020 but resigned prior to year-end (effective June 18, 2020)

LOWER CHURCHILL MANAGEMENT CORPORATION

JIM HAYNES
Chairperson
Executive Vice President, Power Supply, Nalcor Energy

GILBERT BENNETT
Executive Vice President, Power Development, Nalcor Energy

STAN MARSHALL
President and CEO, Nalcor Energy

JUNE PERRY
President and CEO, Pilot Communications

MIKE ROBERTS
Executive Vice President, Corporate Services and Chief Human Resources Officer, Nalcor Energy

LABRADOR-ISLAND LINK GENERAL PARTNER CORPORATION
(General Partner of Labrador-Island Link Limited Partnership)

JOHN GREEN, Q.C.
Chairperson
Lawyer, McInnes Cooper

LIBBY BURNHAM
Lawyer

GEOFF GOODYEAR
Retired Executive, Universal Helicopters Newfoundland and Labrador LP

STAN MARSHALL
President and CEO, Nalcor Energy

DR. EDNA TURPIN, ICD.D
Corporate Director

LABRADOR-ISLAND LINK HOLDING CORPORATION

JACK HILLYARD
Chairperson
Retired BMO Executive

JIM HAYNES
Executive Vice President, Power Supply, Nalcor Energy

SHEILA KELLY-BLACKMORE
Retired Business Person

JAMES MEANEY
Vice President, Finance, Power Supply, Nalcor Energy

BRENDAN PADDICK*
CEO, Columbus Capital Corp.

*On Leave of Absence as of Sept. 4, 2020

LABRADOR-ISLAND LINK OPERATING CORPORATION

BRENDAN PADDICK*
Chairperson
CEO, Columbus Capital Corp.

GEOFF GOODYEAR
Retired Executive, Universal Helicopters Newfoundland and Labrador LP

CHRIS LOOMIS
Retired Professor, Memorial University of Newfoundland

DAVID OAKE
President, Invenio Consulting Inc.

DEREK PURCHASE
Retired EY Partner, Sustainability Consultant

DESMOND WHALEN
Medical Doctor, Faculty of Medicine, Memorial University of Newfoundland

*On Leave of Absence as of Sept. 4, 2020

Note: Christopher Hickman was a Director for part of 2020 but resigned prior to year-end (effective November 18, 2020)

LABRADOR TRANSMISSION CORPORATION

RONALD COLE
Chairperson
Lawyer, Cole Law Offices

JIM HAYNES
Executive Vice President, Power Supply, Nalcor Energy

STAN MARSHALL
President and CEO, Nalcor Energy

JAMES MEANEY
Vice President, Finance, Power Supply, Nalcor Energy

BRENDAN PADDICK*
CEO, Columbus Capital Corp.

*On Leave of Absence as of Sept. 4, 2020

MUSKRAT FALLS CORPORATION

DR. EDNA TURPIN, ICD.D
Chairperson
Corporate Director

RICHARD DAW
Chartered Professional Accountant,
Certified Management Consultant

JACK HILLYARD
Retired BMO Executive

STAN MARSHALL
President and CEO, Nalcor Energy

JOHN QUAICOE
Retired Professor

Note: Christopher Hickman was a Director for part of 2020 but resigned prior to year-end (effective November 18, 2020)

NALCOR ENERGY MARKETING CORPORATION

JACK HILLYARD
Chairperson
Retired BMO Executive

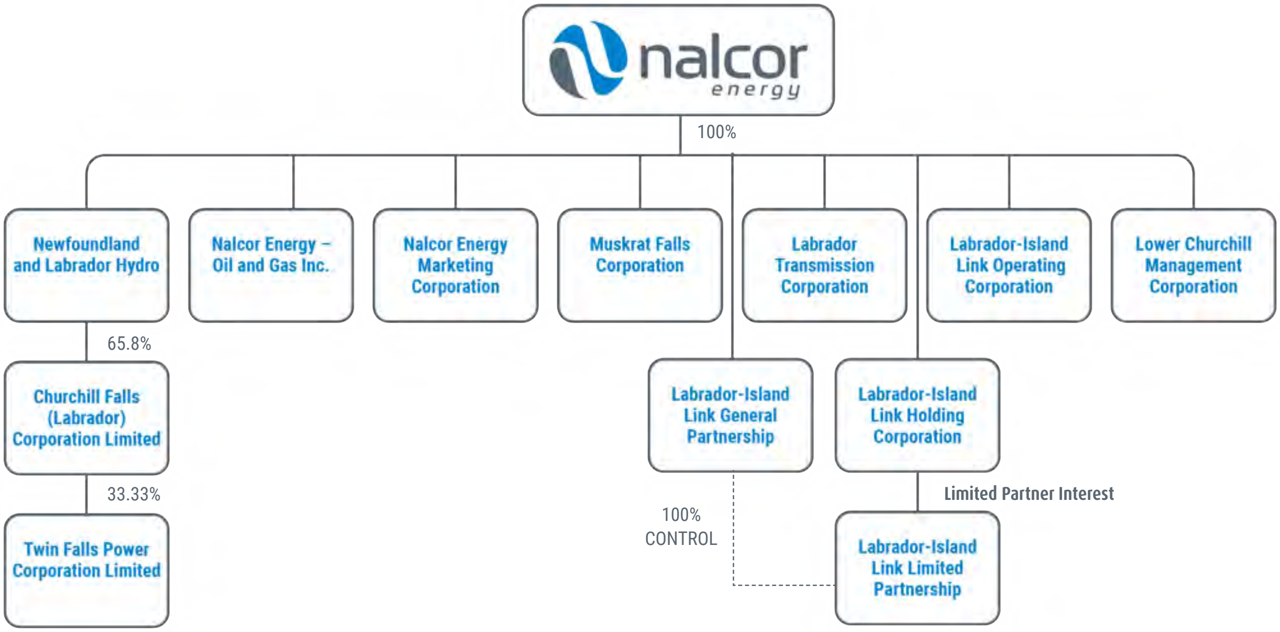
GREGORY CONNORS
Lawyer, McInnes Cooper

JOHN GREEN Q.C.
Lawyer, McInnes Cooper

DEBBIE MOLLOY
President and CEO, WSCC, Northwest Territories
and Nunavut

DR. EDNA TURPIN, ICD.D
Corporate Director

NALCOR'S LEGAL ENTITIES



AUDIT COMMITTEE

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

a) Serve as an independent and objective party to monitor the integrity of Nalcor's financial statements, financial reporting process and systems of internal controls regarding finance, accounting and legal compliance;

b) Identify and monitor the management of the principal risks that could impact the financial reporting of Nalcor;

c) Appoint, approve compensation and monitor the independence and performance of Nalcor's external auditors;

d) Monitor the compliance by Nalcor with legal and regulatory requirements;

e) Provide an avenue of communication among the external auditors, management and the Board of Directors; and

f) Encourage continuous improvement of, and foster adherence to, Nalcor's policies, procedures and practices at all levels.

CORPORATE GOVERNANCE COMMITTEE

The Corporate Governance Committee's primary duties and responsibilities are to:

a) Provide oversight of governance principles for Nalcor and its subsidiaries that are consistent with high standards of corporate governance and review and assess on an ongoing basis Nalcor's system of corporate governance;

b) Identify and recommend candidates for appointment to Nalcor subsidiary boards in the event of a vacancy;

c) Review and recommend a process for Board assessment, as well as ensure appropriate orientation and education programs are in place for Directors; and

d) Provide oversight of Enterprise Risk Management with respect to Nalcor and its subsidiaries.

HUMAN RESOURCES AND COMPENSATION COMMITTEE

The Human Resources and Compensation Committee's primary duties and responsibilities are to:

a) Establish and maintain a compensation philosophy and framework for Nalcor;

b) Consider Nalcor's approach to and policies for recruiting, developing and motivating Executives and executive compensation and human resources issues;

c) With the Chair of the Board of Directors, undertake an annual performance review of the President and CEO of Nalcor and report and/or make recommendations to the Board of Directors;

d) Review and assess annually corporate performance metrics;

e) Review and assess annually Nalcor's succession planning policies and practices for Executives, and report and/or make recommendations to the Board of Directors;

f) Review the approach to employment diversity and inclusion;

g) Review compliance with Nalcor's Code of Conduct; and

h) Review Nalcor's labour relations strategies and recommend to the Board of Directors negotiating mandates for collective bargaining.

SAFETY, HEALTH, ENVIRONMENT AND COMMUNITY COMMITTEE

The Safety, Health, Environment and Community Committee's primary duties and responsibilities are to:

a) Review and report to the Board of Directors on Nalcor's maintenance of safety, environment and health policies, procedures and practices and in the conduct of its operation, directed to prevent injury to its employees, the public and the environment;

b) Review with Management whether Nalcor's safety, environment and health policies are being effectively implemented and in compliance with statutory and regulatory requirements;

c) Review the findings of reports arising from internal and external audits and assessments of safety, environment and health issues, together with Management's response thereto and oversee to ensure that there is an agreed course of action leading to the resolution of any concerns, deficiencies or outstanding issues and timely follow-up on any unresolved matters;

d) Review with Management the impact of proposed legislation in matters of safety, environment and health on the operations of Nalcor;

e) Review and approve annually the safety and environmental audit plans by Nalcor and external auditors and review of annual Corporate safety performance and Corporate environmental report;

f) Review with Management and make recommendations to the Board of Directors as appropriate on Nalcor's safety, environment, health and community programs, policies and procedures and any other matters relating to safety, environment, health and community that it considers relevant; and

g) Meet with the Vice-President/Manager responsible at least annually to review safety, environmental, health or community matters that could have a material impact on Nalcor's reputation, business or financial position and report to the Board of Directors thereon in a timely manner.

DIRECTOR INDEPENDENCE POLICY

Nalcor Energy has a Director Independence Policy, consisting of:

1. A majority of the Board of Directors, including the Board Chair shall be independent in accordance with the criteria established by the Corporation (the "Independence Criteria").

2. All of the members of the Audit Committee, Human Resources and Compensation Committee, Corporate Governance Committee, and Safety, Health, Environment and Community Committee shall be independent Directors.

3. Directors have a responsibility to declare to the Corporate Secretary if they do not satisfy the Independence Criteria at any time.

4. In addition to the Independence Criteria, Directors have a responsibility to discuss any potential conflicts that might impact their independence with the Board Chair or the Chair of the Corporate Governance Committee. If, based on these discussions, it its determined that the independence of the Director has been impacted, the Board and the Corporate Secretary should be advised.

5. If Directors do not satisfy the Independence Criteria, they should not participate in any discussion or voting relating to matters that contribute to the Independence issue.

POLICY ON INDEPENDENCE OF EXTERNAL AUDITORS

The External Auditor Independence Policy is a policy governing Nalcor Energy and its subsidiaries relationship with the External Auditor, including:

a) establishing a process for determining whether various non-audit and other services provided by the External Auditor affects its independence;

b) identifying the services that the External Auditor may and may not provide to Nalcor;

c) pre-approving all services to be provided by the External Auditor; and

d) establishing a process for hiring current or former members of the Audit Management Team of the External Auditor in a Financial Reporting Oversight Role to ensure auditor independence is maintained.

EXTERNAL AUDITOR'S FEES

The external auditor of Nalcor and its subsidiaries is Deloitte. Deloitte has been the external auditor since 2003. Professional fees incurred in 2020 in connection with audit and audit-related services were $0.9 million (2019 - $0.9 million) and fees related to non-audit services were $0.1 million (2019 - $0.1 million).

ENERGY PORTFOLIO

LEGEND

- Hydroelectric Generation Station
- Thermal Plant/Combustion Turbine
- Diesel Plant
- Wind Generation
- Offshore Oil Projects
- Diesel Plant operated on behalf of Mushuau Innu First Nation
- * Operated under licence from the Government of Newfoundland and Labrador
- PPA Power Purchase Agreement

APPENDIX 1

CONTENTS

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CORPORATE OVERVIEW

Nalcor Energy (Nalcor or the Company) is Newfoundland and Labrador's energy company. Nalcor is a Crown corporation established in 2007 under a special act of the Legislature of the Province of Newfoundland and Labrador (the Province). The Company's business includes the development, generation, transmission and sale of electricity including energy trading; and the development, production and sale of oil and gas.

Nalcor's legal structure as at December 31, 2020 included the entities listed below:

Entity Name	Description of Interest
Newfoundland and Labrador Hydro (Hydro)	Wholly owned subsidiary
Nalcor Energy – Oil and Gas Inc. (Oil and Gas)	Wholly owned subsidiary
Nalcor Energy Marketing Corporation (Energy Marketing)	Wholly owned subsidiary
Muskrat Falls Corporation (Muskrat Falls)[1]	Wholly owned subsidiary
Labrador Transmission Corporation (Labrador Transco)[1]	Wholly owned subsidiary
Labrador-Island Link Holding Corporation (LIL Holdco)[1]	Wholly owned subsidiary
Labrador-Island Link General Partner Corporation (LIL GP)[1]	Wholly owned subsidiary
Labrador-Island Link Operating Corporation (LIL OpCo)[1]	Wholly owned subsidiary
Lower Churchill Management Corporation (LCMC)[1]	Wholly owned subsidiary
Churchill Falls (Labrador) Corporation Limited (Churchill Falls)	65.8% owned joint operation of Hydro
Twin Falls Power Corporation Limited (Twin Falls)	33.3% owned joint venture of Churchill Falls
Labrador-Island Link Limited Partnership (LIL LP)[1]	Limited partnership in which Nalcor, through LIL Holdco, owns 100% of the 75 Class A Partnership Units, 1 Class C Partnership Unit and, through LIL GP, 1 General Partner Unit
Gull Island Power Corporation (GIPCo)	Wholly owned subsidiary (inactive)
Lower Churchill Development Corporation (LCDC)	51% owned subsidiary of Hydro (inactive)

[1] These entities comprise the Lower Churchill Project (LCP)

The operating structure as at December 31, 2020 is comprised of five business segments. The designation of segments is based on a combination of regulatory status and management accountability. The following summary provides a brief overview of the nature of the operations included in each of the Company's operating segments.

Hydro – is comprised of both regulated and non-regulated activities.
- **Hydro Regulated** activities encompass sales of electricity to customers within the Province that are regulated by the Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB).
- **Hydro Non-Regulated** activities include the sale of power to mining operations in Labrador West as well as costs related to operations that Hydro manages that are not subject to rate regulation by the PUB.

Power Development – is comprised of the following:
- **Muskrat Falls** includes the 824MW hydroelectric generating facility currently under construction in Labrador on the Lower Churchill River. Once construction is complete this asset and its operating results will become part of the Power Supply segment.
- **Other** includes costs associated with other ongoing and potential future power development activities, such as costs and assets associated with Gull Island.

Power Supply – is comprised of the following:
- **LCP Transmission** includes the construction and operation of the Labrador-Island Link (LIL) and Labrador Transmission Assets (LTA), which consist of transmission lines connecting the Muskrat Falls Generating Station, the Churchill Falls Generating Station, and certain portions of the transmission system in Labrador to the island of Newfoundland.
- **Churchill Falls** owns and operates a hydroelectric generating facility which sells electricity to Hydro-Québec and Hydro.
- **Energy Trading** includes energy trading and commercial activities related to securing and optimizing markets to extract the greatest value from Nalcor's existing generation resources through the participation in export electricity markets.

- **Other** includes revenues and costs recovered from Hydro-Québec associated with Nalcor's operation of the Menihek Generating Station, the Maritime Link (which is owned by Emera Inc. (Emera), but consolidated by Nalcor), costs related to Power Supply management, administration, community development costs, and costs associated with the management of LCP construction.

Oil and Gas – includes Nalcor's share of development, production, transportation and processing sectors of the oil and gas industry.

Corporate – includes corporate support, business development and shared services functions.

Discontinued Operations

Effective January 1, 2020, the shares of Bull Arm Fabrication were distributed to the newly formed Crown corporation, the Oil and Gas Corporation of Newfoundland and Labrador (Oil and Gas Corp.) for a nominal amount. In addition, activities associated with exploration and future offshore developments transitioned to Oil and Gas Corp., while existing equity interests in offshore development assets remained in Nalcor. Oil and Gas Corp. will manage Nalcor's equity interests on its behalf, through a Management Service Agreement.

This Management Discussion and Analysis (MD&A) should be read in conjunction with the annual audited consolidated financial statements (financial statements) of Nalcor for the year ended December 31, 2020, which were approved by the Board of Directors on March 5, 2021. Unless otherwise noted, all financial information has been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board and reported in Canadian dollars (CAD).

The MD&A is the responsibility of Management and the Board of Directors carries out its responsibility for review of this disclosure principally through its Audit Committee. This MD&A was reviewed by the Audit Committee and approved by the Board of Directors on March 5, 2021. Subsequent to the approval of the MD&A on March 5, 2021, the Annual General Meeting of Nalcor was delayed, which also delayed the release of the MD&A. The MD&A was updated to reflect subsequent events and outlook information which occurred during this period. The changes to the MD&A were reviewed by the Audit Committee and approved by the Board of Directors on May 18, 2021.

SUMMARY OF FINANCIAL HIGHLIGHTS AND RECENT DEVELOPMENTS

FINANCIAL HIGHLIGHTS

Key Profit Drivers

Key profit drivers vary across each of Nalcor's operating segments as there are a combination of regulated operations, operations with long-term and medium-term supply contracts and operations in markets where revenues are driven entirely by commodity prices (export electricity and oil). Nalcor's profitability is also impacted by exchange rate fluctuations, the most significant being the CAD/United States Dollar (USD) exchange rate. Nearly all revenue generated by Oil and Gas and Energy Trading is denominated in USD. Short-term volatility is partially mitigated through USD hedging, when possible. In general, any fluctuations in the USD exchange rate have a direct impact on Nalcor's profit. Various expenses, capital expenditures and Statement of Financial Position balances include amounts denominated in USD, particularly Hydro Regulated's fuel purchases for the Holyrood Thermal Generating Station (HTGS). Cost variances for these fuel purchases, as a result of exchange rate fluctuations, are captured in the Rate Stabilization Plan (RSP) and do not impact Nalcor's annual profit.

Hydro Regulated is entitled to the opportunity to recover, through customer rates, all reasonable and prudent costs incurred in providing electricity service to its customers, in addition to a just and reasonable return on rate base, in accordance with Section 80 of the Public Utilities Act. Failure to obtain rate orders on a timely basis as applied for may adversely affect the profit of Hydro Regulated.

Oil and Gas and Energy Trading's profitability are impacted by production and export volumes available for sale to external parties. Volatility in volumes available for sale have a direct impact on Nalcor's profit; however, Nalcor partially mitigates volume risk in Energy Trading through various operational activities.

Certain development, operating and interest costs incurred during the construction of LCP assets are not eligible for capitalization under IFRS in advance of full project commissioning. As a result, until the arrangements for recovery of these costs come into effect and are recovered through customer rates in Hydro Regulated or mitigated through rate mitigation, they are impacting Nalcor's profit. In addition, the method of implementation of rate mitigation strategies could cause material fluctuations in Nalcor's future financial results.

Nalcor may incur impairment expenses and future reversal of such expenses due to changes in discounted projected future cash flows when compared to the carrying values of related assets. Any expense or reversal of such expense is reflected in Nalcor's results, and while no impact on cash flows for the year, can lead to large fluctuations in profit or loss between financial reporting periods.

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2020**	2019	2018	**2020**	2019	2018
Revenue[1]	**229**	288	265	**930**	1,039	1,029
Operating profit [2]	**32**	21	49	**137**	132	191
Profit (loss)	**30**	20	40	**(90)**	126	180
Funds from operations (FFO)[2]	**83**	78	89	**353**	328	375
Earnings before interest, taxes, depreciation, depletion, amortization, impairment and accretion (EBITDA)[2]	**110**	103	108	**457**	415	452
Return on capital employed (ROCE)[2,3]				**5.2%**	4.6%	5.7%
Capital expenditures	**313**	274	257	**855**	1,223	1,399
Oil production (thousands of bbls)	**997**	958	643	**4,611**	3,508	3,421
Realized oil price (CAD/bbl)	**69**	83	71	**63**	86	84
Electricity sales (GWh):						
Regulated	**1,901**	2,051	2,150	**7,173**	7,751	7,662
Export sales – Hydro-Québec[4]	**7,303**	7,282	7,302	**28,997**	28,944	28,970
Export deliveries – Hydro-Québec[4]	**7,902**	8,936	8,383	**27,935**	30,182	30,959
Export – other markets	**266**	313	305	**1,280**	1,319	1,562
Realized electricity price – Other Export Markets (CAD/MWh)	**25**	26	42	**23**	27	38

[1]Revenue is inclusive of discontinued operations for the years ended December 31, 2019 and 2018.

[2]See *Non-GAAP Financial Measures.*

[3]Rolling 12 month average.

[4]Export sales volumes to Hydro-Québec differ from export deliveries as a result of the Renewal Contract that commenced September 1, 2016. Under this agreement, sales are recognized on a straight-line basis using an interim Annual Energy Base (AEB) agreed upon by both parties, which differs from actual energy delivered.

Profit (Loss)

Nalcor's profit for the three months ended December 31, 2020 was $30 million, an increase of $10 million compared to the same period in 2019. Key drivers of the increase include lower asset disposal, operating and depreciation costs in Hydro Regulated.

Nalcor's loss for the year ended December 31, 2020 was $90 million, a decrease of $216 million compared to the same period in 2019. The key driver of the decrease was the impairment of White Rose and Hibernia Southern Extension (HSE) assets recorded in Q1 2020 as a result of a significant decrease in oil price due to global events that caused increased supply and decreased demand amid the coronavirus (COVID-19) pandemic. Also contributing to the decrease were lower realized oil prices and higher depletion in Oil and Gas and a full year of interest costs for LCP Transmission. These decreases were partially offset by higher oil production volumes, no exploration and evaluation expense, a decrease in royalties paid to the Province in Oil and Gas along with additional energy sales to industrial customers in Hydro Non-Regulated.

A detailed discussion of the performance of each of Nalcor's operating segments is contained in *Segmented Results and Analysis*.

Operating Profit

Operating profit for the three months ended December 31, 2020 was $32 million, an increase of $11 million compared to the same period in 2019. Operating profit for the year ended December 31, 2020 was $137 million, an increase of $5 million compared to the same period in 2019. The increase for the quarter was driven by the drivers noted in the profit (loss) analysis above. The increase for the year was also driven by the drivers noted in the profit (loss) noted above, with the exception of the impact of impairment, which is excluded from operating profit.

FFO and EBITDA

FFO for the three months ended December 31, 2020 was $83 million, an increase of $5 million compared to the same period in 2019. FFO for the year ended December 31, 2020 was $353 million, an increase of $25 million compared to the same period in 2019. EBITDA for the three months ended December 31, 2020 was $110 million, an increase of $7 million compared to the same period in 2019. EBITDA for the year ended December 31, 2020 was $457 million, an increase of $42 million compared to the same period in 2019.

The change in these metrics was primarily driven by the variance in profit (loss) as noted above, with the exception of the impact of depletion and impairment for both FFO and EBITDA as well as the impact of interest costs related to LCP Transmission for EBITDA as these costs are excluded from the calculations.

ROCE

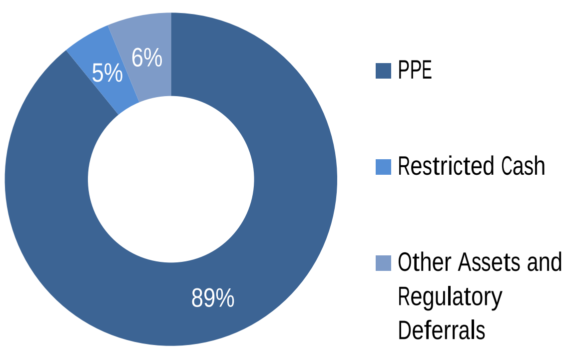
ROCE for the rolling twelve months ended December 31, 2020 was 5.2%, an increase of 0.6% compared to the same period in 2019. The increase for the year was due to an increase in EBIT as a result of the drivers noted in the profit (loss) analysis above with the exception of impairment and interest, which are excluded from the calculation. Also contributing to the increase was a decrease in capital employed.

Capital Expenditures

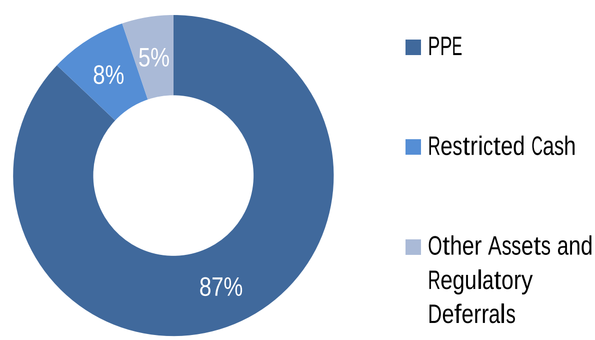
Capital expenditures for the three months ended December 31, 2020 were $313 million, an increase of $39 million compared to the same period in 2019. Capital expenditures for the year ended December 31, 2020 were $855 million, a decrease of $368 million compared to the same period in 2019. The primary driver of the quarter and annual decrease was lower capital expenditures for Muskrat Falls and LCP Transmission due to the wind down of construction along with a reduction in capital spending across many lines of business due to the impacts of COVID-19. A detailed discussion of the segmented capital expenditures is provided in *Liquidity and Capital Resources*.

Total Assets

December 31, 2020 - $19.3 billion



December 31, 2019 - $19.3 billion



Nalcor's total assets of $19.3 billion as at December 31, 2020 were comparable to $19.3 billion as at December 31, 2019. The composition of the Company's assets as at December 31, 2020 included property, plant and equipment of $17.2 billion (December 31, 2019 - $16.8 billion), restricted cash primarily from the proceeds of the Muskrat Falls and LCP Transmission financing and pre-funded equity contributions from the Province of $0.9 billion (December 31, 2019 - $1.6 billion) and other assets and regulatory deferrals totaling $1.2 billion (December 31, 2019 - $0.9 billion). Further details on changes in the Consolidated Statement of Financial Position are included in *Consolidated Financial Results*.

Total Liabilities and Equity

Total liabilities and equity of $13.1 billion and $6.2 billion, respectively, as at December 31, 2020 were comparable to $13.1 billion and $6.2 billion as at December 31, 2019. Further details on changes in the Consolidated Statement of Financial Position are included in *Consolidated Financial Results*.

Debt to Capital

Debt to capital of 63% as at December 31, 2020 was comparable to 62% as at December 31, 2019. See *Liquidity and Capital Resources* for further details.

RECENT DEVELOPMENTS

COVID-19

Late in Q1 2020, the COVID-19 global pandemic resulted in the Province implementing a wide variety of measures to reduce the spread of the virus, including travel restrictions, business closures, stay-at-home orders, social distancing and event cancellations. The effect of these measures and similar measures worldwide has resulted in a significant slow-down in global economic activity and has reduced the demand for crude oil and natural gas products, contributing to a sharp decline in associated commodity prices.

As a result of the pandemic, a decision was made to ramp down operations at the LCP sites in mid-March. In addition, Nalcor enacted its Business Continuity Plan, resulting in all sites, facilities and control rooms being restricted to critical staff performing priority work following pandemic safeguard guidelines.

As a result of the Province easing restrictions in Q2, Nalcor started preparing for the safe and gradual resumption of construction and commissioning activities at Muskrat Falls. Construction has since resumed on site while ensuring that all new protocols and guidelines for the protection of workers from COVID-19 in the construction industry are observed.

Also during March and April 2020, Nalcor received notice of and/or declared force majeure under construction, site services, financing and other commercial contracts as parties were unable to perform certain activities by inferred or implied timeframes due to the imposed public health emergency declared under the Public Health Protection and Promotion Act. During a force majeure period, certain obligations under the contracts may be suspended. Subsequently, some force majeure notices were lifted.

In recent months Nalcor had been increasing occupancy at its facilities and resuming non-priority work; however, on February 12, 2021, the Province once again implemented strict measures and restrictions to reduce the spread of the virus after experiencing a significant increase in cases in a short period of time due to the B.1.1.7. variant of COVID-19. As a result, Nalcor sites, facilities and control rooms were restricted to priority work that could be safely executed while maintaining the requirements of Nalcor's corporate emergency program and Public Health guidance. In addition, Muskrat Falls implemented new quarantine requirements prior to entry onto the work site as well as additional COVID-19 testing for workers on the Muskrat Falls site to ensure continued safeguarding of workers and surrounding communities. The Chief Medical Officer for the Province reduced the Alert Level effective March 13, 2021, and operations transitioned back to control measures aligning with Nalcor's pandemic response and recovery plan. Nalcor will continue to monitor the COVID-19 situation in close consultation with the Province.

COVID-19 continues to be an evolving situation that could have further implications for the Company's environment, operations and financial results. These impacts are difficult to predict and will depend on the duration and any future spread of the pandemic. For further discussion of the COVID-19 pandemic and its impacts on the Company, please refer to *Key Business Risks*.

HYDRO REGULATED

Future General Rate Application (GRA)

The 2017 GRA Order (Board Order P.U. 16(2019)) directed Hydro Regulated to file its next GRA no later than September 30, 2020 for electricity rates based on a 2021 Test Year. This filing was expected to recover the revenue requirement that will result from the full commissioning of the LCP. However, information regarding the Province's rate mitigation plan is required in order to prepare a GRA filing that would reasonably reflect the forecast costs expected to be incurred. On May 27, 2020, the PUB approved, in Board Order P.U. 15(2020), a delay in filing Hydro Regulated's next GRA with the timing to be determined at a later date. Hydro is required to file quarterly status updates, and its update on December 17, 2020 reported that the Company has no further update on the Government's rate mitigation plan. Hydro also indicated in its status update that it will apply to the PUB to defer the net increase in 2021 costs and modify its supply cost deferral accounts to address the impact of the commissioning of LCP.

In the most recent update filed on March 31, 2021, Hydro indicated that it is planning to file its next GRA in October, 2021. Although information regarding the Government's rate mitigation plan is not yet known, due to anticipated commissioning of the LCP in the latter part of this year, the filing of the next GRA before the end of 2021 is necessary to enable the recovery of post-commissioning LCP costs in customer rates.

Resource Adequacy

The Reliability and Resource Adequacy Study (RRA Study), which addresses Hydro Regulated's long-term approach to providing least-cost, reliable service, was initially filed in November 2018. The study focuses on recommendations regarding modifications to planning criteria and extension of the system energy planning criteria to the entire Newfoundland and Labrador Interconnected System, as well as the ability to meet customer requirements and system reliability over a ten-year planning period. System studies required for developing operating procedures for ensuring the reliable operation of the integrated system, as it transitions to full power capability of the LCP assets, are also ongoing. Two technical conferences occurred in 2020, and additional technical reports that will focus on reliability post commissioning of the LCP are being prepared by Hydro Regulated. The PUB review process is ongoing and will continue throughout 2021.

Holyrood Thermal Generating Station

On September 28, 2020, Hydro Regulated advised the PUB of its decision to extend the readiness to operate the HTGS by an additional year, to March 31, 2023, as a result of the revised schedule for LCP. The HTGS is currently a critical part of the Island Interconnected System. This decision was made to ensure reliable service for customers while the LCP assets are integrated into the Island grid.

On September 30, 2020, Hydro Regulated filed a report providing a preliminary assessment of the potential to modify the HTGS to become a suitable long-term back-up generating facility, if required, and is proceeding with a study to assess the feasibility. This work is expected to occur throughout 2021 in concert with the RRA Study and related process.

2020 Capital Budget and Supplemental Capital

On February 21, 2020, the PUB approved Hydro Regulated's capital budget in the amount of $107.6 million in Board Order P.U. 6(2020). Additional supplemental capital of $8.3 million was approved during 2020, of which $7.6 million is related to projects at the HTGS.

2021 Capital Budget

On August 4, 2020, Hydro Regulated filed its 2021 Capital Budget Application, seeking approval for approximately $107.5 million in capital expenditures for 2021. On January 15, 2021, the PUB issued Order No. P.U. 2(2021) approving $104.0 million of those expenditures. The PUB has requested additional information on two remaining projects, which was filed in Q1, 2021, and the remaining projects were approved on March 29, 2021 in Order No. P.U. 11 (2021).

July 1, 2020 Rate Change

Customer rates of Newfoundland Power and Hydro Regulated's rural customers (with the exception of the Labrador Interconnected System) are normally revised annually on July 1, in accordance with the operation of the RSP. On May 12, 2020, the Province issued an Order in Council, which directed customer rates not change on July 1, 2020, and that a one-time bill credit be provided to customers to reflect the value of the change that would have occurred had the RSP operated normally. Hydro Regulated's application for approval of a one-time credit in the amount of $50.6 million to Newfoundland Power, to be subsequently distributed to its customers, and the continuation of the current rates, was approved on June 17, 2020, in Board Order P.U. 16(2020). Hydro Regulated provided its rural customers a one-time bill credit in the amount of $3.9 million during July 2020, which was approved on June 30, 2020, in Board Order P.U. 18(2020), and was consistent with the credit provided by Newfoundland Power.

On June 30, 2020, Hydro Regulated's application for the approval of an increase in the Conservation and Demand Management (CDM) Cost Recovery Adjustment to be charged to Island Industrial Customers effective July 1, 2020, was approved in Board Order P.U. 19(2020), which resulted in an increase from 0.011 cents/kWh to 0.012 cents/kWh. The annual update to this rate adjustment enables Hydro Regulated to recover its CDM program costs that are deferred and amortized for recovery over a seven-year period from the Island Industrial Customers. Due to the one-time bill credit being provided to Newfoundland Power in July 2020 rather than the normal rate change, the next update of the CDM Cost Recovery Adjustment for Newfoundland Power will not occur until July 2021.

Application for IFRS Deviations

On February 24, 2021, Hydro Regulated filed an application for approval of IFRS deviations which requests approval to deviate from IFRS to recognize expenses related to the purchase of commissioning period energy in accordance with the commercial terms of the Muskrat

Falls Power Purchase Agreement and to permit the deferral and recovery of capital-related overhead costs, consistent with Canadian public utility practice. On March 26, 2021, the PUB determined that the two issues would be split into separate orders and, in Board Order P.U. 9 (2021), the proposal to deviate from IFRS related to the purchase of commissioning period energy was approved. On May 20, 2021, in Board Order P.U. 16 (2021), a deferral of capital related overhead rates was approved in principle with the details surrounding the rates and definitions to be considered as part of the General Rate Application.

Other Applications

On May 1, 2020, in Board Order P.U. 13(2020), the PUB approved Hydro Regulated's application for the recovery of $19.8 million of supply costs from the balance in the RSP that had been deferred in 2019. The 2019 supply costs primarily reflect increased HTGS fuel costs incurred as a result of reduced availability of the LIL to deliver low cost Recapture Energy to the Island.

Hydro Debt Caps

Hydro Regulated's continued ability to access adequate capital within existing legislated debt caps in 2020 resulted in a request to the Province to increase the existing debt caps. On February 20, 2020, the Lieutenant-Governor in Council issued Order in Council (OC2020-18) to increase the level of short-term borrowings permitted by Hydro Regulated from $300 million to $500 million, effective until March 31, 2022. Issuance of short-term borrowings and long-term debt by Hydro Regulated is further restricted by the Newfoundland and Labrador Hydro Act of 2007, as amended by Bill 33. Effective March 26, 2020, the limit of Hydro Regulated's total borrowings, which includes both short-term and long-term debt, increased from $2.1 billion to $2.6 billion.

In December 2020, the Province authorized an advance to Hydro Regulated of up to $300 million in long-term funding, to be repaid on a cost recovery basis (OC2020-273). Subsequently, an approval for the debt issuance was received from the PUB in December, as per Board Order No. P.U. 40(2020), and the debt was issued in April, 2021.

Customer Relief Arrangements

In May 2020, the Province announced the provision of funding of up to $2.5 million to Hydro Regulated and Newfoundland Power to enable the utilities to waive the interest on overdue accounts for residential and general service customers requiring flexible bill payment arrangements as a result of the economic impact of COVID-19. The term of the initiative is for a period of 15 months commencing June 1, 2020, and applies to residents, businesses and other organizations. Customers availing of this Government initiative will be required to continue to make agreed-upon monthly payments during the interest relief period. Hydro Regulated established flexible collection practices including flexible payment options to help customers through the COVID-19 period. In September 2020, Hydro Regulated resumed its normal customer collection practices, but continues to waive interest on overdue accounts and recover this interest from the Province.

LCP Energy

In December, Hydro Regulated began receiving energy, from the Muskrat Falls Generating Station, to facilitate testing of the LIL.

MUSKRAT FALLS/LCP TRANSMISSION

As a result of actions taken to contain the spread of COVID-19, the LCP sites at Muskrat Falls and Soldiers Pond were placed into care and maintenance mode in mid-March 2020. With the easing of some restrictions by the Province, on May 30, 2020, Nalcor commenced gradual resumption of construction and commissioning activities in accordance with new protocols and guidelines to protect workers on site and residents of local communities. Lost construction time and a reduced workforce due to the COVID-19 pandemic resulted in impacts to the project cost and schedule. On September 28, 2020, Nalcor provided an update, which indicated that the project final completion is expected to experience a delay until Q4 2021, resulting in an anticipated total project cost at in-service of $13.1 billion. The delay will result in additional funding requirements to cover $364 million in debt and interest payments which are due prior to project completion. These payments are not associated with costs increases, but are pre-existing funding requirements which would have been covered post-commissioning through payments from Hydro Regulated to Muskrat Falls and LCP Transmission.

In February 2021, the Province implemented additional restrictions as a result of a rise in COVID-19 cases. As a result, Muskrat Falls implemented new quarantine requirements prior to entry at the site. As plans for work at the Muskrat Falls site continues, the focus of attention will be on activities that advance progress on Units 2 and 3 until the COVID alert level diminishes in the Province. On February 13, 2021, LCP Transmission issued a declaration of Force Majeure to contractors for the Soldiers Pond Site for a period of up to two weeks as a precautionary measure in alignment with the NL Public Health special measures order. After a review of the provincial COVID-19 status, and consideration of the public health guidelines and site safety protocol, the Force Majeure for the Soldiers Pond Site ended on February 17, 2021. At the end of March 2021 as the province moved to Alert Level 2, Muskrat Falls returned to its standard two-week rotation schedule.

On September 22, 2020, the LCP reached a major milestone when Muskrat Falls Unit 1 was successfully synchronized to the Labrador electricity grid and power was generated for the first time at the plant. Subsequently, on December 4, 2020, 45 megawatts (MW) of power from Muskrat Falls Unit 1 was transmitted over the LIL to island customers, marking the first time Muskrat Falls power flowed over the LIL to the Island. Unit 1 was deemed ready for commercial operation on December 22, 2020.

In the fall of 2020, the LCP continued dynamic commissioning of LIL pole 1 with interim software and from December 18 to the end of the year, the LIL transferred energy generated by Muskrat Falls and Churchill Falls with a peak level of 150 MW. With energy flowing from Muskrat Falls over the LIL to the island, the assets are contributing to the energy supply for the island and export sales to external markets.

Commission of Inquiry Respecting the Muskrat Falls Project

The Commission of Inquiry Respecting the Muskrat Falls Project (the Inquiry) was established by the Province on November 20, 2017, with Justice Richard LeBlanc as the appointed Commissioner. The final report was delivered to the Province on March 5, 2020 and the Province released the report to the public on March 10, 2020. In June 2020, Nalcor established a committee of the Board of Directors to oversee the review of the final report and its recommendations. On July 29, 2020, the Province provided an update on the progress of recommendations from the Commission of Inquiry into the Muskrat Falls Project stating that Government has established a deputy ministers' steering committee to oversee the implementation of all the recommendations.

Rate Mitigation and Reference on Rate Mitigation Options and Impacts Relating to the Muskrat Falls Project Costs (PUB Reference)

On February 7, 2020, the PUB issued its final report on rate mitigation options and impacts relating to the Muskrat Falls Project to the Province for consideration. Nalcor was actively involved in the review, through submission of responses to requests for information and appearing during the hearing phase.

During April 2019, the Province released details surrounding its strategy to manage and mitigate electricity rates for 2021 onward, which include collaborating with the Federal government. On February 10, 2020, the provincial and federal governments announced a plan to negotiate a financial restructuring of LCP, including a change to the Muskrat Falls/LTA revenue model and the deferral of sinking fund payments and pre-funded equity payments, if required.

On September 25, 2020, the Province announced the creation of a Rate Mitigation Team with a mandate to successfully conclude negotiations with the Government of Canada. The team will be supported by resources from Nalcor and the Province.

On December 17, 2020, the Province and Federal Government jointly announced measures that resulted in delaying some financing related payments associated with the LCP.

CHURCHILL FALLS

Management continues to assess the financial impacts of the Declaratory Judgment ruling. The Parties are in the process of finalizing the final AEB value that will establish the Continuous Energy volume for the term of the Renewed Power Contract.

On October 5, 2020 the Innu Nation Inc. representing the Innu of Labrador ("Innu") filed a claim against Churchill Falls and Hydro-Québec alleging that the construction and operations of the Churchill Falls generating station deprived the Innu of their way of life while allowing Churchill Falls and Hydro-Québec to receive extensive financial benefits. The Innu originally claimed $150 million from Churchill Falls, but have filed an Amended Statement of Claim in which they have increased their claim against Churchill Falls to $270 million. Churchill Falls are contesting the claim.

In December 2020, the first Muskrat Falls unit was put into commercial operation and the Water Management Agreement between Churchill Falls and Muskrat Falls became effective. This agreement provides for coordinated production between the two generation plants for the efficient use of water on the Churchill River system by ensuring that water is available to meet delivery requirements and contractual commitments for both Churchill Falls and Muskrat Falls, while maximizing the energy produced from the water resource.

ENERGY TRADING

Electricity prices were depressed throughout most of 2020 primarily due to a mild winter in the Northeast, notably Boston, increased natural gas volumes which can be highly correlated with electricity prices, and decreased demand due to the global COVID-19 pandemic.

In December 2020, Energy Trading exported commissioning period energy via the LIL, Hydro transmission system and the Maritime Link. This marked the first time that Muskrat Falls energy was exported to external markets.

As a result of the delay in the commissioning schedule of LCP, Energy Trading had Recapture volumes available for export for the majority of the year.

OIL AND GAS

Effective January 1, 2020, Oil and Gas' existing equity interests in offshore developments remain in Oil and Gas, but are now managed by Oil and Gas Corp., under a Management Services Agreement (MSA). Personnel formerly employed by Oil and Gas are now employed by Oil and Gas Corp. Also, all intellectual property and contracts associated with offshore exploration not related to the existing assets were sold to Oil and Gas Corp. at net book value. Any future equity investments in new offshore developments will be undertaken by Oil and Gas Corp.

The combination of disputes between oil producing nations and the COVID-19's devastating impact on demand for fuels had a severe impact on crude oil prices in 2020, which resulted in Oil and Gas recording a $225 million non-cash impairment of its assets in Q1 2020.

In March 2020, Husky Energy (Husky), the operator of the West White Rose project, announced that it would be temporarily suspending major construction activities related to the West White Rose for the remainder of 2020 due to COVID-19. As a result of continuing delays from COVID-19 and market uncertainty, in September 2020, Husky provided a further update that it would be completing a full review of the scope, schedule and cost of the West White Rose project and in October, deferred construction on West White Rose for the 2021 season.

In April 2020, the Hibernia Management Development Corporation (HMDC) reported that drilling activities from Hibernia would be temporarily suspended, which is currently anticipated to be for a period of two years.

In December 2020, the Province announced support of the West White Rose and Hibernia projects under the Oil and Gas Industry Recovery Assistance Fund. Husky, on behalf of the West White Rose partners, will receive up to $41.5 million to help maintain jobs and protect the option of re-starting the West White Rose Project in 2022. HMDC, on behalf of the Hibernia partners, will receive up to $38 million to restart well work, perform drill rig upgrades and invest in new digital technology.

DISCONTINUED OPERATIONS

Effective January 1, 2020, the shares of Bull Arm Fabrication were distributed to Oil and Gas Corp. for a nominal amount.

CONSOLIDATED FINANCIAL RESULTS

CONSOLIDATED STATEMENT OF PROFIT (LOSS) HIGHLIGHTS

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2020**	2019	Variance	**2020**	2019	Variance
Continuing Operations						
Revenue	**229**	288	(59)	**930**	1,038	(108)
Fuels	**36**	84	(48)	**158**	217	(59)
Power purchased	**21**	30	(9)	**91**	102	(11)
Operating costs	**51**	58	(7)	**211**	226	(15)
Production, marketing and transportation costs	**9**	7	2	**39**	36	3
Transmission rental	**6**	7	(1)	**26**	26	-
Depreciation, depletion, amortization and impairment	**51**	57	(6)	**437**	197	240
Exploration and evaluation	**-**	5	(5)	**-**	33	(33)
Net finance expense	**28**	26	2	**109**	92	17
Other (income) expense	**(2)**	10	(12)	**(37)**	18	(55)
Profit (loss) for the period before regulatory adjustments	**29**	4	25	**(104)**	91	(195)
Regulatory adjustments	**(1)**	(16)	15	**(14)**	(36)	22
Profit (loss) for the period from continuing operations	**30**	20	10	**(90)**	127	(217)
Discontinued operations						
Loss for the period from discontinued operations	**-**	-	-	**-**	(1)	1
Profit (loss) for the period	**30**	20	10	**(90)**	126	(216)

Non-GAAP Operating Profit Disclosure

Reconciliation of Nalcor's profit (loss) to operating profit (loss) for the three and twelve months ended December 31, 2020 and 2019 is as follows:

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2020**	2019	Variance	**2020**	2019	Variance
Profit (loss) for the period	**30**	20	10	**(90)**	126	(216)
Muskrat Falls Inquiry and PUB Reference costs	**-**	1	(1)	**-**	6	(6)
Impairment of property, plant and equipment	**2**	-	2	**227**	-	227
Operating profit for the period	**32**	21	11	**137**	132	5

While Oil and Gas recognized a non-cash impairment expense of $225 million, which resulted in an overall loss for the twelve months ended December 31, 2020, operating profit was positive for the quarter and the year. The recognition of this impairment has no impact on cash and liquidity, as Oil and Gas continues to generate cash from its operations.

Revenue

Revenue for the three months ended December 31, 2020 was $229 million, a decrease of $59 million compared to the same period in 2019. The decrease for the quarter was primarily due to a lower average Dated Brent price per barrel in Oil and Gas and lower revenue in Hydro Regulated as a result of reduced energy and demand sales and unfavourable adjustments from the normal operation of the RSP. These decreases were partially offset by an increase in oil sales volumes and lower royalties paid to the Province.

Revenue for the year ended December 31, 2020 was $930 million, a decrease of $108 million compared to the same period in 2019. The decrease for the year was primarily due to lower average Dated Brent price per barrel in Oil and Gas, unfavourable adjustments from the normal operation of the RSP and reduced energy and demand sales in Hydro Regulated. These decreases were partially offset by an increase in oil sales volumes, lower royalties paid to the Province and higher supply cost recoveries in Hydro Regulated.

Although activity in the RSP impacts revenue, it is offset in the regulatory adjustments line.

Fuels

Fuel costs for the three months ended December 31, 2020 were $36 million, a decrease of $48 million compared to the same period in 2019. Fuel costs for the year ended December 31, 2020 were $158 million, a decrease of $59 million compared to the same period in 2019. The decrease for the quarter and year was primarily due to reduced consumption and price of No. 6 fuel. Certain variances in fuel are either offset through the RSP or other regulatory mechanisms in the regulatory adjustments line.

Power purchased

Power purchased for the three months ended December 31, 2020 was $21 million, a decrease of $9 million compared to the same period in 2019. Power purchased for the year ended December 31, 2020 was $91 million, a decrease of $11 million compared to the same period in 2019. The decrease for the quarter and year was primarily due to lower off-island power purchases over the Maritime Link. Certain variances in power purchased are offset through regulatory mechanisms in the regulatory adjustments line.

Operating costs

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2020**	2019	Variance	**2020**	2019	Variance
Salaries and benefits	**33**	35	(2)	**142**	144	(2)
Maintenance and materials	**8**	10	(2)	**31**	36	(5)
Professional services	**6**	8	(2)	**19**	25	(6)
Insurance	**2**	1	1	**7**	6	1
Travel and transportation	**1**	2	(1)	**5**	8	(3)
Other operating costs	**1**	2	(1)	**7**	7	-
	51	58	(7)	**211**	226	(15)

Operating costs for the three months ended December 31, 2020 were $51 million, a decrease of $7 million compared to the same period in 2019. The decrease for the quarter was primarily due to lower professional fees related to the Muskrat Falls Inquiry and PUB Reference, a reduction in employee future benefit costs and lower contract labour associated with system equipment maintenance.

Operating costs for the year ended December 31, 2020 were $211 million, a decrease of $15 million compared to the same period in 2019. The decrease for the year was primarily due to lower professional fees related to the Muskrat Falls Inquiry and PUB Reference, lower contract labour associated with system equipment maintenance and reduced travel as a result of COVID-19.

Production, marketing and transportation costs

Production, marketing and transportation costs for the three months and year ended December 31, 2020 were comparable to the same periods in 2019.

Transmission rental

Transmission rental for the three months and year ended December 31, 2020 was comparable to the same periods in 2019.

Depreciation, depletion, amortization and impairment

Depreciation, depletion, amortization and impairment for the three months ended December 31, 2020 was $51 million, a decrease of $6 million compared to the same period in 2019. Depreciation, depletion, amortization and impairment for the year ended December 31, 2020 was $437 million, an increase of $240 million compared to the same period in 2019. The decrease for the quarter was primarily due to a decrease in depletion as a result of lower production for HSE and a lower asset base for White Rose and HSE due to the impairment recorded in Oil and Gas in Q1 2020. The increase for the year was primarily due to the impairment of White Rose and HSE assets as a result of the significant decrease in crude oil prices in 2020, along with higher depletion as a result of an increase in barrels produced compared to 2019.

Exploration and evaluation

Exploration and evaluation for the three months ended December 31, 2020 was $nil, a decrease of $5 million compared to the same period in 2019. Exploration and evaluation for the year ended December 31, 2020 was $nil, a decrease of $33 million compared to the same period in 2019. The decrease for the quarter and year was due to the transition of the exploration program to the new Oil and Gas Corp. effective January 1, 2020.

Net finance expense

Net finance expense for the three months ended December 31, 2020 was comparable to the same period in 2019. Net finance expense for the year ended December 31, 2020 was $109 million, an increase of $17 million compared to the same period in 2019. The increase for the year was primarily due to LTA borrowing costs being expensed for an entire year, compared to just six months in 2019.

Other (income) expense

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2020**	2019	Variance	**2020**	2019	Variance
Settlement of commodity price swap contracts	(9)	2	(11)	(49)	2	(51)
Other	7	8	(1)	12	16	(4)
	(2)	10	(12)	(37)	18	(55)

Other income for the three months ended December 31, 2020 was $2 million, an increase of $12 million compared to the same period in 2019. Other income for the year ended December 31, 2020 was $37 million, an increase of $55 million compared to the same period in 2019. The increase for the quarter and year was primarily due to a net gain on settlement of commodity price swap contracts in Oil and Gas.

Regulatory adjustments

Regulatory recoveries for the three months ended December 31, 2020 were $1 million, a decrease of $15 million compared to the same period in 2019. Regulatory recoveries for the year ended December 31, 2020 were $14 million, a decrease of $22 million compared to the same period in 2019. The variance for the quarter was primarily due to unfavourable variations from the normal operation of the RSP; partially offset by an increase in energy supply cost deferrals driven mainly by reductions in off-island power purchases. The variance for the year was primarily due to recoveries approved as part of the 2017 GRA Order; partially offset by an increase in energy supply cost deferrals associated with off-island power purchases and favourable variations from the normal operation of the RSP.

Loss from discontinued operations

Effective January 1, 2020, the shares of Bull Arm Fabrication were distributed to Oil and Gas Corp. for a nominal amount.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION HIGHLIGHTS

Significant changes in the Consolidated Statement of Financial Position between December 31, 2020 and 2019 include:

ASSETS *(millions of Canadian dollars)*	Increase (Decrease)	**Explanation**
Cash and cash equivalents	155	Increase was primarily a result of cash from operations. See *Liquidity and Capital Resources* for additional details on movements in cash during the year.
Restricted cash	(600)	Decrease was primarily due to the draw-down of restricted cash in LCP to fund construction costs.
Short-term investments	103	Increase was primarily related to the reclassification of long-term investments to short-term.
Trade and other receivables	(77)	Decrease was primarily due to lower amounts owing from Newfoundland Power and lower HST receivable across multiple lines of business, along with a draw-down of advances to suppliers in LCP.
Property, plant and equipment	430	Increase primarily driven by capital expenditures related to the construction of the LCP and capital additions in Hydro Regulated, Churchill Falls and Oil and Gas; partially offset by impairment of White Rose and HSE, along with depreciation and depletion for the year.
Investments	(81)	Decrease primarily related to reclassification of long-term investment to short-term; partially offset by contributions to Sinking Funds in Hydro Regulated and the repayment of reserve fund in Churchill Falls.
Regulatory assets, net of regulatory deferrals	45	Increase primarily related to additional supply deferrals recorded during the year and changes to the RSP asset.
LIABILITIES AND EQUITY		
Current portion of long-term debt	31	Increase was primarily due to the reclassification of a portion of long-term debt to current.
Long-term debt	(72)	Decrease was primarily related to the reclassification of a portion of LCP long-term debt to current.
Class B limited partnership units	50	Increase due to accrued interest on Class B limited partnership units.
Retained earnings	(90)	Decrease was due to the loss recorded for the year ended December 31, 2020. Refer to the discussion of profit (loss) drivers above.

SEGMENTED RESULTS AND ANALYSIS

The following presents an overview of the Company's profit (loss) for the three months and year ended December 31, 2020, by business segment, in comparison to the three months and year ended December 31, 2019. This discussion should be read in conjunction with Note 32 of the financial statements for the year ended December 31, 2020:

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2020**	2019	Variance	**2020**	2019	Variance
Continuing Operations						
Regulated	**6**	(8)	14	**36**	30	6
Non-Regulated	**2**	(1)	3	**6**	(3)	9
Hydro	**8**	(9)	17	**42**	27	15
Muskrat Falls	**(5)**	-	(5)	**(6)**	(1)	(5)
Other-Power Development	**-**	-	-	**-**	-	-
Power Development	**(5)**	-	(5)	**(6)**	(1)	(5)
LCP Transmission	**(3)**	(7)	4	**(25)**	(13)	(12)
Churchill Falls	**10**	12	(2)	**33**	35	(2)
Energy Trading	**(2)**	1	(3)	**(5)**	-	(5)
Other-Power Supply	**-**	2	(2)	**1**	2	(1)
Power Supply	**5**	8	(3)	**4**	24	(20)
Oil and Gas	**30**	27	3	**(112)**	96	(208)
Corporate	**(5)**	(5)	-	**(14)**	(17)	3
Inter-segment	**(3)**	(1)	(2)	**(4)**	(2)	(2)
Profit (loss) for the period from continuing operations	**30**	20	10	**(90)**	127	(217)
Discontinued Operations						
Bull Arm Fabrication	**-**	-	-	**-**	(1)	1
Loss for the period from discontinued operations	**-**	-	-	**-**	(1)	1
Profit (loss) for the period	**30**	20	10	**(90)**	126	(216)

HYDRO

HYDRO REGULATED

The operations of Hydro Regulated are influenced by many external factors including regulation, performance of the domestic economy, weather patterns and fuel costs. The demand for electricity is met through a combination of hydroelectric generation, thermal generation and power purchases, including wind generation and off-island purchases. Hydro Regulated uses the RSP, as directed by the PUB, to annually adjust customer rates, both to smooth rate impacts for island electricity customers and to protect Hydro Regulated's profit from the majority of variations related to the HTGS fuel costs. Fuel costs fluctuate as a result of variations in electricity sales, fuel prices, power purchases and hydraulic production. Hydro Regulated also defers variations in certain supply costs with future recovery subject to applications to and approval by the PUB. Adjustments related to supply cost deferrals and the RSP flow through the regulatory adjustments line in the financial results.

Financial Highlights

For the periods ended December 31 (millions of Canadian dollars)	Three months ended 2020	2019	Variance	Twelve months ended 2020	2019	Variance
Revenue	**133**	171	(38)	**563**	613	(50)
Fuels	**36**	84	(48)	**158**	217	(59)
Power purchased	**17**	25	(8)	**75**	84	(9)
Operating costs	**30**	33	(3)	**135**	136	(1)
Transmission rental	**-**	1	(1)	**1**	1	-
Depreciation and amortization	**20**	23	(3)	**79**	83	(4)
Net finance expense	**23**	23	-	**90**	91	(1)
Other expense	**2**	6	(4)	**4**	8	(4)
Profit (loss) before regulatory adjustments	**5**	(24)	29	**21**	(7)	28
Regulatory adjustments	**(1)**	(16)	15	**(15)**	(37)	22
Profit (loss) for the period	**6**	(8)	14	**36**	30	6

Revenue

Revenue for the three months ended December 31, 2020 was $133 million, a decrease of $38 million compared to the same period in 2019. Revenue for the year ended December 31, 2020 was $563 million, a decrease of $50 million compared to the same period in 2019. The decrease for the quarter was primarily due to reduced energy and demand sales and unfavourable adjustments from the normal operation of the RSP. The decrease for the year was primarily due to unfavourable adjustments from the normal operation of the RSP and reduced energy and demand sales; partially offset by increased supply cost recoveries. Although activity in the RSP impacts revenue, it is offset in the regulatory adjustments line.

Energy sales and supply are summarized below:

For the periods ended December 31 (GWh)	Three months ended 2020	2019	2018	Twelve months ended 2020	2019	2018
Customer:						
Newfoundland Power	**1,448**	1,582	1,644	**5,529**	5,926	5,839
Rural	**313**	318	329	**1,126**	1,189	1,186
Industrial	**140**	151	177	**518**	636	637
	1,901	2,051	2,150	**7,173**	7,751	7,662
Generation:						
Hydraulic generation[1]	**1,194**	1,038	1,312	**4,508**	4,525	4,944
Holyrood generation	**278**	489	383	**989**	1,257	1,073
Standby generation[2]	**(2)**	-	9	**(3)**	2	45
Thermal diesel generation	**12**	13	14	**46**	51	52
Purchases:						
Domestic[3]	**459**	482	471	**1,761**	1,803	1,793
Off-Island[4]	**29**	120	72	**209**	479	113
Gross generation	**1,970**	2,142	2,261	**7,510**	8,117	8,020
Losses	**69**	91	111	**337**	366	358
Net generation	**1,901**	2,051	2,150	**7,173**	7,751	7,662

[1] Includes Hydro owned generation only.
[2] Includes Gas Turbine and Diesel generation.
[3] Domestic purchases include Recall energy for use in Labrador and generation from Exploits, wind and other sources for use on the Island Interconnected System.
[4] Off-Island purchases include energy imported over the LIL and external market purchases imported over the Maritime Link for use on the Island Interconnected System.

The average base rates[1] for Hydro Regulated, Wholesale and Industrial Island Interconnected customers are summarized below:

	Three months ended			Twelve months ended		
For the periods ended December 31	**2020**	2019	2018	**2020**	2019	2018
Wholesale Utility:						
First Block Energy (¢/kWh)	**2.444**	2.444	2.782	**2.444**	2.673	2.504
Second Block Energy (¢/kWh)	**18.165**	18.165	10.422	**18.165**	11.934	10.422
Demand ($/kW)	**5.00**	5.00	4.75	**5.00**	4.81	4.75
Island Industrial:						
Energy (¢/kWh)	**4.428**	4.428	3.971	**4.428**	3.742	3.971
Demand ($/kW)	**10.73**	10.73	9.95	**10.73**	10.86	9.46

[1] Rates reflect the average of base rates in effect for the period.

The above table illustrates the average base rate revenue per kWh and kW generated from Island Interconnected customers for the three months and year ended December 31, 2020, 2019 and 2018. Base rate revenue excludes the impact of changes in customer rates as a result of regulatory mechanisms. Rate changes reflect implementation of interim rates in 2018 and 2019 and final GRA rates effective October 1, 2019.

Fuels

Fuel costs for the three months ended December 31, 2020 were $36 million, a decrease of $48 million compared to the same period in 2019. Fuel costs for the year ended December 31, 2020 were $158 million, a decrease of $59 million compared to the same period in 2019. The decrease for the quarter and year was primarily due to reduced consumption and price of No. 6 fuel. Certain variances in fuel are either offset through the RSP or other regulatory mechanisms in the regulatory adjustments line.

The following tables summarize fuel consumed and average price:

	Three months ended			Twelve months ended		
For the periods ended December 31	**2020**	2019	2018	**2020**	2019	2018
No. 6 fuel consumption: Millions of barrels	**0.5**	0.8	0.6	**1.7**	2.1	1.8
Average price (CAD/bbl)	**$67.91**	$94.64	$88.33	**$84.19**	$91.35	$82.40
Gas Turbine fuel consumption: Millions of liters	**0.6**	0.5	4.6	**3.0**	5.1	25.4
Average price (CAD/liter)	**$0.80**	$1.00	$0.92	**$0.84**	$0.86	$0.84
Diesel fuel consumption: Millions of liters	**3.8**	4.1	4.3	**14.4**	15.8	16.0
Average price (CAD/liter)	**$0.78**	$1.04	$1.12	**$0.87**	$1.05	$1.08

Fuel costs are summarized below:

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2020**	2019	2018	**2020**	2019	2018
No. 6 fuel and other	**33**	79	56	**143**	196	151
Gas Turbine fuel	**-**	1	4	**2**	4	21
Diesel fuel	**3**	4	5	**13**	17	17
	36	84	65	**158**	217	189

Power purchased

Power purchased for the three months ended December 31, 2020 was $17 million, a decrease of $8 million compared to the same period in 2019. Power purchased for the year ended December 31, 2020 was $75 million, a decrease of $9 million compared to the same period in 2019. The decrease for the quarter and year was primarily due to lower off-island power purchases over the Maritime Link. Certain variances in power purchased are offset through regulatory mechanisms in the regulatory adjustments line.

Operating costs

Operating costs for the three months ended December 31, 2020 were $30 million, a decrease of $3 million compared to the same period in 2019. Operating costs for the year ended December 31, 2020 were comparable to the same period in 2019. The decrease for the quarter was primarily due to lower employee future benefit costs, lower contract labour associated with system equipment maintenance, and a reduction in bad debt expense. Certain variances in operating costs are offset through regulatory mechanisms in the regulatory adjustments line.

Transmission rental
Transmission rental for the three months and year ended December 31, 2020 was comparable to the same periods in 2019.

Depreciation and amortization
Depreciation and amortization for the three months ended December 31, 2020 was $20 million, a decrease of $3 million compared to the same period in 2019. Depreciation and amortization for the year ended December 31, 2020 was $79 million, a decrease of $4 million compared to the same period in 2019. The decrease for the quarter and year was primarily due to the extension to the timeline of Holyrood's transition to post-steam operations from March 2021 to March 2023; partially offset by an increase in the asset base year over year.

Net finance expense
Net finance expense for the three months and year ended December 31, 2020 was comparable to the same periods in 2019.

Other expense
Other expense for the three months ended December 31, 2020 was $2 million, a decrease of $4 million compared to the same period in 2019. Other expense for the year ended December 31, 2020 was $4 million, a decrease of $4 million compared to the same period in 2019. The decrease for the quarter and year was primarily due to lower asset retirement costs. Certain variances in other expense are offset through regulatory mechanisms in the regulatory adjustments line.

Regulatory adjustments
Regulatory recoveries for the three months ended December 31, 2020 were $1 million, a decrease of $15 million compared to the same period in 2019. Regulatory recoveries for the year ended December 31, 2020 were $15 million, a decrease of $22 million compared to the same period in 2019. The variance for the quarter was primarily due to unfavourable variations from the normal operation of the RSP; partially offset by an increase in energy supply cost deferrals driven mainly by reductions in off-island power purchases. The variance for the year was primarily due to recoveries approved as part of the 2017 GRA Order; partially offset by an increase in energy supply cost deferrals associated with off-island power purchases and favourable variations from the normal operation of the RSP.

HYDRO NON-REGULATED

Hydro Non-Regulated activities include the sale of power, to mining operations in Labrador West as well as costs related to operations that Hydro manages that are not subject to rate regulation by the PUB.

Financial Highlights

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2020**	2019	Variance	**2020**	2019	Variance
Revenue	**13**	11	2	**50**	43	7
Power purchased	**11**	11	-	**43**	42	1
Operating costs	**-**	2	(2)	**1**	5	(4)
Transmission rental	**-**	-		**-**	-	-
Net finance income	**-**	(1)	1	**-**	(1)	1
Profit (loss) for the period	**2**	(1)	3	**6**	(3)	9

Revenue
Revenue for the three months ended December 31, 2020 was $13 million, an increase of $2 million compared to the same period in 2019. Revenue for the year ended December 31, 2020 was $50 million, an increase of $7 million compared to the same period in 2019. The increase for the quarter and year was primarily due to additional energy sales to Industrial customers in Labrador West.

Power purchased
Power purchased for the three months and year ended December 31, 2020 was comparable to the same periods in 2019.

Operating costs
Operating costs for the three months ended December 31, 2020 were comparable to the same periods in 2019. Operating costs for the year ended December 31, 2020 was $1 million, a decrease of $4 million compared to the same period in 2019. The decrease for the year was primarily due to lower bad debt expense in 2020.

Transmission rental
Transmission rental for the three months and year ended December 31, 2020 was comparable to the same periods in 2019.

Net finance income
Net finance income for the three months and year ended December 31, 2020 was comparable to the same periods in 2019.

POWER DEVELOPMENT

MUSKRAT FALLS

Muskrat Falls includes the development activities of the 824 MW hydroelectric generating facility currently under construction in Labrador on the Lower Churchill River. Once construction is complete, this asset and its operation will become part of the Power Supply segment.

Financial Highlights

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2020**	2019	Variance	**2020**	2019	Variance
Operating costs	**1**	-	1	**2**	1	1
Transmission expense	**4**	-	4	**4**	-	4
Loss for the period	**(5)**	-	(5)	**(6)**	(1)	(5)

Operating costs
Operating costs for the three months and year ended December 31, 2020 were comparable to the same periods in 2019.

Transmission expense
Transmission expense for the three months and year ended December 31, 2020 was $4 million, an increase of $4 million compared to the same periods in 2019. The increase for the quarter and year was due to the recognition of expense from Muskrat Falls' use of the LTA interconnection services in Q4 2020 with Muskrat Falls Unit 1 having achieved commercial operation.

See *Liquidity and Capital Resources* for additional details on capital expenditures incurred in the segment during the periods ended December 31, 2020.

OTHER – POWER DEVELOPMENT

Other – Power Development includes costs associated with potential future power development activities, such as costs and assets associated with Gull Island. Included in Other – Power Development are assets totaling $140 million as at December 31, 2020 (December 31, 2019 - $140 million), representing historical costs incurred from 1998 to 2018 related to pre-development activities for the Gull Island power development. These costs primarily relate to environmental assessments, the Impacts and Benefits Agreement, engineering, commercial, and other related activities.

Financial Highlights

There was no profit or loss recorded in the results of Other – Power Development for the three months and year ended December 31, 2020 and 2019.

POWER SUPPLY

LCP TRANSMISSION

LCP Transmission includes the construction and operation of the LIL and LTA, which consists of transmission lines connecting the Muskrat Falls Generating Station, the Churchill Falls Generating Station, and portions of the transmission system in Labrador to the Island.

Financial Highlights

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2020**	2019	Variance	**2020**	2019	Variance
Revenue	**4**	-	4	**4**	-	4
Operating costs	**1**	3	(2)	**6**	7	(1)
Net finance expense	**6**	4	2	**22**	6	16
Other expense	**-**	-	-	**1**	-	1
Loss for the period	**(3)**	(7)	4	**(25)**	(13)	(12)

Revenue

Revenue for the three months and year ended December 31, 2020 was $4 million, an increase of $4 million compared to the same periods in 2019. The increase was due to the recognition of revenue from Muskrat Falls' use of the LTA interconnection services in Q4 2020 with Muskrat Falls Unit 1 having achieved commercial operation.

Operating costs

Operating costs for the three months and year ended December 31, 2020 were comparable to the same periods in 2019.

Net finance expense

Net finance expense for the three months ended December 31, 2020 was comparable to the same period in 2019. Net finance expense for the year ended December 31, 2020 was $22 million, an increase of $16 million compared to the same period in 2019. The increase for the year was primarily due to LTA borrowing costs being expensed for an entire year, compared to just six months in 2019.

Other expense

Other expense for the three months and year ended December 31, 2020 was comparable to the same periods in 2019.

CHURCHILL FALLS

Churchill Falls is the majority owner (65.8%) and operator of the Churchill Falls Generating Station, with a rated capacity of 5,428 MW. The 1969 Power Contract, and a Renewal Contract that commenced September 1, 2016 and expires August 31, 2041, provide for the sale of electricity from this facility to Hydro-Québec. In addition, two power purchase agreements effective March 9, 1998 and January 1, 2015, provide for the sale of electricity to Hydro for use domestically and for resale in export markets.

Financial Highlights

For the periods ended December 31 (millions of Canadian dollars)	Three months ended 2020	2019	Variance	Twelve months ended 2020	2019	Variance
Revenue	**27**	28	(1)	**94**	94	-
Operating costs	**10**	11	(1)	**38**	39	(1)
Depreciation and amortization	**5**	5	-	**21**	20	1
Net finance income	**-**	-	-	**(1)**	(1)	-
Other expense	**3**	1	2	**6**	4	2
Preferred dividends	**(1)**	(1)	-	**(3)**	(3)	-
Profit for the period	**10**	12	(2)	**33**	35	(2)

Results of Churchill Falls for the three months and year ended December 31, 2020 are comparable to the same periods in 2019.

Energy volume and revenue are summarized in the tables below:

For the periods ended December 31 (GWh)	Three months ended 2020	2019	2018	Twelve months ended 2020	2019	2018
Customer[1]:						
Hydro-Québec	**7,902**	8,936	8,383	**27,935**	30,182	30,959
Newfoundland and Labrador Hydro	**991**	1,057	1,039	**4,132**	4,161	3,963
	8,893	9,993	9,422	**32,067**	34,343	34,922
Generation[2]:						
Hydraulic generation	**9,101**	10,232	9,659	**32,754**	35,081	35,703
Losses and Station Services	**208**	239	237	**687**	738	781
Net generation	**8,893**	9,993	9,422	**32,067**	34,343	34,922

[1]Includes volumes of energy delivered to Hydro-Québec, which differs from actual sales volumes recognized in revenue, as per the Renewed Power Contract.
[2]Represents entire output of the Churchill Falls Generating Station, as compared to Churchill Falls' 65.8% ownership.

For the periods ended December 31 (millions of Canadian dollars)	Three months ended 2020	2019	2018	Twelve months ended 2020	2019	2018
Revenue						
Energy sales:						
Hydro-Québec	**9**	9	9	**38**	38	38
Newfoundland and Labrador Hydro	**9**	9	8	**32**	31	28
Total Energy sales	**18**	18	17	**70**	69	66
Guaranteed winter availability– Hydro-Québec	**9**	10	10	**24**	25	24
Total Revenue	**27**	28	27	**94**	94	90

ENERGY TRADING

The revenue in this segment is derived primarily from the sale of available Recapture, the block of 300MW of capacity and related firm energy pursuant to the Power Contract, which Churchill Falls has agreed to sell and deliver to Hydro Non-Regulated. A portion of the recaptured firm energy is normally surplus to the needs of Hydro Non-Regulated and is sold by Energy Trading to markets and customers in eastern Canada and the northeastern United States. Energy Trading also focuses on optimizing market opportunities, on behalf of Hydro Regulated, for which Energy Trading does not currently realize a profit.

Most recently, Energy Trading has been marketing and facilitating the export of commissioning period energy from Muskrat Falls via the Labrador-Island Link and the Maritime Link.

Financial Highlights

For the periods ended December 31 (millions of Canadian dollars)	Three months ended **2020**	2019	Variance	Twelve months ended **2020**	2019	Variance
Revenue	**7**	8	(1)	**29**	36	(7)
Power purchased	**1**	1	-	**4**	6	(2)
Operating costs	**1**	1	-	**5**	5	-
Transmission rental	**6**	6	-	**24**	25	(1)
Other expense (income)	**1**	(1)	2	**1**	-	1
(Loss) profit for the period	**(2)**	1	(3)	**(5)**	-	(5)

Revenue

Revenue for the three months ended December 31, 2020 was comparable to the same period in 2019. Revenue for the year ended December 31, 2020 was $29 million, a decrease of $7 million compared to the same period in 2019. The annual decrease was primarily driven by lower average export electricity prices.

Export electricity prices and volumes

Prices and volumes for the three months and year ended December 31, 2020, with 2019 and 2018 comparatives, for sales in export markets, are summarized in the table below:

For the periods ended December 31	Three months ended **2020**	2019	2018	Twelve months ended **2020**	2019	2018
Average Export Electricity Price (USD/MWh)[1]	**20**	20	31	**17**	21	29
Realized Export Electricity Price (USD/MWh)[2]	**19**	19	32	**17**	20	29
Realized Export Electricity Price (CAD/MWh)[3]	**25**	26	42	**23**	27	38
Export Sales (GWh)						
Recapture	**264**	309	271	**1,264**	1,189	1,492
Other[4]	**2**	4	34	**10**	130	70
	266	313	305	**1,274**	1,319	1,562

[1]The Average Export Electricity Price reflects prices available in the export market.

[2]The Realized Export Price (USD) includes the impact of financial transmission rights for all periods and electricity commodity price hedges for 2018.

[3]The Realized Export Electricity Price (CAD) includes the impact of financial transmission rights for all periods and foreign exchange and electricity commodity price hedges for 2018.

[4]Other refers to sales volumes purchased from export markets and subsequently sold using available firm transmission.

Average and realized export electricity prices for the three months ended December 31, 2020 were comparable to the same period in 2019. Average and realized electricity prices for the year ended December 31, 2020 were lower than the same period in 2019 due to milder winter temperatures, competition with low-cost natural gas generation, and reduced demand from the global COVID-19 pandemic. An extreme cold event in January 2018 also contributed to annual prices being higher in 2018.

Recapture sales for the three months ended December 31, 2020 were 264 GWh, a reduction of 45 GWh compared to the same period in 2019. Recapture sales for the year ended December 31, 2020 were 1,264 GWh, an increase of 75 GWh compared to the same period in 2019. The decrease for the quarter was primarily due to increased industrial customer requirements in Labrador West and energy required for LIL testing. The increase for the year was primarily driven by lower volumes available for export in the first and second quarters of 2019 as a result of Hydro Regulated utilizing Recapture energy to service Island requirements; partially offset by increased customer requirements in Labrador West.

Other export sales for the three months ended December 31, 2020 were comparable to the same period in in 2019. Other export sales for the year ended December 31, 2020 were 10 GWh, a decrease of 120 GWh compared to the same period in 2019. The annual decrease was due to lower sales from the transmission optimization program due to decreased export electricity prices, since this program is only utilized when a profit is anticipated and excess firm transmission is available.

Power purchased

Power purchased for the three months and year ended December 31, 2020 was comparable to the same periods in 2019.

Operating costs

Operating costs for the three months and year ended December 31, 2020 were comparable to the same periods in 2019.

Transmission rental

Transmission rental for the three months and year ended December 31, 2020 was comparable to the same periods in 2019.

Other expense (income)

Other expense (income) for the three months and year ended December 31, 2020 was comparable to the same periods in 2019.

OTHER – POWER SUPPLY

Other – Power Supply includes revenues and costs recovered from Hydro-Québec associated with Nalcor's operation of the Menihek Generating Station, the Maritime Link (which is owned by Emera, but consolidated by Nalcor), costs related to Power Supply management and administration, community development costs related to Power Supply and cost recoveries associated with the management of LCP construction.

Financial Highlights

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2020**	2019	Variance	**2020**	2019	Variance
Revenue	**2**	3	(1)	**8**	10	(2)
Operating costs	**1**	1	-	**6**	8	(2)
Depreciation and amortization	**1**	-	1	**1**	-	1
Profit for the period	**-**	**2**	(2)	**1**	**2**	(1)

Results of Other - Power Supply for the three months and year ended December 31, 2020 were comparable to the same periods in 2019.

OIL AND GAS

Oil and Gas is a joint venture working interest partner in three developments in the Newfoundland and Labrador offshore. It owns a 4.9% working interest in the Hebron oil field, the Province's fourth offshore oil project, which produced first oil in November 2017; a 5.0% working interest in White Rose, which produced first oil from the North Amethyst field in May 2010; and a 10.0% working interest in HSE, which produced first oil in June 2011.

During the first quarter of 2020, Oil and Gas recognized a non-cash impairment expense of $225 million related to its working interest in White Rose and HSE. The recognition of an impairment expense is due to the market impact on crude oil prices as a result of the COVID-19 pandemic and a reduction in worldwide demand for crude oil and increased global supply due to disputes between oil producing nations. The significant decline in oil prices has also had an impact on the respective capital, operating and production plans of the projects. Oil and Gas' recognition of an impairment expense is consistent with the position of other industry participants subsequent to the recent downturn in prices.

The recognition of an impairment expense related to White Rose and HSE is driven by financial reporting requirements under IFRS. In accordance with IFRS, Oil and Gas assesses the carrying value of its oil and gas developments against the future recoverable amount at each reporting period. Historical cash flow generated by the asset is not taken into consideration in determining whether there is impairment. In assessing impairment and impairment reversals, Oil and Gas uses factors including expected future oil prices, proved and probable reserves from third party specialists and a discount rate reflective of Oil and Gas' risk to determine the present value of future cash flows generated from the developments in which Oil and Gas has a working interest. Due to the current economic conditions and lower forecasted price of Brent Crude, the forecasted future cash flows for White Rose and HSE have decreased, resulting in a reduction in the recoverable amount of White Rose and HSE for financial reporting purposes. Any expense or reversal of such expense is reflected in the financial results, and while no impact on cash flows for the year, can lead to large fluctuations in profit or loss between financial reporting periods.

Financial Highlights

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2020**	2019	Variance	**2020**	2019	Variance
Revenue						
Petroleum, natural gas and other	**59**	82	(23)	**243**	307	(64)
Royalty expense	**(4)**	(10)	6	**(27)**	(39)	12
	55	72	(17)	**216**	268	(52)
Operating costs	**1**	1	-	**4**	6	(2)
Production, marketing and transportation costs	**8**	7	1	**38**	36	2
Depreciation, depletion, amortization and impairment	**22**	28	(6)	**330**	90	240
Exploration and evaluation	**-**	5	(5)	**-**	33	(33)
Net finance expense	**1**	1	-	**3**	2	1
Other (income) expense	**(7)**	3	(10)	**(47)**	5	(52)
Profit (loss) for the period	**30**	27	3	**(112)**	96	(208)

Non-GAAP Operating Profit Disclosure

Reconciliation of Oil and Gas profit (loss) to operating profit for the three and twelve months ended December 31, 2020 and 2019 is as follows:

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2020**	2019	Variance	**2020**	2019	Variance
Profit (loss) for the period	**30**	27	3	**(112)**	96	(208)
Impairment of property, plant and equipment	**-**	-	-	**225**	-	225
Operating profit for the period	**30**	27	3	**113**	96	17

While Oil and Gas recognized a non-cash asset impairment expense of $225 million, which resulted in an overall loss for the year ended December 31, 2020, operating profit was higher for the quarter and year compared to 2019. The recognition of this impairment had no impact on cash for the year.

Revenue

Revenue for the three months ended December 31, 2020 was $55 million, a decrease of $17 million compared to the same period in 2019. Revenue for the year ended December 31, 2020 was $216 million, a decrease of $52 million compared to the same period in 2019. The decrease for the quarter and year was primarily due to lower average Dated Brent price per barrel; partially offset by an increase in sales volumes and lower royalties.

Oil price and production

Oil price data and production for the year ended December 31, 2020 with 2019 and 2018 comparatives is summarized in the table below:

	Three months ended			Twelve months ended		
For the periods ended December 31	**2020**	2019	2018	**2020**	2019	2018
Average Dated Brent Price (USD/bbl)[1]	**45**	64	60	**40**	65	70
Realized Price (USD/bbl)[2]	**52**	62	55	**47**	64	66
Realized Price (CAD/bbl)[3]	**69**	83	71	**63**	86	84
Oil Production (Mbbls)	**997**	958	643	**4,611**	3,508	3,421

[1]The Average Dated Brent Price reflects prices available in the market adjusted for any premium or discount.

[2]The Realized Price (USD) includes the impact of oil commodity price hedges.

[3]The Realized Price (CAD) includes the impact of oil commodity price hedges and foreign exchange.

Average Dated Brent and realized oil prices for the three months and year ended December 31, 2020 were lower in comparison to the same periods during 2019 and 2018. This decrease reflects the significant impact on prices associated with the combination of a dispute between oil producing nations resulting in an increase in global supply and decreased worldwide demand for crude oil resulting from the adverse impact to global commercial activity from the COVID-19 pandemic.

Oil production for the three months ended December 31, 2020 was higher in comparison to the same period in 2019 primarily due to increased sales from Hebron as a result of timing of lift schedules; partially offset by lower production rates from HSE due to natural decline, Oil production for the year ended December 31, 2020 was higher in comparison to the same period in 2019 due to increased production from Hebron as a result of additional wells being online and an increase in HSE and White Rose due to oil leak shutdowns in 2019.

Operating costs

Operating costs for the three months and year ended December 31, 2020 were comparable to the same periods in 2019.

Production, marketing and transportation costs

Production, marketing and transportation costs for the three months and year ended December 31, 2020 were comparable to the same periods in 2019.

Depreciation, depletion, amortization and impairment

Depreciation, depletion, amortization and impairment for the three months ended December 31, 2020 was $22 million, a decrease of $6 million compared to the same period in 2019. Depreciation, depletion, amortization and impairment for the year ended December 31, 2020 was $330 million, an increase of $240 million compared to the same period in 2019. The decrease for the quarter was primarily due to lower production for HSE as well as a decrease in depletion for White Rose and HSE resulting from a lower asset base due to impairment recorded in Q1 2020. The increase for the year was primarily due to the impairment of White Rose and HSE assets as a result of the significant decrease in crude oil prices in 2020, along with higher depletion as a result of an increase in barrels produced compared to the same period in 2019.

Exploration and evaluation

Exploration and evaluation for the three months ended December 31, 2020 was $nil, a decrease of $5 million compared to the same period in 2019. Exploration and evaluation for the year ended December 31, 2020 was $nil, a decrease of $33 million compared to the same period in 2019. The decrease for the quarter and year was due to the transition of the exploration program to the new Oil and Gas Corp. effective January 1, 2020.

Net finance expense

Net finance expense for the three months and year ended December 31, 2020 was comparable to the same periods in 2019.

Other (income) expense

Other (income) expense for the three months ended December 31, 2020 was $7 million, an increase of $10 million compared to the same period in 2019. Other income (expense) for the year ended December 31, 2020 was $47 million, an increase of $52 million compared to the same period in 2019. The quarter and year-to-date variance was primarily due to a net gain on settlement of commodity price swap contracts.

Reserves

Oil and Gas contracts independent reserve evaluators to prepare reports on remaining oil reserves related to its working interest in offshore developments. Gross reserves represent Oil and Gas' working interest in remaining reserves, while net reserves represent remaining reserves less royalties. Remaining reserve data for both proved and probable reserves to be recovered as at December 31, 2020 with 2019 comparatives are summarized in the table below:

	2020		2019	
	Light and Medium Oil		Light and Medium Oil	
As at December 31 (Mbbls)	**Gross**	**Net**	Gross	Net
Developed[1]	**14,962**	**12,649**	13,976	11,023
Undeveloped[2]	**6,937**	**6,623**	8,619	8,266
Total Proved[3]	**21,899**	**19,272**	22,595	19,289
Probable[4]	**26,956**	**22,016**	31,353	24,509
Total Proved Plus Probable	**48,855**	**41,288**	53,948	43,798

[1]Barrels which are expected to be produced from existing wells and installed facilities.

[2]Barrels which are expected to be produced from known accumulations of oil, requiring additional wells or infrastructure in order to extract.

[3]Barrels which can be estimated with a high degree of certainty to be recoverable.

[4]Barrels which are less certain to be recovered than proved reserves.

Decrease in remaining reserves at December 31, 2020, as compared to the same period in 2019 primarily relates to barrels produced during 2019.

CORPORATE

Corporate includes costs associated with corporate support and shared services functions.

Financial Highlights

	Three months ended			**Twelve months ended**		
For the periods ended December 31 (millions of Canadian dollars)	**2020**	2019	Variance	**2020**	2019	Variance
Operating costs	**4**	6	(2)	**12**	19	(7)
Depreciation, amortization and impairment	**2**	-	2	**5**	3	2
Net finance income	**(1)**	(1)	-	**(3)**	(5)	2
Loss for the period	**(5)**	(5)	-	**(14)**	(17)	3

Non-GAAP Operating Loss Disclosure

Reconciliation of Corporate loss to operating loss for the three and twelve months ended December 31, 2020 and 2019 is as follows:

	Three months ended			**Twelve months ended**		
For the periods ended December 31 (millions of Canadian dollars)	**2020**	2019	Variance	**2020**	2019	Variance
Loss for the period	**(5)**	(5)	-	**(14)**	(17)	3
Muskrat Falls Inquiry and PUB Reference costs	**-**	1	(1)	**-**	6	(6)
Impairment of property, plant and equipment	**2**	-	2	**2**	-	2
Operating loss for the period	**(3)**	(4)	1	**(12)**	(11)	(1)

Operating costs

Operating costs for the three months ended December 31, 2020 were comparable to the same period in 2019. Operating costs for the year ended December 31, 2020 were $12 million, a decrease of $7 million compared to the same period in 2019. The annual decrease was primarily due to lower professional services related to the PUB Reference and Muskrat Falls Inquiry.

Depreciation, amortization and impairment

Depreciation, amortization and impairment for the three months and year ended December 31, 2020 was comparable to the same periods in 2019.

Net finance income

Net finance income for the three months and year ended December 31, 2020 was comparable to the same periods in 2019.

DISCONTINUED OPERATIONS

BULL ARM FABRICATION

Effective January 1, 2020, the shares of Bull Arm Fabrication were distributed to Oil and Gas Corp. for a nominal amount.

LIQUIDITY AND CAPITAL RESOURCES

CASH FLOW HIGHLIGHTS

	Twelve months ended		
For the period ended December 31 (millions of Canadian dollars)	**2020**	2019	Variance
Cash and cash equivalents, beginning of the period	**174**	153	21
Net cash provided from operating activities	**164**	40	124
Net cash used in investing activities	**(549)**	(405)	(144)
Net cash provided from financing activities	**540**	386	154
Cash and cash equivalents, end of the period	**329**	174	155

Operating Activities

Net cash provided from operating activities during the twelve months ended December 31, 2020 was $164 million, an increase of $124 million compared to the same period in 2019. The increase in cash was primarily due to higher cash generated from operations compared to 2019 as a result of an increase in oil production volume, no exploration and evaluation expense and a decrease in royalties paid to the Province in Oil and Gas in addition to lower fuel and power purchased costs in Hydro Regulated and a decrease in operating costs across multiple operating segments. These increases were partially offset by a decrease in realized oil price. Also contributing to the variance was favorable variances in net non-cash working capital; partially offset by lower interest received during the year.

Investing Activities

	Twelve months ended		
For the period ended December 31 (millions of Canadian dollars)	**2020**	2019	Variance
Additions to property, plant and equipment and intangible assets	**(551)**	(904)	353
(Increase) decrease in investments	**(31)**	345	(376)
Other	**4**	5	(1)
Changes in non-cash working capital balances	**29**	149	(120)
Net cash used in investing activities	**(549)**	(405)	(144)

Net cash used in investing activities during the twelve months ended December 31, 2020 was $549 million, an increase of $144 million compared to the same period in 2019. The increase was primarily driven by a reduction in drawdowns on investments to fund LCP capital expenditures and unfavourable changes to non-cash working capital balances primarily driven by a receipt of proceeds from letters of credit from a construction contract in Muskrat Falls in 2019. These increases were partially offset by lower capital expenditures resulting from the wind down of construction of the LCP along with a reduction in capital spending across all lines of business due to the impacts of COVID-19.

Financing Activities

	Twelve months ended		
For the period ended December 31 (millions of Canadian dollars)	**2020**	2019	Variance
Repayment of long-term debt	**(30)**	-	(30)
Decrease (increase) in restricted cash	**600**	(38)	638
Increase in short-term borrowings	**29**	44	(15)
Shareholder contributions	**-**	384	(384)
Rate stabilization plan fuel credit	**(55)**	-	(55)
Other	**(4)**	(4)	-
Net cash provided from financing activities	**540**	386	154

Net cash provided from financing activities during the twelve months ended December 31, 2020 was $540 million, an increase of $154 million compared to the same period in 2019. The increase was primarily due to lower contributions to restricted cash to fund LCP construction costs in 2020; partially offset by a decrease in shareholder contributions, a one-time bill credit to Newfoundland Power and rural customers, and required repayment of a portion of LCP long-term debt, which commenced in Q4 2020.

CAPITAL RESOURCES

Nalcor's capital resources consist primarily of cash, restricted cash, long-term investments, proceeds from debt issuances and equity from the Province. These capital resources are used to fund the Company's consolidated capital resource requirements, which continue to include working capital needs, capital expenditures, and the servicing and repayment of debt. Capital resources are managed at the subsidiary level, taking into account the specific cash flow and liquidity needs of each subsidiary. Cash from operations is a primary source of funding for most subsidiaries, with the primary exceptions being Muskrat Falls and LCP Transmission. Cash from operations depends on a number of factors including commodity prices, regulatory decisions from the PUB relating to electricity rates and the associated timing and recovery of costs incurred to service customers, foreign exchange rates, oil production and electricity export volume. As a result, Nalcor monitors cash from operations for each subsidiary and where necessary, additional sources of liquidity are put in place. In some cases, subsidiaries have access to long-term debt financing and equity from the Province. As it currently stands, Nalcor's ability to sufficiently fund future capital resource requirements is largely impacted by the resolution of rate mitigation decisions by the Province. Management will continue to monitor and work closely with the Province on the impact and timing surrounding rate mitigation decisions.

Hydro Regulated

Capital resource requirements for Hydro Regulated consist primarily of working capital needs, capital expenditures and debt servicing and repayment. Hydro Regulated's capital resources consist primarily of cash from operations, sinking funds, proceeds from long-term debt issuances, and access to a $300 million government guaranteed promissory note program. As at December 31, 2020, there were $262 million in promissory notes outstanding under this program (December 31, 2019 - $233 million). Hydro also maintains a $200 million committed revolving term credit facility with a maturity date of July 27, 2021 and in April 2020, Hydro Regulated obtained additional credit through the establishment of a committed credit facility with its banker in the amount of $300 million. As at December 31, 2020, there were no amounts drawn on either of these facilities (December 31, 2019 - $nil).

Hydro Regulated addresses longer-term capital funding requirements through long-term debt. The Province issues debt in the domestic capital markets, on Hydro Regulated's behalf, and in turn loans the funds to Hydro Regulated on a cost recovery basis. Any funding to address long-term capital requirements requires approval from the Province and the PUB. Access to long-term debt through the Province remains an important consideration for funding capital resource requirements. Hydro issued debt in April 2021, through the Province, with a face value of $300 million. The debt matures on June 2, 2030 with a coupon rate of 1.75% paid semiannually.

Hydro Regulated's ability to access adequate capital within existing legislated debt caps in 2020 resulted in a request to the Province to increase the existing debt caps to permit access to adequate borrowing facilities, and on February 20, 2020, the Lieutenant-Governor in Council issued Order in Council OC2020-18 to increase the level of short-term borrowings permitted by Hydro from $300.0 million to $500.0 million, effective until March 31, 2022. Issuance of short-term borrowings and long-term debt by Hydro is further restricted by an amendment to the Newfoundland and Labrador Hydro Act of 2007. Effective March 26th, 2020, this amendment increased the limit of Hydro Regulated's total borrowings, which includes both short-term and long-term debt, from $2.1 billion to $2.6 billion.

Timing of Hydro Regulated's next GRA Order and implementation of new customer rates, timing of completion and commissioning of LCP assets, and the results of rate mitigation decisions by the Province could have material impacts on Hydro Regulated's available capital resources and requirements going forward. Management will continue to monitor the potential impacts of these events. Should these impacts materialize, capital requirements for other segments, including Muskrat Falls, LCP Transmission and Energy Trading could also be impacted.

Muskrat Falls and LCP Transmission

Capital resource requirements for Muskrat Falls and LCP Transmission consist primarily of capital expenditures in connection with construction of the LCP along with related debt servicing and repayment. The source of financing for Muskrat Falls and LCP Transmission in Q1 and Q2 2020 was remaining cash related to the proceeds from long-term debt issuances of 2013 and 2017 and cash from pre-funded equity. Cash from pre-funded equity contributions from the Province will continue to be the primary source of funding for construction and operations into 2021, until fully consumed. Once pre-funded equity currently on deposit has been fully utilized, Muskrat Falls and LCP Transmission are forecasting to require additional equity contributions.

As a result of the delay in LCP schedule announced in September 2020, approximately $364 million in debt and interest payments related to the financing arrangements will need to be funded prior to commissioning, which is anticipated to occur in Q4 2021. These payments are not related to cost increases, but are pre-existing funding requirements which would have been covered post-commissioning through payments from Hydro Regulated to Muskrat Falls and LCP Transmission.

On December 17, 2020, the Province and Federal Government jointly announced measures that resulted in delaying some financing related payments associated with the LCP. Sinking fund payments due in December 2020 and June 2021 have been deferred until after project commissioning occurs and debt service reserve requirements have been deferred to the earlier of October 1, 2021 or the project commissioning date. Additionally, the requirement to pre-fund equity in December 2020 associated with the forecasted costs overruns announced in the September 2020 cost/schedule update was eliminated.

Churchill Falls

Capital resource requirements for Churchill Falls consist primarily of working capital needs, reserve fund payments and capital expenditures. Churchill Falls capital resources consist primarily of cash from operations. In addition, Churchill Falls has access to a $10 million unsecured demand operating credit facility. There were no amounts drawn on this facility as at December 31, 2020 (December 31, 2019 - $nil), however, $1 million of the borrowing limit has been used to issue two irrevocable letters of credit (December 31, 2019 - $1 million was used to issue two irrevocable letters of credit).

Churchill Falls also has access to a reserve fund, which when fully funded totals $75 million and can be used to fund capital expenditures relating to Churchill Falls' existing facilities and their replacement, subject to the terms and conditions established in the Shareholder's Agreement. As at December 31, 2020, the reserve fund balance was $59 million (December 31, 2019 - $38 million). Nalcor has recorded its 65.8% proportionate share of the amount invested of $39 million (December 31, 2019 - $25 million). Contributions will continue to be made over the coming years to replenish the reserve fund to its fully funded amount. Management believes these existing capital resources will be sufficient to fund planned 2021 capital expenditures, reserve fund repayments and to meet current and future working capital needs.

Energy Trading

Capital resource requirements for Energy Trading are primarily limited to working capital needs. For Energy Trading, capital resources consist primarily of cash from operations and access to a $20 million demand operating credit facility. As at December 31, 2020, Energy Trading had no amounts drawn on this facility (December 31, 2019 - $nil), however $1.7 million of the borrowing limit has been used to issue three irrevocable letters of credit (December 31, 2019 - $1.9 million for three irrevocable letters of credit). Management believes these existing capital resources will be sufficient to meet current and future working capital needs for Energy Trading.

Oil and Gas

Capital resource requirements for Oil and gas consist primarily of working capital needs and capital expenditures. Oil and Gas' capital resources consist primarily of cash from operations and access to a $30 million unsecured demand operating credit facility. While there were no amounts drawn on this facility at December 31, 2020, $22.2 million of the borrowing limit has been used to fund two irrevocable letters of credit (December 31, 2019 - $22.2 million was used to issue two irrevocable letters of credit). Management believes these existing capital resources will be sufficient to fund 2021 planned capital expenditures for Oil and Gas while meeting current working capital needs.

Additional Liquidity

Nalcor maintains a $250 million CAD or USD equivalent committed revolving term credit facility with its bank which serves as an additional source of liquidity available to each of the subsidiaries. On February 28, 2020, Nalcor signed an extension to its revolving term facility, resulting in a maturity date of January 31, 2022. There were no amounts drawn on this facility as at December 31, 2020 (December 31, 2019 - $nil), however $7.8 million of the borrowing limit has been used to issue 10 irrevocable letters of credit (December 31, 2019 - $8.0 million was used to issue 11 irrevocable letters of credit). The 10 letters of credit, some of which are denominated in USD, are issued on behalf of Energy Trading and relate to power purchase and sale contracts with various independent system operators, transmission providers and bilateral counterparties.

As at December 31, 2020 and December 31, 2019, external short-term credit facilities are as follows:

As at December 31, 2020 (millions of Canadian dollars)	2020 Limit	Drawn	Letters of Credit Issued	Available Limit
Revolving Term Facilities:				
Nalcor Energy	**250**	**-**	**8**	**242**
Hydro Regulated	**200**	**-**	**-**	**200**
Non-Revolving Term Facilities:				
Hydro Regulated	**300**	**-**	**-**	**300**
Demand Operating Facilities:				
Churchill Falls	**10**	**-**	**1**	**9**
Energy Trading	**20**	**-**	**2**	**18**
Oil and Gas	**30**	**-**	**22**	**8**
Promissory Notes:				
Hydro Regulated	**300**	**262**	**-**	**38**
Total credit facilities	**1,110**	**262**	**33**	**815**

As at December 31, 2019 (millions of Canadian dollars)	2019 Limit	Drawn	Letters of Credit Issued	Available Limit
Revolving Term Facilities:				
Nalcor Energy	250	-	8	242
Hydro Regulated	200	-	-	200
Demand Operating Facilities:				
Churchill Falls	10	-	1	9
Energy Trading	20	-	2	18
Oil and Gas	30	-	22	8
Promissory Notes:				
Hydro Regulated	300	233	-	67
Total credit facilities	810	233	33	544

CAPITAL STRUCTURE

Nalcor's consolidated capital structure and associated performance indicators are shown in the table below:

As at December 31 (millions of Canadian dollars)	December 31 2020	December 31 2019
Short-term borrowings	**262**	233
Long-term debt (net of sinking funds)[1]	**9,462**	9,512
Class B limited partnership units[2]	**628**	578
Lease liabilities[1]	**5**	6
Total debt	**10,357**	10,329
Total shareholder's equity	**6,169**	6,255
Debt to capital[3]	**63%**	62%
Fixed rate debt as a percentage of total indebtedness[3]	**91%**	92%

[1]Includes current portion.

[2]Changes in the value of Class B limited partnership units represent annual accrued interest.

[3]The above noted ratios are Non-GAAP financial measures. Please refer to *Non-GAAP Financial Measures*.

CAPITAL EXPENDITURES

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2020**	2019	Variance	**2020**	2019	Variance
Regulated	**38**	47	(9)	**90**	129	(39)
Non-Regulated	**-**	-	-	**-**	-	-
Hydro	**38**	47	(9)	**90**	129	(39)
Muskrat Falls	**174**	128	46	**434**	653	(219)
Other - Power Development	**-**	-	-	**-**	-	-
Power Development	**174**	128	46	**434**	653	(219)
LCP Transmission	**73**	58	15	**245**	286	(41)
Churchill Falls	**21**	15	6	**42**	44	(2)
Energy Trading	**-**	-	-	**-**	-	-
Other - Power Supply	**1**	2	(1)	**3**	8	(5)
Power Supply	**95**	75	20	**290**	338	(48)
Oil and Gas	**7**	17	(10)	**37**	73	(36)
Corporate	**-**	1	(1)	**2**	5	(3)
Inter-Segment	**(2)**	1	(3)	**(4)**	(3)	(1)
Nalcor Capital Expenditures, excluding Maritime Link	**312**	269	43	**849**	1,195	(346)
Maritime Link – Non cash additions	**1**	5	(4)	**6**	28	(22)
Nalcor Total	**313**	274	39	**855**	1,223	(368)

Capital expenditures for the year ended December 31, 2020 were $855 million, a decrease of $368 million compared to the same period in 2019. The decrease for the year was primarily due to lower capital expenditures in Muskrat Falls and LCP Transmission due to the wind down of construction, along with a reduction in capital spending across all lines of business due to the impacts of COVID-19.

The breakdown of capital expenditures incurred related to LCP for the quarter and year are as follows:

	Three months ended		Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2020**	2019	**2020**	2019	Total To Date[1]
Muskrat Falls	**133**	94	**289**	528	5,367
Labrador Transmission Assets	**-**	-	**1**	11	866
Labrador-Island Link	**24**	15	**53**	82	3,619
Facilities capital costs	**157**	109	**343**	621	9,852
Capitalized interest and financing costs	**64**	61	**251**	249	1,502
Class B Limited Partnership Unit Interest	**12**	12	**50**	45	219
Transition to Operations	**13**	4	**35**	24	101
Total capital expenditures	**246**	186	**679**	939	11,674

[1]Total to date excludes $236 million of allowance for funds used during construction on Nalcor's Class A limited partnership units in the LIL LP that are eliminated upon consolidation.

OBLIGATIONS AND COMMITMENTS

Outstanding commitments for capital projects, excluding those related to Oil and Gas, total approximately $214.8 million as at December 31, 2020 (December 31, 2019 - $208.3 million).

KEY BUSINESS RISKS

The following information describes significant risks inherent to Nalcor's activities. This section does not describe all applicable risks and is intended as a summary of risks which could materially affect the business, results of operations and financial position or cash flows. Other risks may arise or risks not currently considered to be material may become material in the future.

COVID-19

On March 11, 2020, the World Health Organization (WHO) declared COVID-19 a pandemic, indicating the sustained risk of global spread of the disease. In response, governments worldwide have enacted emergency measures. In Canada, Federal and Provincial governments have issued various Public Health, Transportation and other directives and orders, including travel restrictions, business closures, stay-at-home orders and event cancellations. The effect of these measures has resulted in a significant slow-down in global economic activity.

Lost construction time and a reduced workforce due to the COVID-19 pandemic resulted in impacts to the LCP cost and schedule and, on September 28, 2020, Nalcor provided an update on COVID-19 pandemic impacts indicating that the project final completion is expected to experience a delay until Q4 2021, resulting in an anticipated total project cost at in-service of $13.1 billion. Commodity price risk has also increased, particularly with respect to Oil and Gas, which experienced a decline in revenue along with impairment of its assets as global oil markets experience an extreme supply and demand imbalance combined with the impact of COVID-19, causing a significant decrease in price in early 2020.

Actions were taken by Nalcor throughout the year to mitigate increased levels of risk, including securing additional borrowing capacity to help manage potential impacts associated with COVID-19. Nalcor's COVID-19 response continues to be managed in accordance with Pandemic and Business Continuity Plans and the Company has followed a staged approach in close consultation and alignment with the Province for the continuation of work. Construction on LCP worksites resumed May 30, 2020 following a brief shut down and continues with all new protocols and guidelines for the protection of workers from COVID-19 in the construction industry in place. In the fall of 2020 and into 2021, Nalcor had been increasing occupancy at its facilities and resuming non-priority work; however, on February 12, 2021, the Province implemented restrictions as a result of an increase in COVID-19 cases. Nalcor sites, facilities and control rooms were restricted to work that could be safely executed following Nalcor's COVID-19 control measures and Public Health guidance. In addition, Muskrat Falls implemented new quarantine requirements prior to entry onto the work site as well as additional COVID-19 testing for workers on the Muskrat Falls site to ensure continued safeguarding of workers and surrounding communities. The Chief Medical Officer for the Province reduced the Alert Level effective March 13, 2021, and operations transitioned back to control measures aligning with Nalcor's pandemic response and recovery plan. The Company will continue to monitor the COVID-19 situation in close consultation with the Province.

Numerous risks disclosed in this annual MD&A for the year ended December 31, 2020 may be materially elevated as a result of the COVID-19 pandemic, notably completion of the LCP, liquidity risk related to the ability of the Province, Nalcor and its subsidiaries to finance planned capital and operating expenses and commodity price risk. Despite Nalcor's efforts to manage the effects, including the activation of business continuity plans by each line of business, the full extent of COVID-19's impact on our business, results of operations and financial position will depend on future developments, which are difficult to predict, including, but not limited to, the duration and any future spread of the pandemic, its severity, potential government actions to mitigate public health impacts or aid economic recovery, and how quickly and to what extent normal economic and operating conditions can resume. It is too early to determine the full impact the COVID-19 pandemic will have on Nalcor's operational and financial performance or the global economy as a whole, including the ability to execute business strategies and initiatives in the expected timeframes. The situation continues to be fluid and future impacts may materialize that are not yet known and may have a material adverse effect on the results of operations, financial position and cash flows of the Company.

REGULATORY RISK

Hydro Regulated is subject to the normal uncertainties facing entities that operate under cost of service rate regulation, including approvals of regulatory applications and new customer rates by the PUB. Hydro Regulated is entitled to recover prudently incurred costs of providing electrical service, including a fair rate of return. Hydro Regulated's capital budget is approved by the PUB in advance of executing its capital program; however there is a delay in recovering the associated costs until the capital investments are reflected in rates resulting from a GRA.

There is no assurance that Hydro Regulated will receive regulatory decisions on rates in a timely manner, resulting in costs being incurred prior to having approval of recovery from customers. There is also no assurance that rate orders issued by the PUB will result in Hydro Regulated recovering all costs incurred in providing electricity service.

Once the full commissioning of the LCP assets is achieved, certain contractual payment obligations will commence for Hydro Regulated. Regulatory processes and outcomes may be impacted by the ongoing evaluation of options to reduce electricity rates (rate mitigation) by the Province and the PUB, as well as any changes to LCP cost or schedule.

Hydro Regulated works to provide timely, complete and justified filings and adopts a collaborative approach to regulatory matters including technical conferences and settlement negotiations, where appropriate. Management is also focused on ensuring that operational plans are achieved and the company complies with its regulatory obligations.

The uncertainties inherent to the regulatory process governing the operation of Hydro Regulated, including timely decisions regarding customer rates and rate mitigation, may result in volatility and material impacts on the timing of its capital program, results of operations and financial position of Nalcor.

STRATEGIC RISKS

Sustainability of Future Electricity Rates

Since LCP was sanctioned, several key assumptions have changed, namely the cost of construction and schedule for first and full power. Additionally, load forecasts and required supply assumptions have decreased from levels forecasted in 2012 and as a result, projected electricity rates have increased from initial estimates.

The Province is evaluating options to reduce the impact of LCP costs on electricity rates and on April 15, 2019 released its strategy to manage and mitigate electricity rates for 2021 onward. In addition, from late 2018 through 2019, the PUB, under direction from the Province, has reviewed rate mitigation options and provided its final report to the Province on February 7, 2020. On September 25, 2020, the Province announced the creation of a Rate Mitigation Team with a mandate to successfully conclude negotiations with the Government of Canada. Nalcor representatives continue to support the work being done by GNL under the new framework initiated in the fall of 2020.

The structure and timing of final decisions on rate mitigation may have an adverse effect on the results of operations, financial position and cash flows of the Company.

Completion of Lower Churchill Project

With any large construction project there are a variety of uncertainties that exist relating to execution. There is a risk that costs can increase over original estimates and schedules can be impacted by a number of factors.

For LCP, factors impacting capital costs and schedules are closely monitored. Organizational and structural changes implemented in 2016 separated the generation and transmission elements of the project to allow for a more focused approach on the completion of each scope of work. Nalcor is working closely with contractors to find solutions to any tactical execution risks that remain. In addition, LCP maintains an owner-controlled insurance program, which is subject to coverage, limits and exclusions, as well as time sensitive claims discovery and reporting provisions.

Increases in cost and schedule delays may have an adverse effect on the results of operations, financial position and cash flows of the Company. In addition, no assurance can be given that the insurance program will be adequate to fully cover any and all damages or liabilities.

Risk of Natural and Other Unexpected Occurrences

Other external factors and forces exist that may cause natural or other unexpected occurrences that could have sudden and catastrophic impacts. These include, but are not limited to, an act of terrorism against key generation or transmission infrastructure and a catastrophic natural disaster, such as a major hurricane or tsunami. Climate change may increase the severity and frequency of weather-related natural disasters. Unforeseen changes to energy consumption resulting from temperature swings could affect expected demand assumptions.

Nalcor has business recovery and other emergency preparedness measures and controls governing physical security threats. The organization is developing an approach to identifying climate-related vulnerabilities and to incorporate this information into various planning and decision processes to adapt to and/or mitigate future effects of climate change. Such events could have an adverse effect on the results of operations, financial position and cash flows of the Company.

OPERATIONAL RISKS

Electricity System Integration Risk

While construction of the transmission interconnection between the isolated Island grid to North America is complete with the Maritime Link in-service, the Muskrat Falls Generating Station and the LIL are not yet fully commissioned, as construction and testing activities are still ongoing. The integration of the Muskrat Falls Generating Station and related transmission assets into the existing asset base is complex and involves a high degree of coordination. Nalcor is focused on completion of commissioning of the remaining units of the Muskrat Falls Generating Station, commissioning of the LIL with interim software, full system integration efforts and planning for the implementation of new operating procedures and commercial agreements. At December 31, 2020, Unit 1 at Muskrat Falls was released for commercial operation. As well, through the commissioning process for the LIL, power and energy has been delivered to and through the Island to the maritime market, with the LIL operating at levels up to 150 MW by year-end. As additional units come on line, and final software is implemented, these levels will increase throughout 2021.

The PUB's review of the RRA Study, which was filed in November 2019, will continue with proceedings going into 2021. This regulatory process addresses Hydro's long-term approach to providing least-cost, reliable service for its customers and focuses on Hydro's proposed planning criteria (reflecting the inclusion of the LCP assets) and ability to meet customer and system requirements reliably over a ten-year planning period from 2020 to 2029. The RRA Study proceeding will include a risk assessment of potential outages of LCP Transmission assets and determine any system investments required to mitigate these risks.

There may be a period during which system performance and reliability are impacted by ongoing corrective work on new assets in operation and service disruptions may occur before full system stability is achieved, which could have an adverse effect on the results of operations, financial position and cash flow of the Company.

Asset Condition and Maintenance Risk

Generation and Transmission Assets

Hydro and Churchill Falls' operations are subject to normal risks inherent to operating generation and transmission assets. As assets approach the end of their service lives they become more costly to maintain and less reliable. Hydro and Churchill Falls maintain 20 year asset plans as well as integrated annual work plans which consolidate and monitor the activities within operating, capital, winter readiness and preventative and corrective maintenance programs. Utility assets are maintained and replaced in a manner that accounts for the age of the infrastructure and for the extreme weather conditions that are inherent to our climate.

Nalcor maintains a comprehensive corporate insurance program, typical for companies operating in similar industries. Insurance is subject to coverage limits and exclusions; as well as, time-sensitive claims discovery and reporting provisions, and may not be available for all of the risks and hazards to which Nalcor is exposed. In addition, no assurance can be given that insurance will adequately cover all of the Company's liabilities or will be generally available in the future, or if available, that premiums will be commercially justifiable.

The occurrence of significant unforeseen equipment failures could have a material adverse effect on customer reliability, contractual commitments, results of operations, financial position and cash flow of the Company.

Joint Venture Interest in Oil and Gas Assets

Oil and Gas is subject to the operational risks of participation in offshore oil production, including equipment defects, malfunctions, failures, unplanned shut downs, safety or environmental incidents, reserve estimation uncertainties, regulatory approvals and compliance, as well as external factors such as hurricanes, ice conditions and other extreme weather. These risks and hazards create exposure to events such as workplace incidents, business interruption, property damage or destruction, or environmental liabilities. These operational risks are managed by the operator of projects in which Nalcor is a minority joint venture partner. The approach and performance of the operator with respect to addressing these areas is monitored actively by reviewing project status reports and risk registers, participation in meetings with co-ventures, and the exercise of Oil and Gas voting rights within operating agreements. The occurrence of such events could have an adverse effect on the results of operations, financial position and cash flow of the Company.

Safety Risk

Several of Nalcor's lines of business have material inherent safety risks and regulatory and legislative requirements, in particular with respect to the provincial Occupational Health and Safety Act and Regulations, which have potential associated fines and penalties for non-compliance. Notably within utility operations, this includes risks related to working around energized equipment and operating dams and dykes. There are additional unique hazards associated with certain facilities such as the underground powerhouse at Churchill Falls and worksites related to LCP construction and various capital projects for Hydro and Churchill Falls. These facilities carry risks relating to working from heights and management of contractors onsite. Based on the industry and the nature of work performed, there are many hazards and risks that could result in workplace incidents that could cause serious injury or death to employees, contractors or members of the public. Nalcor has implemented a safety management system that is based on ISO 45001 Occupational Health and Safety. Unsafe work conditions can lead to workplace incidents and disruption of the business, which could have an adverse effect on the results of operations, financial position and cash flow of the Company.

Environmental Risk

Nalcor is subject to various municipal, provincial and federal requirements, and given the industry and nature of the work performed, there are a number of environmental risks that may adversely affect Nalcor's financial position in any given year. There is a potential for an environmental liability with existing assets or from assets assumed from another owner, or the presence or release of hazardous and other harmful substances. Planned work may be affected by the lack or absence of government approvals, permits, or renewals. Nalcor applies the principles of ISO 14001 Environmental Management System standard to its relevant lines of business, which is a risk based framework for managing significant environmental risks and reducing the frequency and severity of incidents. Nalcor and its various lines of business have developed Environmental Emergency Response Plans to deal with any accidental releases which may occur in order to provide a quick and effective response to minimize impacts.

Environmental events causing significant damage may lead to claims by third parties, government fines, and disruption to operations which could have an adverse effect on the results of operations, financial position and cash flow of the Company.

Information Technology Infrastructure and Security Risk

Nalcor develops, maintains and manages complex IT systems which operate transmission and generation facilities and support critical financial and other business processes. Key systems are subject to the risk of unauthorized access, including cyber security threats, which may result in loss of confidential and critical data, processing capability due to hardware and/or software failure, or communication across the wide area network. There are unique risks relating to the industrial control systems and other operational technologies that control the electricity grid and certain physical assets.

Disruptions in service for any reason could result in the loss of control over physical assets where critical industrial control systems that generate, monitor, maintain and transmit power to the power grid are affected. This may result in additional impacts such as unplanned power outages and damage to physical assets. It could create unsafe working conditions in plants that cannot be safely controlled or shutdown. It could also cause delays in issuing accurate internal or external reporting, including financial reports, as well as information required to maintain contractual and regulatory compliance. It could result in delays in issuing vendor payments, processing payroll, or providing customer billings.

External threats are mitigated through the use of firewalls, anti-malware tools and detection and intrusion prevention appliances. Internet access is controlled and risk is managed by a web-filtering device where devices are connected. Nalcor maintains a disaster recovery plan that details recovery procedures and processes, and is updated and tested on a periodic basis.

A serious incident involving access to critical systems or the loss of corporate data could result in an adverse effect on the results of operations, financial position and cash flow of the Company.

Human Resource Management Risk

The future success of Nalcor is tied to attracting and retaining sufficient qualified staff to replace those seeking other opportunities or retiring. Approximately 20% of full time equivalent employees will be eligible to retire within the next five years. The ability to deliver service to customers in a safe and cost effective manner and to integrate new assets into the system efficiently and effectively is dependent on attracting and retaining qualified trade and technical staff. An integrated workforce plan and talent management strategy has been developed to help ensure Nalcor is able to satisfy its resource requirements.

The collective agreements between Hydro and Power Supply (IBEW Local 1615) expired in 2018 and were extended by one year to March 31, 2019. The Company and Union have ratified all three agreement and these agreements are now set to expire March 31, 2022. The collective agreements between Churchill Falls and IBEW Local 2351 also expired in 2018 and were extended by two years until December 31, 2020. Negotiations are ongoing.

Inability to attract and retain qualified trade and technical staff could have an adverse effect on the results of operations, financial position and cash flow of the Company.

Oil and Gas Production Volume Risk

As a partner in three offshore developments, Oil and Gas is largely dependent on the operators to manage the risks associated with production and development. In addition to operating risks, commodity price and foreign exchange risk, Oil and Gas is subject to volume risk, or fluctuations in production levels. Decisions may be made by the operator that may adversely affect project production levels if they are in the best interest of the life of specific development projects.

Oil and natural gas operations (including development, production, pricing, marketing and transportation) in the Province's offshore are subject to extensive controls and regulations imposed by the C-NLOPB. The C-NLOPB may intervene with respect to production activities which can have an effect on estimated production volumes and the ability to operate Nalcor's Oil and Gas assets.

The impact of unanticipated declining or ceased production in either project could have a significant adverse effect on the results of operations, financial position and cash flow of the Company.

FINANCIAL RISK

Commodity Price Risk

Commodity price risk arises wherever a change in the market price for a particular commodity would cause a corresponding change to expected profit, cash flow and/or the fair value of assets or liabilities. Nalcor's primary exposure to commodity price risk is through the sale of crude oil by Oil and Gas; the sale of energy by Energy Trading; and the purchase of No. 6 fuel, gas turbine fuel, and diesel fuel for Hydro Regulated generation facilities.

Commodity price risk has increased in 2020 with respect to Oil and Gas, which experienced a decline in revenue along with impairment of its assets as global oil markets experienced an extreme supply and demand imbalance due to a combination of COVID-19 and disputes between oil producing nations.

The market price for electricity exports is impacted by a number of factors including emerging technologies, seasonality and changes in weather patterns and fluctuations in demand. North American Electricity markets have seen depressed prices in New York and New England in 2020, driven by unseasonably warm winter temperatures, low natural gas prices and reduced demand due to COVID-19.

To help mitigate this risk in Oil and Gas and Energy Trading a financial risk management strategy articulating the extent to which commodity hedge contracts will be used to provide a measure of cash flow certainty is presented to the Board for approval on an annual basis and approved transactions are executed by Management in accordance with a Board approved Risk Management Policy.

Within Hydro Regulated, regulatory recovery mechanisms are available which mitigate the risk to profit from movements in commodity price relating to the purchase of No. 6 fuel, diesel fuel and gas turbine fuel. Hydro Regulated's exposure to commodity price fluctuations in No. 6 fuel is mitigated by the operation of the RSP which transfers the impact of commodity price risk on fuel prices to customers. Variations in the price of diesel and gas supply costs and the volume of other supply costs are deferred in other regulatory mechanisms, reducing their impact on profit, with recovery subject to annual PUB approval. Therefore, while the RSP and other supply cost deferrals mitigate the impact of fuel price volatility on profit, risk remains on the timing of cash flows, which is managed by ensuring sufficient short-term liquidity is available to address capital requirements. Once LCP is operating at full capacity, usage of No. 6 fuel is expected to be materially reduced.

Fluctuations in commodity prices could have an adverse effect on the results of operations, financial position and cash flow of the Company.

Foreign Exchange Rate Risk

Foreign exchange rate risk arises when a financial transaction is denominated in a currency other than Nalcor's base currency, the Canadian dollar. Nalcor's primary exposure to foreign exchange rate risk arises from exposure to USD through the sale of crude oil by Oil and Gas, Hydro Regulated's purchases of No. 6 fuel for consumption at the HTGS and the sale of energy at USD market rates by Energy Trading. As is the case for commodity price exposures related to Hydro Regulated's purchase of No. 6 fuel, regulatory recovery is permitted related to foreign exchange rate impacts as described in further detail below. For oil sales and export energy sales, profit is sensitive to fluctuations in the USD/CAD exchange rate. The financial risk management strategy referenced above also covers the management of foreign exchange rate risk.

Hydro Regulated's foreign exchange exposure on the purchase of No. 6 fuel is mitigated through the operation of the RSP which transfers the effects of foreign currency changes on fuel purchases to customers. The regulatory framework for Hydro Regulated allows for recovery of prudently incurred costs, including those relating to changes in foreign exchange rates which, similar to the risk above, mitigates volatility on profit but not on cash flow which is managed by ensuring sufficient short-term liquidity is available.

Fluctuations in foreign exchange rates could have an adverse effect on the results of operations, financial position and cash flow of the Company.

Credit Risk

Credit risk represents the financial loss that would be suffered if Nalcor's counterparties in a transaction fail to meet or discharge their obligation to the Company. Nalcor is exposed to credit risk in the event of non-performance by counterparties to its financial instruments or in non-performance of suppliers and/or contractors.

Significant credit risk exists where Nalcor hires contractors to complete major capital projects, notably the LCP. Default by a material contractor could have a significant impact on project completion and on Nalcor's need for additional borrowings or equity funding. Letters of Credit and performance bonds are in place under material contracts to help mitigate this risk.

Credit risk relating to the revenues in Churchill Falls and Hydro Regulated are largely mitigated by the profile of its customers, who are typically regulated utilities or investment grade counterparties, which are designated as low risk. Procedures and practices to manage this risk include the assessment and monitoring of counterparty creditworthiness and collections and the maintenance of various forms of credit assurance. Credit risk related to the sale of export energy and crude oil is managed through contractual arrangements with counterparties assessed to be creditworthy and supported by credit enhancements, as required.

Investments are similarly restricted to high-quality securities. Investments held within the sinking fund portfolios of Nalcor and Hydro Regulated and the reserve fund of Churchill Falls are limited to securities issued by, or guaranteed, by the Government of Canada, any of the provincial governments and Schedule 1 Canadian Chartered Banks. In addition, portfolio investments held within the reserve fund of Churchill Falls do not exceed 10% with any one entity with the exception of the Government of Canada. Hedge contracts are executed with highly rated banking institutions only.

Non-performance by counterparties to its financial instruments or in non-performance of suppliers and/or contractors, to which Nalcor has extended significant credit, could have an adverse effect on the results of operations, financial position and cash flow of the Company.

Liquidity Risk

Liquidity risk is the risk that Nalcor will not be able to meet its financial obligations as they become due. Nalcor is exposed to liquidity risk with respect to its short-term contractual obligations and financial liabilities. Short-term liquidity is provided by cash and cash equivalents, funds from operations and maintenance of borrowing facilities sufficient to cover both anticipated and unexpected fluctuations within operations. Cash flows are monitored continuously and Nalcor maintains a committed revolving term credit facility with its bank to ensure additional liquidity is available to each of its lines of business. In addition, Hydro Regulated maintains two separate term credit facilities, as well as, a government guaranteed promissory note program. Demand operating credit facilities are maintained for Oil and Gas, Churchill Falls and Energy Trading.

Hydro Regulated addresses longer-term capital funding through a process whereby the Province issues debt specifically on Hydro Regulated's behalf and lends the proceeds to Hydro Regulated on a cost recovery basis. The funding obligations associated with a portion of Hydro Regulated's long-term debt are managed through a sinking fund investment program. To ensure Hydro Regulated has the ability to access adequate capital, the Lieutenant-Governor in Council issued Order in Council OC2020-18 to increase the level of short-term borrowings permitted by Hydro from $300.0 million to $500.0 million, effective until March 31, 2022. Issuance of short-term borrowings and long-term debt by Hydro is further restricted by Bill 33. Effective March 26, 2020, the Newfoundland and Labrador Hydro Act of 2007 amended the limit of Hydro's total borrowings, which includes both short-term and long-term debt, to increase it from $2.1 billion to $2.6 billion. In April 2020, Hydro Regulated obtained additional credit through the establishment of a committed credit facility with its banker in the amount of $300.0 million. In December 2020, the Province authorized an advance to Hydro Regulated of up to $300 million in long-term funding, to be repaid on a cost recovery basis (OC2020-273). Subsequently, an approval for the debt issuance was received from the PUB in December, as per Board Order No. P.U. 40(2020), and the debt was issued in April 2021.

Continued long-term liquidity depends on access to capital markets through the Province and on the Province's ability to provide equity contributions, if required. Diminished liquidity may result in constraints on executing capital plans and carrying out planned investments and cash flow shortages could adversely affect the organization's ability to operate.

COMPLIANCE RISK

Legislative Compliance

In addition to environmental and occupational, health and safety requirements, Nalcor's operations are subject to a variety of other federal, provincial, and local laws, regulations and guidelines, including market rules governing Energy Trading, provincial royalties and other regulations relating to the province's interest in offshore oil projects, federal aviation regulations concerning the operation of the Churchill Falls airport, privacy and other various employment laws. Certain legal issues are managed by Nalcor's corporate legal team, but most compliance risks are managed by the line of business they relate to.

As Nalcor grows its Energy Trading segment and interconnects the Province to the North American electrical system, it is subject to increasing levels of United States and Canadian regulation and market participant rules. This introduces the risk of loss of authorizations necessary to participate in chosen export markets in reaction to noncompliance. Such occurrences may affect the Company's ability to meet sales and other targets. Management has established dedicated resources to develop and maintain an appropriate compliance framework.

In certain instances, the outcome of noncompliance could have an adverse effect on the results of operations, financial position and cash flow of the Company.

Contractual Compliance

Nalcor has contracts in place with various related companies and third parties including, but not limited to, arrangements relating to federally guaranteed debt, power purchase and other agreements governing the sale of power and transmission access through Québec, Atlantic Canada and the Northeastern US, the use of Nalcor sites or locations by third parties, and the payment of various contractors and service providers. Contracts are awarded in compliance with provincial purchasing requirements and regulation, as well as Nalcor's internal purchasing policies and guidelines, and standardized contracts are often used.

Default by Nalcor relating to a material contract, or default of another party to key commercial agreements may affect covenants under financing arrangements or the Company's ability to meet sales or other targets as well as fund or deliver major capital projects. Disputes can arise between Nalcor and related or third parties which could have an adverse effect on the results of operations, financial position and cash flow of the Company.

SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING JUDGMENTS AND ESTIMATES AND INTERNAL CONTROL

Nalcor's significant accounting policies are described in Note 2 of the financial statements.

CURRENT CHANGES IN ACCOUNTING POLICIES

Amendments to IFRS standards that are applicable to and have been adopted by the Company in 2020 are as follows:

Presentation of Financial Statements and Accounting Policies, Changes in Accounting Estimates and Errors

Effective January 1, 2020, Nalcor adopted the amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and* Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition and to include the concept of 'obscuring information'. The amendments are intended to improve the understanding of the existing requirements rather than to significantly impact Nalcor's materiality judgments.

Leases – COVID-19 Related Rent Concessions

The IASB issued an amendment to IFRS 16 *Leases* that provides lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification. Since Nalcor does not have any COVID-19 related rent concessions, the application of this amendment did not have an impact on Nalcor's financial statements.

Property, Plant and Equipment – Proceeds before Intended Use

The IASB issued amendments to IAS 16 *Property, Plant and Equipment* relating to proceeds before intended use. The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss. The amendments also clarify the meaning of 'testing whether an asset is functioning properly'. IAS 16 now specifies this as assessing whether the technical and physical performance of the asset is such that it is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes.

These amendments are applied retrospectively, but only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. Nalcor has elected to early adopt the amendments to IAS 16 as of January 1, 2020 with retrospective application as of January 1, 2019. The application of these amendments to IAS 16 did not have any transitional impact on Nalcor's financial statements.

FUTURE CHANGES IN ACCOUNTING POLICIES

Amendments to IFRS standards that have been issued, are applicable to and will be adopted by the Company in future periods are as follows:

Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Costs of Fulfilling a Contract

The amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* are effective on January 1, 2022, with earlier application permitted, and specify that the cost of fulfilling a contract comprises the costs that relate directly to the contract, including incremental costs or an allocation of other costs directly related to fulfilling the contract. These amendments apply to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the amendments. These amendments are currently not applicable to Nalcor, however, may apply to future transactions.

Presentation of Financial Statements – Classification of Liabilities as Current or Non-Current

The IASB issued amendments to IAS 1 *Presentation of Financial Statements* to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The amendments are effective January 1, 2023 with earlier application permitted and are applied retrospectively upon adoption.

SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

Preparing the financial statements in accordance with IFRS requires management to make significant accounting judgments and estimates that impact reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amount of revenues and expenses during the reporting periods. Significant accounting judgements and estimates are described in Note 3 of the financial statements and are based on historical experience, current conditions and various other assumptions believed to be reasonable under the circumstances. Due to changes in facts and circumstances, and the inherent uncertainty involved in making estimates, actual results may differ materially from current estimates. The estimates used are reviewed on an on-going basis by Management and, as adjustments become necessary, are recognized in profit or loss in the period in which they become known. A summary of Nalcor's critical accounting judgments and estimates are as follows:

Revenue

Revenue recorded in Hydro Regulated includes unbilled electricity consumed by retail customers during the period. Determining the value of the unbilled consumption involves an estimate of consumption for each retail customer based on the customer's consumption history in relation to key inputs such as current price of electricity, economic activity, weather conditions and system losses. The estimation process for unbilled electricity will result in adjustments to revenue in the periods they become known, when actual results differ from estimates.

In the absence of a signed agreement with Hydro-Québec regarding the AEB value, Churchill Falls and Hydro-Québec have been using the 2008 AEB value on an interim basis since September 1, 2016. Now that a final judgment has been received in the Declaratory Judgment Case, the Parties are in the process of finalizing the value of the final AEB that will establish the Continuous Energy for the term of the Renewed Power Contract.

Regulatory Adjustments

Regulatory assets and liabilities recorded in Hydro Regulated arise due to the rate-setting process for regulated utilities governed by the PUB. The amounts relate to costs or credits which Management believes will be recovered or settled through customer rates in future periods, pursuant to the proceedings and outcomes of future PUB orders. Certain estimates are necessary since the regulatory environment often requires amounts to be recognized at estimated values until these amounts are finalized pursuant to regulatory decisions or other regulatory proceedings. The final amounts approved by the PUB for deferral as regulatory assets and regulatory liabilities and the approved recovery or settlement periods may differ from those originally expected. Any resulting adjustments to original estimates could have a material impact and are recognized in profit or loss in the period in which they become known. In the event that a regulatory decision is received after the balance sheet date but before the consolidated financial statements are issued, the facts and circumstances are reviewed to determine whether or not it is a recognized subsequent event.

As at December 31, 2020, Hydro Regulated recognized a total of $172 million in regulatory assets (December 31, 2019 - $123 million) and $17 million in regulatory liabilities (December 31, 2019 - $13 million). For further detail of regulatory assets and liabilities please refer to Note 13 of Nalcor's financial statements.

Depreciation and Depletion

Depreciation and depletion are significant estimates included in the Nalcor consolidated financial statements due to the significant asset balances carried in property, plant and equipment. As at December 31, 2020, Nalcor's consolidated property, plant and equipment was $17.2 billion, or approximately 89% of total consolidated assets compared to $16.8 billion or approximately 87% of total consolidated assets as at December 31, 2019. Total depreciation and depletion was $201 million for the year ended December 31, 2020 (December 31, 2019 - $193 million).

Depreciation is recorded over the useful lives of Nalcor's assets as determined by independent specialists, historical experience and, in the case of Hydro Regulated, are approved by the PUB. These useful lives are Nalcor's best estimate and are reviewed annually by Management. Any change in these estimates can have a material impact on the calculation of depreciation and is accounted for prospectively in the financial statements.

Depletion is determined using the unit of production method based on actual production and oil and natural gas reserves, as evaluated by independent reserve engineers. Estimates of recoverable reserves are based upon variable factors and assumptions regarding historical production, production rates, ultimate reserve recovery and timing and amount of future cash outflows. Changes to the ultimate reserve recovery and timing and amount of future cash outflows can have a material impact on the depletion calculation.

Impairment of Non-Financial Assets

Non-financial assets are assessed for indicators of impairment at the end of each reporting period. Non-financial assets are impaired where there is evidence that, as a result of one or more events that occurred after the initial recognition of the non-financial asset, the recoverable amount of the asset has been impacted. Where it is not possible to estimate the recoverable amount of an individual asset, Nalcor estimates the recoverable amount of the cash generating unit (CGU) to which the asset belongs. The determination of a CGU requires judgement in determining the level at which cash flows are largely independent of other assets or groups of assets. Management uses internal qualitative and quantitative assessments. The calculation of the recoverable amount of a non-financial asset or CGU includes a discounted cash flow analysis which may include estimates and assumptions regarding expected future revenue often driven by commodity prices and volume, the timing and amount of future operating and capital cash flows and a market participant discount rate. Changes to these estimates can have a material impact on this calculation and while no impact on cash flows for the year, can lead to large fluctuations in profit or loss between reporting periods. For the year ended December 31, 2020, the impact of asset impairments on Nalcor's profit or loss was $225 million related to the Company's Oil and Gas assets (December 31, 2019 - $nil) and $2 million related to wind turbine assets (December 31, 2019 - $nil).

Oil and Natural Gas Reserves

Oil and gas natural reserves represent the remaining oil reserves related to Oil and Gas' working interest in offshore developments. Reserve estimates are prepared and evaluated by an independent consultant and are used in calculating depletion, impairment and decommissioning liabilities related to offshore developments. Estimates of recoverable reserves are based upon variable factors and assumptions regarding historical production, production rates, ultimate recovery, marketability of petroleum and natural gas, and timing and amount of future cash expenditures. Changes to these amounts could materially affect these calculations.

Partnership Unit Liabilities

Partnership unit liabilities represent the limited partner's ownership interests in the Partnership based on the fair value of the Class B limited partnership units at each reporting date. Due to the nature of the liability and the lack of comparable market data, the fair value is determined using the present value of future cash flows. Significant assumptions are used in the calculation including the amount and timing of future cash flows and the discount rate. As at December 31, 2020, the carrying value of the Class B limited partnership units on the Statement of Financial Position was $628 million (December 31, 2019 - $578 million).

Decommissioning Liabilities

Decommissioning liabilities are recorded to recognize a liability for the fair value of the future expenditures required to settle obligations associated with the retirement of property, plant and equipment. Significant assumptions and estimates surrounding the timing and amount of future cash flows required to settle obligations, along with the discount rate, are used to determine the fair value of the liability. Measurement requires making reasonable estimates concerning the method of settlement and settlement dates associated with legally obligated decommissioning costs. There are uncertainties in estimating future decommissioning costs due to potential external events such as changing legislation or advances in remediation technologies. Changes to the amount or timing of the settlement cash flows can have material impact on the calculation. Nalcor has decommissioning liabilities associated with its net ownership interests in petroleum and natural gas properties and related well sites, the retirement of portions of the HTGS, and disposal of Polychlorinated Biphenyls.

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 these assets will be used for an indefinite period, no removal date can be determined and consequently, a reasonable estimate of the fair value of the cost of decommissioning liability cannot be determined at this time. If it becomes possible to estimate the fair value of the cost of removing assets that Nalcor is required to remove, a decommissioning liability for those assets will be recognized at that time.

Decommissioning liabilities are periodically reviewed by Management and any changes are recognized as an increase or decrease in the carrying amount of the liability and the related asset. As at December 31, 2020, Nalcor's decommissioning liabilities were $124 million (December 31, 2019 - $102 million), the majority of which relate to Nalcor's ownership interests in petroleum and natural gas properties and are anticipated to be incurred between 2032 and 2039.

Employee Future Benefits

Employee future benefits, which consist of group life insurance and health care benefits, are provided to retired employees on a cost-shared basis, in addition to a retirement allowance. The expected cost of providing these benefits is actuarially determined by an independent actuary using Management's best estimate of salary escalation, retirement ages of employees and expected heath care costs. Changes in the assumptions such as the discount rate, inflation rate, and life expectancy, along with the estimates of salary, retirement and health care costs could have a material impact on the liability. As at December 31, 2020, Nalcor's total employee future benefits liability was $153 million (December 31, 2019 - $144 million).

Contingencies

Nalcor and its subsidiaries are subject to legal claims with respect to power delivery, construction, impact on land use and other various matters. For some legal claims, it is not possible at this time to predict with any certainty the outcome of such litigation. Should these claims result in an unfavourable outcome for the Company, they may have a significant adverse effect on the Company's financial position. Management has not disclosed the ranges of possible outcomes due to the potentially adverse effect on the Company's position with respect to a claim.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Nalcor maintains appropriate systems of internal control and policies and procedures which provide Management with reasonable assurance that assets are safeguarded and its financial information is reliable. There were no changes made to the Company's internal control over financial reporting during the year ended December 31, 2020, that has materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

NON-GAAP FINANCIAL MEASURES

Certain financial measures in the MD&A are not prescribed by GAAP. These non-GAAP financial measures are included because they provide MD&A users with enhanced understanding and clarity of Nalcor's financial performance, condition, leverage and liquidity. These non-GAAP financial measures do not have any standardized meaning and cannot necessarily be compared to similar measures presented by other companies.

NON-GAAP FINANCIAL MEASURES	
Debt to capital	Total debt (short-term borrowings, long-term debt including current portion less sinking funds, lease liabilities and Class B limited partnership units), divided by total debt plus shareholder's equity
EBIT	Profit (loss) excluding interest and taxes
EBITDA	Profit (loss) excluding interest, taxes, depreciation, depletion, amortization, impairment and accretion
Fixed rate debt as a percentage of total indebtedness	Long-term debt including current portion less Hydro's sinking funds, divided by total debt
Funds from operations (FFO)	Profit (loss) excluding depreciation, depletion, amortization, impairment and accretion
Return on capital employed (ROCE)	Rolling twelve month average EBIT (excluding impairment)/Capital Employed (total assets, excluding assets that are under development)

Disclosure of Operating Profit (Loss)
The term "operating profit (loss)" is a non-GAAP measure that encompasses profit (loss) excluding extraordinary and non-recurring items that are not indicative of Nalcor's future financial performance. This non-GAAP financial measure provides a more accurate reflection of Nalcor's operating performance and analysis against prior periods.

RELATED PARTY TRANSACTIONS

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

Related Party	Relationship
The Province	100% shareholder of Nalcor
Churchill Falls	Joint arrangement of Hydro
Hydro-Québec	34.2% shareholder of Churchill Falls
Twin Falls	Joint venture of Churchill Falls
Churchill Falls (Labrador) Corporation Trust (The Trust)	Created by the Province with Churchill Falls as the beneficiary
Oil and Gas Corporation of Newfoundland and Labrador	Wholly-owned subsidiary of the Province
Bull Arm Fabrication Inc.	Wholly-owned subsidiary of Oil and Gas Corporation of Newfoundland and Labrador
Emera Newfoundland and Labrador Island Link Inc.	Limited Partner holding 25 Class B limited partnership units of LIL LP
PUB	Agency of the Province

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. Outstanding balances due to or from related parties are non-interest bearing with no set terms of repayment, unless otherwise stated. Refer to Note 29 in the financial statements for further information regarding transactions with related parties.

SUMMARY OF QUARTERLY RESULTS

The following table outlines Nalcor's quarterly results for the eight quarters ended March 31, 2019 through December 31, 2020. The quarterly information has been obtained from Nalcor's interim financial statements. These financial results are not necessarily indicative of results for any future period and should not be relied upon to predict future performance.

For the period ended (millions of Canadian dollars)	Revenue[1]	Profit (loss)	ROCE (%)[2]	FFO	Capital Expenditures
December 31, 2020	**229**	**30**	**5.2%**	**83**	**313**
September 30, 2020	167	17	4.9%	66	214
June 30, 2020	186	34	4.2%	88	156
March 30, 2020	348	(171)	3.9%	116	172
December 31, 2019	288	20	4.6%	78	274
September 30, 2019	176	(13)	4.9%	32	341
June 30, 2019	245	27	5.7%	79	321
March 31, 2019	330	92	5.9%	139	287

[1] Comparative periods include discontinued operations

[2] Excludes assets under development

The financial performance of several of Nalcor's operating segments is impacted by seasonality. Specifically, electricity sales in Hydro Regulated and Churchill Falls are typically highest during the first and last quarters and lowest during the summer months. In contrast, Energy Trading has the highest level of energy available to sell in export markets during the summer months and the least available to sell in winter months. Electricity prices in the export markets tend to peak in winter and summer periods, but can vary by year depending on temperatures, the specific market and other factors. Interim results can also fluctuate due to the timing and recognition of regulatory decisions and the impact of commodity price changes.

DECEMBER 2020/DECEMBER 2019

2020 fourth quarter profit was $30 million, an increase of $10 million compared to the same period in 2019. Key drivers of the increase include lower asset disposal, operating and depreciation costs in Hydro Regulated.

SEPTEMBER 2020/SEPTEMBER 2019

2020 third quarter profit was $17 million, an increase of $30 million compared to the same period in 2019. Key drivers of the increase include higher oil production and no exploration and evaluation costs due to the transition of the exploration program to Oil and Gas Corp., along with the implementation of the 2017 GRA Order in 2019 and increased supply cost recoveries in Hydro Regulated. This increase was partially offset by lower realized oil prices.

JUNE 2020/JUNE 2019

2020 second quarter profit was $34 million, an increase of $7 million compared to the same period in 2019. Key drivers of the increase include higher profit in Hydro Regulated as a result of the implementation of the 2017 GRA Order. Also contributing to the increase were lower royalties paid to the Province, no exploration and evaluation expenses incurred during the quarter due to the transition of the exploration program to the new Oil and Gas Corp. and higher production volumes in Oil and Gas. These increases were partially offset by lower realized oil prices compared to the same period in 2019 in Oil and Gas and an increase in borrowing and operating costs for LCP Transmission as costs related to LTA were no longer eligible for capitalization.

MARCH 2020/MARCH 2019

2020 first quarter loss was $171 million, a decrease of $263 million compared to a profit of $92 million for the same period in 2019. The key driver of the decrease relates to the impairment of White Rose and HSE assets recorded during the quarter as a result of a significant decrease in oil price due to global events that have caused increased supply and decreased demand amid the current COVID-19 pandemic. Hydro Regulated recognized lower profit in the first quarter of 2020 as a result of the implementation of the 2017 GRA Order, primarily related to higher supply costs. The majority of this profit variance is expected to reverse by the end of the year. Nalcor's operating profit, excluding the impairment expense in Oil and Gas, was $54 million, a decrease of $39 million compared to the same period in 2019.

OUTLOOK

2021 is expected to continue to be a challenging time for the industry and the global economy. The extent to which COVID-19 will impact the Company, the results of its operations and financial position will depend on future developments, which are difficult to predict, including, but not limited to, the duration and any future spread of the pandemic, its severity, the actions to contain COVID-19 or treat its impact, and how quickly and to what extent normal economic and operating conditions can resume. The situation surrounding COVID-19 is fluid and will continue to influence decisions and results into 2021. Unknown and unexpected future impacts may materialize that could have an adverse effect on the results of operations, financial position and cash flows of the Company. Management continues to monitor developments and will take reasonable and necessary actions to minimize the risk to the business.

Nalcor's results of operations and cash flows in 2021 will be impacted by a reduction in working interest in HSE. In addition, throughout 2021, Nalcor will see key changes taking place within the business as it continues to integrate, test and commission the LCP transmission assets and the Muskrat Falls generation assets, with full commissioning expected to occur in Q4 2021. With the completion of Unit 1 of the Muskrat Falls Generating Station in December 2020 and the anticipated gradual commissioning of the remaining units throughout 2021, additional generation is anticipated to be available for use by customers in the province or for sale into export markets during the remainder of the commissioning phase.

In recognizing that LCP would result in an increase in rates for Island electricity customers, options to manage rate impacts have been a focus for Nalcor over a number of years as commissioning of the LCP progresses and payments associated with the financing of the project become due. In September 2020, the Province announced the creation of a Rate Mitigation Team supported by resources from Nalcor and the Province with the mandate to successfully conclude negotiations with the Government of Canada.

Timing associated with commissioning of the LCP and details surrounding rate mitigation, both of which will influence the timing of filing and approval of Hydro Regulated's next GRA, could cause material fluctuations in Nalcor's future profit, cash flows and asset values.

HYDRO

HYDRO REGULATED

Hydro Regulated is continuing to monitor and assess the impacts of COVID-19 on its operations and financial results and remains focused on its mandate to provide safe, reliable and least cost electricity to meet current energy needs and accommodate future growth within the Province.

In 2021, LCP transmission assets are expected to be used on an interim basis by Hydro Regulated to deliver Muskrat Falls commissioning period or recapture energy to service load on the island portion of the Province and to partially displace fuel consumption at the HTGS. The availability of the LCP transmission assets is dependent on the LIL testing schedule. Costs associated with the interim use of the LIL and LTA, when incurred, will be deferred in Hydro Regulated and the recovery through customer rates is subject to future approval by the PUB. In February 2021, Hydro Regulated filed an application with the PUB to defer any difference between the recognition of costs under IFRS and invoiced payments related to the use of Muskrat Falls energy in the commissioning period, which was approved in March. As it is anticipated that Hydro will not have a final GRA order at the time of expected LCP commissioning, Hydro also anticipates there will be additional applications filed in 2021 to deal with the impacts of the commissioning of the LCP.

In May 2020, the PUB approved a delay in filing Hydro Regulated's next GRA with the timing to be determined at a later date. Hydro Regulated is required to file quarterly updates to provide information on projected 2021 cost increases and mitigation options, timing of the LCP commissioning, financial restructuring of the Muskrat Falls PPA and the completion of the Province's rate mitigation plan. In the most recent update filed in March 2021, Hydro Regulated indicated it intends to file its next GRA in October, 2021. Although information regarding the Government's rate mitigation plan is not yet known, the filing of this GRA before the end of 2021 is necessary to enable the recovery of post-commissioning LCP costs in customer rates. Hydro also intends to file an application to recover costs incurred in 2021 following commissioning of the LCP, until rates or rates mitigation can be implemented, in advance of this GRA.

Commissioning of the LCP is anticipated to occur in Q4 2021, at which point Hydro Regulated will be required to commence payments to the LCP entities for power purchases and transmission. Regulatory processes and outcomes may be impacted by the on-going evaluation and implementation of rate mitigation. The timing of Hydro Regulated's next GRA Order, implementation of new customer rates, timing of completion and commissioning of LCP assets, and the results of rate mitigation decisions by the Province could have material impacts on Hydro Regulated's available capital resources and requirements in 2021. Management will continue to monitor the potential impacts of these events.

The PUB review process of the RRA Study to address Hydro Regulated's long-term approach to providing least-cost, reliable service for its customers over a ten-year planning period is ongoing and will continue throughout 2021.

POWER DEVELOPMENT AND POWER SUPPLY

MUSKRAT FALLS/LCP TRANSMISSION

Energy began flowing from Muskrat Falls over the LIL to the island in December 2020, and the assets began contributing to the energy supply for island and export customers in Atlantic Canada, which is anticipated to continue throughout the commissioning period in 2021. Energy from the second generating unit of Muskrat Falls is expected in Q2 2021, with the third and fourth units coming online in the months thereafter.

Throughout 2021, the LCP will continue to commission and test the LIL until full completion. During Q1 2021, dynamic commissioning of the interim software for the LIL will continue with final software expected in the second half of the year.

The LCP cost and schedule was updated in September 2020 with commissioning scheduled in Q4 2021 and a total project cost of $13.1 billion. Management is working to minimize the effect of COVID-19 on the project and continues to monitor and assess any implications to the LCP cost and schedule.

CHURCHILL FALLS

Churchill Falls will continue to prioritize revenue generation while supporting the completion of its operating and capital programs in 2021 as it has in previous years. Churchill Falls' profit for 2021 is anticipated to be comparable to 2020 results. Capital expenditures for 2021 are forecasted to be $56 million.

The full financial impact of the Declaratory Judgement ruling continues to be uncertain. Efforts are underway to finalize the final AEB value that will establish the Continuous Energy volume for the term of the Renewed Power Contract with Hydro Québec.

ENERGY TRADING

Energy Trading will continue to focus on the growth of Nalcor's energy marketing portfolio through its efforts to secure premium prices and market access for maximizing the export value of surplus Recapture and Muskrat Falls exports.

The Energy Trading line of business will continue to work with Hydro Regulated to procure and/or facilitate the delivery of off-island energy to displace energy production from the HTGS, and to optimize the value of the Province's hydraulic storage and production assets.

OIL AND GAS

In October 2020, Husky announced that the construction of the West White Rose platform would continue to be suspended through 2021. In January 2021, Cenovus Energy, the parent company of Husky, confirmed through the release of its 2021 budget that assessment of the viability of its East Coast operations continues. Further suspension or cancellation of the West White Rose project would have an impact on Oil and Gas future profit and cash flow and may result in further impairment of Oil and Gas' assets.

Under the Oil and Gas Industry Recovery Assistance Fund, Husky, on behalf of the West White Rose partners, will receive up to $41.5 million to help maintain jobs and protect the option of re-starting the West White Rose Project in 2022. HMDC, on behalf of the Hibernia partners, will receive up to $38 million to restart well work, perform drill rig upgrades and invest in new digital technology.

On March 1, 2021, First Redetermination under the HSE Operating Agreement became effective, resulting in a reduction in Oil and Gas' working interest in the HSE field from 10% to 8.7%. The impact of the decrease in working interest will include a historical true-up of production and capital costs and additional royalties owing, as well as a reduction in future production entitlement.
Oil price continues to be volatile and any significant price change for 2021 unhedged production will impact profitability. In November 2020, Oil and Gas entered into commodity price swaps and foreign exchange rate forward contracts based on Nalcor's corporate hedging policy to mitigate exposure on realized oil prices and oil sales denominated in USD in 2021. As at December 31, 2020, Oil and Gas has 48 commodity price swaps remaining on approximately 1,884,221 barrels for the remainder of 2021, which represents 56% of budgeted 2021 production, at an average fixed price of $47.24 USD per barrel. In addition, there are 13 foreign exchange forward contracts remaining with an average rate of $1.30 CAD per USD, relating to 62% of budgeted USD oil sales for the remainder of 2021.

CAPITAL EXPENDITURE OUTLOOK

Capital expenditures for Nalcor in 2021 are forecasted to be higher than 2020 at approximately $950 million due to the delay of a portion of planned capital spend for 2020 now expected to be incurred in 2021, as a result of the COVID-19 pandemic. Management continues to assess the potential impact of COVID-19 on its 2021 capital program and therefore forecast capital expenditures could change as a result.

FORWARD-LOOKING INFORMATION

Certain statements in this MD&A contain forward-looking information and reflect Nalcor Management's expectations regarding future growth, results of operations and performance. They include estimates, projections and assumptions, which are subject to risks and uncertainties. Statements containing words such as "could", "should", "will", "expect", "may", "anticipate", "believe", "intend", "estimate", "budget", "forecast", "plan" and the negative of these terms and other similar terminology or expressions constitute forward-looking statements. Certain material factors or assumptions have been applied in drawing the conclusions contained in the forward-looking information, including, without limitation: the receipt of applicable regulatory approvals and requested rate orders; no material adverse regulatory decisions being received and the expectation of regulatory stability; no material capital project and financing cost overrun related to the current projected capital projects; no significant variability in interest rates; no significant operational disruptions or environmental liability due to a catastrophic event or environmental upset caused by severe weather, other acts of nature or major events; the continued ability to maintain the electricity system to ensure their continued performance; no severe or prolonged downturn in economic conditions; sufficient liquidity and capital resources, the continuation of regulator-approved mechanisms to flow through the cost of electricity in customer rates, the ability to hedge exposures to fluctuations in foreign exchange rates, oil and electricity prices; maintenance of adequate insurance policies; continued maintenance of information technology infrastructure and no material breach of cyber-security; favourable labour relations; that Nalcor can reasonably assess the merit of and potential liability attributable to ongoing legal proceedings; and sufficient human resources to deliver service and execute the capital program. By their nature, forward-looking statements require Management to make assumptions and are subject to important unknown risks and uncertainties, which may cause actual results in future periods to differ materially from forecasted results, including the current and potential adverse impacts of the COVID-19 pandemic. While Management considers these assumptions to be reasonable and appropriate based on information currently available, there is a risk that they may not be accurate.

Forward-looking information involves significant risks, uncertainties and assumptions. Nalcor cautions readers that a number of factors could cause actual results, performance and achievements to differ materially from the results discussed or implied in forward-looking information. These factors should be considered carefully and undue reliance should not be placed on the forward-looking information. Risk factors which could cause results or events to differ from current expectations are detailed under the *Key Business Risks* Key risk factors include, but are not limited to: uncertainty regarding the impact to the Company as a result of the ongoing COVID-19 pandemic, uncertainty regarding the outcome of regulatory proceedings in Hydro Regulated; adequacy of future capital resources; the sustainability of future electricity rates and impact of any future rate mitigation; the impact of fluctuations in oil and electricity prices and foreign exchange rates and risk associated with the completion of Nalcor's capital expenditure program, including completion of major capital projects, such as the Lower Churchill Project, in the timelines anticipated and at the expected costs and the integration of these assets into the electrical system.

All forward-looking information in the MD&A is given at the date of the MD&A and Nalcor disclaims any intention or obligation to update or revise any forward looking information, which results from new information, future events or otherwise.

MANAGEMENT REPORT

The accompanying Consolidated Financial Statements of Nalcor Energy, and all information in the Management's Discussion & Analysis, 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 International Financial Reporting Standards. The preparation of financial statements necessarily involves the use of estimates based on Management's judgment, 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 March 5, 2021. Financial information presented elsewhere in the Management's Discussion & Analysis 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 LLP, is to express an independent, professional opinion on whether the Consolidated Financial Statements are fairly presented in accordance with International Financial Reporting Standards. 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 ensure 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.

Stan Marshall
President and Chief Executive Officer

Carla Russell
Executive Vice President, Finance and Chief Financial Officer

APPENDIX 2

NALCOR ENERGY
CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020

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Independent Auditor's Report

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

Opinion

We have audited the consolidated financial statements of Nalcor Energy (the "Company"), which comprise the consolidated statement of financial position as at December 31, 2020, and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Deloitte LLP

Chartered Professional Accountants
March 5, 2021

NALCOR ENERGY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31 (millions of Canadian dollars)	Notes	**2020**	2019
ASSETS			(Note 33)
Current assets			
Cash and cash equivalents	6	**329**	174
Restricted cash		**860**	1,460
Short-term investments	12	**105**	2
Trade and other receivables	7	**163**	240
Inventories	8	**122**	134
Other current assets	9	**30**	31
Total current assets before distribution to shareholder		**1,609**	2,041
Assets for distribution to shareholder	5	**-**	1
Total current assets		**1,609**	2,042
Non-current assets			
Property, plant and equipment	10	**17,228**	16,798
Intangible assets	11	**38**	36
Investments	12	**253**	334
Other long-term assets		**7**	8
Total assets		**19,135**	19,218
Regulatory deferrals	13	**172**	123
Total assets and regulatory deferrals		**19,307**	19,341
LIABILITIES AND EQUITY			
Current liabilities			
Short-term borrowings	15	**262**	233
Trade and other payables	14	**409**	435
Current portion of long-term debt	15	**68**	37
Other current liabilities		**11**	13
Total current liabilities		**750**	718
Non-current liabilities			
Long-term debt	15	**9,577**	9,649
Class B limited partnership units	16	**628**	578
Deferred credits	17	**1,819**	1,812
Decommissioning liabilities	18	**124**	102
Employee future benefits	19	**153**	144
Other long-term liabilities	20	**70**	70
Total liabilities		**13,121**	13,073
Shareholder's equity			
Share capital	21	**123**	123
Shareholder contributions		**4,609**	4,608
Reserves		**(98)**	(101)
Retained earnings		**1,535**	1,625
Total equity		**6,169**	6,255
Total liabilities and equity		**19,290**	19,328
Regulatory deferrals	13	**17**	13
Total liabilities, equity and regulatory deferrals		**19,307**	19,341

Commitments and contingencies (Note 30) and Subsequent event (Note 34)

See accompanying notes

On behalf of the Board:

DIRECTOR DIRECTOR

NALCOR ENERGY
CONSOLIDATED STATEMENT OF (LOSS) PROFIT AND COMPREHENSIVE (LOSS) INCOME

For the year ended December 31 (millions of Canadian dollars)	Notes	**2020**	2019
Energy sales	23	**913**	1,016
Other revenue		**17**	22
Revenue		**930**	1,038
Fuels		**158**	217
Power purchased		**91**	102
Operating costs	24	**211**	226
Production, marketing and transportation costs	25	**39**	36
Transmission rental		**26**	26
Depreciation, depletion, amortization and impairment		**437**	197
Exploration and evaluation		**-**	33
Net finance expense	26	**109**	92
Other (income) expense	27	**(37)**	18
Expenses		**1,034**	947
(Loss) profit before regulatory adjustments		**(104)**	91
Regulatory adjustments	13	**(14)**	(36)
(Loss) profit for the year		**(90)**	127
Discontinued operations			
Loss for the year from discontinued operations	5	**-**	(1)
(Loss) profit for the year		**(90)**	126
Other comprehensive income (loss)			
Total items that may or have been reclassified to profit or loss:			
Actuarial loss on employee future benefits	19	**(2)**	(12)
Net fair value gain on reserve fund	12	**1**	-
Net fair value gain (loss) on cash flow hedges		**46**	(7)
Reclassification adjustments related to:			
Cash flow hedges recognized in profit or loss		**(42)**	7
Other comprehensive income (loss) for the year		**3**	(12)
Total comprehensive (loss) income for the year		**(87)**	114

See accompanying notes

NALCOR ENERGY
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(millions of Canadian dollars)	Note	Share Capital	Shareholder Contributions	Fair Value Reserve	Employee Benefit Reserve	Retained Earnings	Total
Balance at January 1, 2020		**123**	**4,608**	**(70)**	**(31)**	**1,625**	**6,255**
Loss for the year		**-**	**-**	**-**	**-**	**(90)**	**(90)**
Other comprehensive income		**-**	**-**	**5**	**(2)**	**-**	**3**
Total comprehensive loss for the year		**-**	**-**	**5**	**(2)**	**(90)**	**(87)**
Shareholder contributions		**-**	**1**	**-**	**-**	**-**	**1**
Balance at December 31, 2020		**123**	**4,609**	**(65)**	**(33)**	**1,535**	**6,169**
Balance at January 1, 2019		123	4,224	(70)	(19)	1,499	5,757
Profit for the year		-	-	-	-	126	126
Other comprehensive loss		-	-	-	(12)	-	(12)
Total comprehensive (loss) income for the year		-	-	-	(12)	126	114
Shareholder contributions	29	-	384	-	-	-	384
Balance at December 31, 2019		123	4,608	(70)	(31)	1,625	6,255

See accompanying note

NALCOR ENERGY
CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31 (millions of Canadian dollars)	Notes	**2020**	2019
Operating activities			
(Loss) profit for the year		**(90)**	126
Adjustments to reconcile (loss) profit to cash provided from operating activities:			
Depreciation, depletion, amortization and impairment		**437**	197
Loss on disposal of property, plant and equipment and intangible assets		**6**	8
Amortization of rate stabilization plan fuel credit		**24**	-
Regulatory adjustments	13	**(14)**	(36)
Finance income	26	**(32)**	(52)
Finance expense	26	**141**	144
Other		**23**	9
		495	396
Changes in non-cash working capital balances	31	**32**	(13)
Interest received		**24**	41
Interest paid		**(387)**	(384)
Net cash provided from operating activities		**164**	40
Investing activities			
Additions to property, plant and equipment and intangible assets	32	**(551)**	(904)
(Increase) decrease in investments		**(31)**	345
Other		**4**	5
Changes in non-cash working capital balances	31	**29**	149
Net cash used in investing activities		**(549)**	(405)
Financing activities			
Repayment of long-term debt		**(30)**	-
Decrease (increase) in restricted cash		**600**	(38)
Increase in short-term borrowings		**29**	44
Shareholder contributions	29	**-**	384
Rate stabilization plan fuel credit		**(55)**	-
Other		**(4)**	(4)
Net cash provided from financing activities		**540**	386
Net increase in cash and cash equivalents		**155**	21
Cash and cash equivalents, beginning of the year		**174**	153
Cash and cash equivalents, end of the year		**329**	174

See accompanying notes

1. DESCRIPTION OF BUSINESS

Nalcor Energy (Nalcor or the Company) is incorporated under a special act of the Legislature of the Province of Newfoundland and Labrador (the Province) as a Crown corporation and its business includes the development, generation, transmission and sale of electricity including energy trading; and the development, production and sale of oil and gas. Nalcor's head office is located at 500 Columbus Drive in St. John's, Newfoundland and Labrador, A1B 0C9, Canada.

1.1 Subsidiaries

Nalcor holds interests in the following subsidiaries:

A 100% interest in Newfoundland and Labrador Hydro (Hydro), whose principal activity is the generation, transmission and sale of electricity. Hydro's operations include both regulated and non-regulated activities.

A 100% interest in Nalcor Energy – Oil and Gas Inc. (Oil and Gas), which has a mandate to engage in the upstream and downstream sectors of the oil and gas industry. Upstream includes exploration, development, and production activities, while downstream includes transportation and processing activities.

A 100% interest in Nalcor Energy Marketing Corporation (Energy Marketing), a subsidiary established to market Nalcor's energy throughout North America.

A 100% interest in Muskrat Falls Corporation (Muskrat Falls), created to develop, construct, finance and operate the Muskrat Falls plant, an 824 megawatt (MW) hydroelectric generating facility in Labrador.

A 100% interest in Labrador Transmission Corporation (Labrador Transco), created to develop, construct, finance and operate transmission assets connecting the Muskrat Falls plant to the existing hydroelectric generating facility in Churchill Falls.

A 100% interest in Labrador-Island Link General Partner Corporation (LIL GP) and Labrador-Island Link Holding Corporation (LIL Holdco), created to control, manage and hold Nalcor's interest in the Labrador-Island Link Limited Partnership (LIL LP or the Partnership).

A 100% interest in Labrador-Island Link Operating Corporation (LIL Opco), created to operate and maintain the Labrador-Island Link (LIL).

A 100% interest in Lower Churchill Management Corporation (LCMC), created to carry out the project development and management functions for Phase 1 of the Lower Churchill Project (LCP) including planning, engineering and design management, construction management, risk management, finance, procurement and supply chain management.

A limited partnership interest in the LIL LP, created to develop, construct and finance the assets and property constituting the LIL, a transmission link constructed between the Muskrat Falls plant and the Newfoundland and Labrador Island Interconnected System. LIL Holdco holds 100% of the Class A and Class C limited partnership units.

A 100% interest in Gull Island Power Company Limited (GIPCo) and, through Hydro, a 51.0% interest in Lower Churchill Development Corporation Limited (LCDC), both of which are inactive.

1.2 Investment in Joint Arrangement

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

Nalcor holds a 33.33% beneficial interest (through Churchill Falls) in Twin Falls Power Corporation Limited (Twin Falls).

1.3 Structured Entities

Nalcor consolidates the results of structured entities in which it holds a financial interest and is the primary beneficiary. Nalcor has determined that it is the primary beneficiary of the LIL Construction Project Trust (the IT) and, as a result, has included the financial statements of the IT in these annual audited consolidated financial statements. Nalcor has determined that it is not the primary beneficiary of the Muskrat Falls/Labrador Transmission Assets (MF/LTA) Funding Trust or the Labrador-Island Link Funding Trust and therefore the operations of these trusts are not reflected in these annual audited consolidated financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of Compliance and Basis of Measurement

These annual audited consolidated financial statements (financial statements) have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB).

These financial statements have been prepared on a historical cost basis, except for financial instruments at fair value through profit or loss (FVTPL) and fair value through other comprehensive income (FVTOCI) which have been measured at fair value. The financial statements are presented in Canadian Dollars (CAD) and all values rounded to the nearest million, except when otherwise noted. The financial statements were approved by Nalcor's Board of Directors (the Board) on March 5, 2021.

2.2 Basis of Consolidation

The financial statements include the financial statements of Nalcor and its subsidiary companies, the equity method of accounting for entities over which Nalcor has significant influence, but not control, and proportionate consolidation for those which are jointly owned with non-affiliated entities. In addition, the financial statements of all structured entities, for which Nalcor has been determined the primary beneficiary, are included in these financial statements. Intercompany transactions and balances have been eliminated upon consolidation.

2.3 Cash and Cash Equivalents and Short-term Investments

Cash and cash equivalents consist of amounts on deposit with Schedule 1 Canadian Chartered banks, as well as highly liquid investments with maturities of three months or less. Investments with maturities greater than three months and less than twelve months are classified as short-term investments.

2.4 Restricted Cash

Restricted cash consists of cash held on deposit with Schedule 1 Canadian Chartered banks and administered by the Collateral Agent for the sole purpose of funding construction costs related to the LIL, Labrador Transmission Assets (LTA) and Muskrat Falls' hydroelectric generating facility, including pre-funded equity amounts required under the Labrador-Island Link Project Finance Agreement (LIL PFA) and MF/LTA Project Finance Agreement (MF/LTA PFA). The LCP Companies draw funds from these accounts in accordance with procedures set out in the LIL PFA and MF/LTA PFA. Restricted cash also includes accounts administered by the Administrator of the IT and funds held in trust by solicitors of the LCP Companies.

2.5 Inventories

Inventories are carried at the lower of cost and net realizable value. Cost is determined on a weighted average basis and includes expenditures incurred in acquiring inventories and bringing them to their existing condition and location. The cost of crude oil is based on production costs and an estimated capital component based on depletion. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

2.6 Property, Plant and Equipment

Items of property, plant and equipment are recognized at cost less accumulated depreciation and accumulated impairment losses. Cost includes materials, labour, contracted services, professional fees and, for qualifying assets, borrowing costs capitalized in accordance with Nalcor's accounting policy outlined in Note 2.8. Costs capitalized with the related asset include all those costs directly attributable to bringing the asset into operation.

When significant parts of property, plant and equipment, including petroleum and natural gas properties, are required to be replaced at intervals, Nalcor recognizes such parts as individual assets with specific useful lives and depreciation rates. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the asset as a replacement if the recognition criteria are satisfied. All other repairs and maintenance costs are recognized in profit or loss as incurred.

Project support assets are directly attributable to the construction of the Muskrat Falls plant and LTA and, as such, related depreciation costs are capitalized as incurred, until such time as the assets are substantially ready for their intended use or sale.

Depreciation commences when the assets are ready for their intended use. Residual values and useful lives are reviewed at the end of each year and adjusted prospectively, if appropriate. Depreciation is calculated on a straight-line basis over the estimated useful lives for all lines of business except Hydro, where depreciation is calculated based on the average group methodology. As per Board Order P.U. 30 (2019), Hydro was approved to recover gains and losses through accumulated amortization and to record removal costs through depreciation. To comply with International Accounting Standard (IAS) 16, the adjustments related to the recovery of gains and losses through accumulated amortization and removal depreciation are presented as a regulatory adjustment in Note 13. The depreciation rates used are as follows:

Generation plant	
Hydroelectric	7 to 110 years
Thermal	20 to 70 years
Diesel	3 to 70 years
Transmission	
Lines	26 to 65 years
Terminal stations	7 to 70 years
Distribution system	20 to 60 years
Other assets	3 to 70 years

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

Transmission lines include the support structures, foundations and insulators associated with lines at voltages of 230, 138 and 69 kilovolt. Terminal station assets are used to step up voltages of electricity for transmission and to step down voltages for distribution. Distribution system assets include poles, transformers, insulators, and conductors.

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

The carrying amount of a replaced asset is derecognized when replaced. Gains and losses on disposal of an item of property, plant and equipment, including petroleum and natural gas interests, are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recorded in other (income) expense.

Petroleum and Natural Gas Properties
Petroleum and natural gas development and production assets are carried at cost less accumulated depreciation, depletion and impairment losses. Development and production assets are grouped into cash-generating units (CGUs) for impairment testing.

Expenditures on the construction, installation or completion of infrastructure facilities such as processing facilities and the drilling of development wells, including unsuccessful development or delineation wells, are capitalized within property, plant and equipment, as long as it is technically feasible and economically viable to extract identified reserves.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the decommissioning costs and, for qualifying assets, borrowing costs in accordance with Nalcor's accounting policy in Note 2.8. The purchase price or constructed cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Capitalized petroleum and natural gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis.

Costs incurred subsequent to the determination of technical feasibility and commercial viability are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to the Company and the cost can be measured reliably.

Depletion
The net carrying value of development and production assets is depleted using the unit of production method by reference to the ratio of production in the year to the related proved and probable reserves, and considering estimated future development costs necessary to bring those reserves into production. Future development costs are estimated, taking into account the level of development required to produce the reserves. These estimates are reviewed by independent reserve engineers, at least annually.

Proved and probable reserves are estimated using independent reserve engineer reports and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate, with a specified degree of certainty, to be recoverable in future years from known reservoirs and which are considered commercially viable. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves.

Such reserves are considered commercially producible when Management has the intention of developing and producing them and such intention is based upon:

- a reasonable assessment of the future economics of such production;
- a reasonable expectation that there is a market for all (or substantially all) of the expected petroleum and natural gas production; and
- evidence that the necessary production, transshipment and transportation facilities are available or can be made available.

2.7 Intangible Assets
Intangible assets that are expected to generate future economic benefit and are measurable, including computer software costs, costs of technical services and feasibility studies are capitalized as intangible assets in accordance with IAS 38.

Intangible assets with finite useful lives are carried at cost less accumulated amortization and impairment losses. The estimated useful life and amortization method are reviewed at the end of each year, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives are carried at cost less accumulated impairment losses.

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

Computer software	5 to 10 years
Feasibility studies	5 to 22 years

2.8 Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in the Consolidated Statement of (Loss) Profit and Comprehensive (Loss) Income in the period in which they are incurred.

2.9 Impairment of Non-Financial Assets

Property, plant and equipment and other non-financial assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Where it is not possible to estimate the recoverable amount of an individual asset, Nalcor estimates the recoverable amount of the CGU to which the asset belongs. The recoverable amount is the higher of fair value less costs of disposal and value in use. Value in use is generally computed by reference to the present value of future cash flows expected to be derived from non-financial assets. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount and an impairment loss is recognized immediately in the Consolidated Statement of (Loss) Profit and Comprehensive (Loss) Income.

2.10 Investments in Joint Arrangements

A joint arrangement is an arrangement of which two or more parties have joint control. Control exists when Nalcor has the power, directly or indirectly, to govern the financial and operating policies of another entity, so as to obtain benefits from its activities. A joint arrangement is either classified as a joint operation or a joint venture based on the rights of the parties involved.

Nalcor holds interests in the Hebron, Hibernia South Extension and White Rose Extension projects. These projects are classified as joint operations as multiple parties hold joint control and stakeholders have rights to the project assets and obligations for its liabilities. Nalcor accounts for its oil and gas investments by recognizing its share of assets, liabilities and profit or loss in relation to its interest in the joint operation.

Nalcor accounts for its investment in Churchill Falls by recognizing its share of assets, liabilities and profit or loss in relation to its interest in the joint operation.

Nalcor's joint operation, 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 using the equity method. Under the equity method, the interest in the joint venture is carried in the Consolidated Statement of Financial Position at cost plus post acquisition changes in Churchill Falls' share of net assets of the joint venture. The Consolidated Statement of (Loss) Profit and Comprehensive (Loss) Income reflects the share of the profit or loss of the joint venture.

2.11 Employee Future Benefits

<u>Pension Plan</u>

Employees participate in the Province's Public Service Pension Plan, a multi-employer defined benefit plan. Contributions by Nalcor to this Plan are recognized as an expense when employees have rendered service entitling them to the contributions. Liabilities associated with this Plan are held with the Province.

Other Benefits
Nalcor provides group life insurance and health care benefits on a cost-shared basis to retired employees, in addition to a retirement allowance.

The cost of providing these benefits is determined using the projected unit credit method, with actuarial valuations being completed on an annual basis, based on service and Management's best estimate of salary escalation, retirement ages of employees and expected health care costs.

Actuarial gains and losses on Nalcor's defined benefit obligation are recognized in reserves in the period in which they occur. Past service costs are recognized in operating costs as incurred. Pursuant to Board Order No. P.U. 36 (2015), Nalcor recognizes the amortization of Hydro's employee future benefit actuarial gains and losses in the Consolidated Statement of (Loss) Profit and Comprehensive (Loss) Income as a regulatory adjustment.

The retirement benefit obligation recognized in the Consolidated Statement of Financial Position represents the present value of the defined benefit obligation.

2.12 Provisions

A provision is a liability of uncertain timing or amount. A provision is recognized if Nalcor has a present legal obligation or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognized for future operating losses. The provision is measured at the present value of the best estimate of the expenditures expected to be required to settle the obligation using a discount rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. Provisions are re-measured at each Consolidated Statement of Financial Position date using the current discount rate.

2.13 Decommissioning, Restoration and Environmental Liabilities

Legal and constructive obligations associated with the retirement of property, plant and equipment are recorded as liabilities when those obligations are incurred and are measured as the present value of the expected costs to settle the liability, discounted at a rate specific to the liability. The liability is accreted up to the date the liability will be incurred with a corresponding charge to net finance expense. The carrying amount of decommissioning, restoration and environmental liabilities is reviewed annually with changes in the estimates of timing or amount of cash flows added to or deducted from the cost of the related asset or expensed in the Consolidated Statement of (Loss) Profit and Comprehensive (Loss) Income if the liability is short-term in nature.

2.14 Revenue Recognition

Revenue from Contracts with Customers
Nalcor recognizes revenue from contracts with customers related to the sale of electricity to regulated Provincial industrial, utility and direct customers in rural Newfoundland and Labrador and to non-regulated industrial, utility and external market customers.

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. Nalcor recognizes revenue when it transfers control of a product or service to a customer.

Revenue from the sale of energy is recognized when Nalcor satisfies its performance obligation by transferring energy to the customer. Sales within the Province are primarily at rates approved by the Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB), whereas sales to certain other major industrial customers and export sales are either at rates under the terms of the applicable contracts, or at market rates.

Nalcor recognizes revenue at the amount to which it has the right to invoice, which corresponds directly to the value to the customer of Nalcor's performance to date.

Revenue from Crude Oil Sales
Revenue from the sale of crude oil is recognized when the amount of revenue can be reasonably measured, the significant risks and rewards of ownership have passed to the buyer and collection is reasonably assured. This typically occurs when the oil has been produced and delivered to the buyer in accordance with contracted shipping terms.

Revenue from properties in which Nalcor has an interest with other producers is recognized on the basis of Nalcor's sales to customers. Under this method, when Nalcor sells less crude oil production than its net working interest (under-lift), it has a right to future production of the joint operation and the under-lift portion is recognized as inventory that represents crude oil production not yet received. Similarly, an over-lift position is recognized as a liability that represents an accrual for crude oil production received but not yet paid, measured at cost.

2.15 Leasing

Lessee Accounting
Nalcor assesses whether a contract is or contains a lease, at inception of a contract. Nalcor recognizes a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low-value assets. For these leases, Nalcor recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, Nalcor uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed (and in-substance) lease payments less any lease incentives;
- variable lease payments that depend on an index or rate; and
- payments expected under residual value guarantees and payments relating to purchase options and renewal option periods that are reasonably certain to be exercised (or periods subject to termination options that are not reasonably certain to be exercised).

The lease liability is subsequently measured at amortized cost using the effective interest rate method. Lease liabilities are remeasured, with a corresponding adjustment to the related right-of-use assets, when there is a change in variable lease payments arising from a change in an index or rate, or when Nalcor changes its assessment of whether purchase, renewal or termination options will be exercised. Nalcor did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever Nalcor incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognized and measured under *IAS 37 – Provisions, Contingent Liabilities and Contingent Assets*. The costs are included in the related right-of-use asset.

Right-of-use assets are depreciated over the shorter period of the lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that Nalcor expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. Depreciation starts at the commencement date of the lease.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognized as an expense in operating costs in the period in which the event or condition that triggers those payments occurs.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. Nalcor has elected to apply this practical expedient.

2.16 Foreign Currencies

Transactions in currencies other than Nalcor's functional currency (foreign currencies) are recognized using the exchange rate in effect at the date of transaction, approximated by the prior month end close rate. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates of exchange in effect at the period end date. Foreign exchange gains and losses not included in regulatory deferrals are recorded in the Consolidated Statement of (Loss) Profit and Comprehensive (Loss) Income as other (income) expense.

2.17 Income Taxes

Nalcor is exempt from paying income taxes under Section 149(1)(d.1) of the Income Tax Act.

2.18 Financial Instruments

Classification and Initial Measurement

Financial assets and financial liabilities are recognized in the Consolidated Statement of Financial Position when Nalcor becomes a party to the contractual provisions of the instrument and are initially measured at fair value.

Financial assets are classified at amortized cost, FVTOCI, FVTPL or as derivatives designated as hedging instruments in an effective hedge. Financial liabilities are classified at FVTPL, amortized cost or as derivatives designated as hedging instruments in an effective hedge. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

Financial Assets at Amortized Cost

Financial assets with contractual cash flows arising on specified dates, consisting solely of principal and interest, and that are held within a business model whose objective is to collect the contractual cash flows are subsequently measured at amortized cost using the effective interest rate method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

Nalcor's financial assets at amortized cost include cash and cash equivalents, restricted cash, short-term investments, trade and other receivables, sinking fund investments, long-term receivables and long-term investments with the exception of reserve fund investments.

Financial Assets at FVTOCI

Financial assets measured at FVTOCI are those that have contractual cash flows arising on specific dates, consisting solely of principal and interest, and that are held within a business model whose objective is to collect the contractual cash flows and to sell the financial asset. Any change in the carrying amount of these assets other than foreign exchange gains and losses, impairment gains and losses, and interest income are recognized in other comprehensive income (loss) accumulated in the fair value reserve. When these assets are derecognized, the cumulative gains or losses previously recognized in other comprehensive income (loss) are reclassified to profit or loss.

Nalcor's financial assets measured at FVTOCI include reserve fund investments.

Financial Assets at FVTPL
Financial assets that do not meet the criteria for being measured at amortized cost or FVTOCI are measured at FVTPL. Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognized in profit or loss to the extent they are not part of a designated hedging relationship.

Nalcor's financial assets measured at FVTPL include derivative instruments not part of a designated hedging relationship.

Financial Liabilities at Amortized Cost
Nalcor subsequently measures all financial liabilities at amortized cost using the effective interest rate method. Gains and losses are recognized in profit or loss when the liability is derecognized.

Nalcor's financial liabilities at amortized cost include trade and other payables, short-term borrowings, long-term debt, long-term payables, and Class B limited partnership units.

Derecognition of Financial Instruments
Nalcor derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

Nalcor derecognizes financial liabilities when, and only when, its obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Impairment of Financial Assets
Nalcor recognizes a loss allowance for expected credit losses (ECL) on investments in debt instruments that are measured at amortized cost or at FVTOCI. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

Nalcor always recognizes lifetime ECL for trade and other receivables. The ECL on these financial assets are estimated based on Nalcor's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate. Nalcor also records 12-month ECL for those financial assets which have low credit risk and where the low credit risk exemption has been applied. The classes of financial assets that have been identified to have low credit risk are cash and cash equivalents, restricted cash, short-term investments and long-term investments.

For all other financial instruments, Nalcor recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, Nalcor measures the loss allowance for that financial instrument at an amount equal to 12-month ECL. The assessment of whether lifetime ECL should be recognized is based on significant increases in the likelihood or risk of a default occurring since initial recognition instead of on evidence of a financial asset being credit-impaired at the reporting date or an actual default occurring.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Hedges
Nalcor may choose to designate derivative instruments as hedges and apply hedge accounting if there is an economic relationship between the hedged item and the hedging instrument; the effect of credit risk does not dominate the value changes that result from that economic relationship; and the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that Nalcor actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item. Nalcor formally documents all hedges and the related 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.

The effective portion of the gain or loss on a cash flow hedging instrument is recognized directly in other comprehensive income (loss), while any ineffective portion is recognized immediately in the Consolidated Statement of (Loss) Profit and Comprehensive (Loss) Income for the period in other (income) expense. Amounts recognized in other comprehensive income (loss) are transferred to the Consolidated Statement of (Loss) Profit and Comprehensive (Loss) Income for the period when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognized or when a forecast sale occurs.

2.19 Government Grants

Government grants are recognized when there is reasonable assurance that Nalcor will comply with the associated conditions and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which Nalcor recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that Nalcor should purchase, construct or otherwise acquire non-current assets are recognized as deferred credits in the Consolidated Statement of Financial Position and transferred to the Consolidated Statement of (Loss) Profit and Comprehensive (Loss) Income on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to Nalcor with no future related costs are recognized in the Consolidated Statement of (Loss) Profit and Comprehensive (Loss) Income in the period in which they become receivable.

2.20 Regulatory Deferrals

Nalcor'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 methodology. Hydro's allowed rate of return based upon Board Order No. P.U. 30 (2019) is 5.4% in 2020 and 5.4% in 2019. 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 are expected to be recovered or refunded in future rates. In the absence of rate regulation, these amounts would be included in the determination of profit or loss in the year the amounts are incurred. The effects of rate regulation on the financial statements are disclosed in Note 13.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the financial statements in conformity with IFRS requires Management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ materially from these estimates, including changes as a result of future decisions made by the PUB. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is reviewed if the revision affects only that period or future periods.

The World Health Organization declared the Coronavirus disease (COVID-19) outbreak a Public Health Emergency of International Concern on January 30, 2020 and a pandemic on March 11, 2020. In order to mitigate the spread of COVID-19 there have been global restrictions on travel, quarantines, self-isolation, social and physical distancing and forced closure of certain types of public places and non-essential businesses. These actions have caused and continue to cause significant disruption to operations, economic uncertainty and impact construction cost and schedule of the Muskrat Falls plant and LCP Transmission assets.

The COVID-19 pandemic has had a material impact on the financial results of the Company, in its Oil and Gas segment, due to a significant decrease in global demand for crude oil and a decrease in crude oil prices leading to asset impairments. COVID-19 is an evolving situation that will continue to have widespread implications for the Company's environment, operations and financial results. Management cannot reasonably estimate the duration and magnitude of the COVID-19 impact on the economy and future effect on the Company at this time.

3.1 Use of Judgments

(i) Asset Impairment and Reversals
Nalcor applies judgment in evaluating impairment and impairment reversal indicators based on various internal and external factors.

The recoverable amount of a CGU or asset is determined based on the higher of fair value less costs of disposal and its value in use. For example, with respect to petroleum and natural gas properties, Management uses factors including expected future oil prices and proved and probable reserves from third party specialists and discount rates to determine the recoverable amount, as well as judgments regarding the occurrence of future events. Changes in these factors will affect the recoverable amount of CGUs and assets, which may result in a material adjustment to their carrying value.

(ii) Property, Plant and Equipment
Nalcor's accounting policy relating to property, plant and equipment is described in Note 2.6. In applying this policy, judgment is used in determining whether certain costs are additions to the carrying amount of the property, plant and equipment as opposed to repairs and maintenance. If an asset has been developed, judgment is required to identify the point at which the asset is capable of being used as intended and to identify the directly attributable borrowing costs to be included in the carrying value of the development asset. Judgment is also used in determining the appropriate componentization structure for Nalcor's property, plant and equipment.

(iii) Revenue
Management exercises judgment in estimating the value of electricity consumed by retail customers in the period, but billed subsequent to the end of the reporting period. Specifically, this involves an estimate of consumption for each retail customer, based on the customer's past consumption history.

In addition, when recognizing deferrals and related amortization of costs or credits in Hydro Regulated, Management assumes that such costs or credits will be recovered or refunded through customer rates in future years. Recovery of some of these deferrals is subject to a future PUB order. As such, there is a risk that some or all of the regulatory deferrals will not be approved by the PUB which could have a material impact on Hydro Regulated's profit or loss in the year the order is received.

(iv) Functional Currency
Functional currency was determined by evaluating the primary economic environment in which Nalcor operates. As Nalcor enters into transactions in multiple currencies, judgment is used in determining the functional currency. Management considered factors regarding currency of sales, costs incurred, and operating and financing activities and determined the functional currency to be CAD.

(v) Determination of CGUs
Nalcor's accounting policy relating to impairment of non-financial assets is described in Note 2.9. In applying this policy, Nalcor groups assets into the smallest identifiable groups for which cash flows are largely independent of the cash flows from other assets or groups of assets. Judgment is used in determining the level at which cash flows are largely independent of other assets or groups of assets.

(vi) Discount Rates
Certain of Nalcor's financial liabilities are discounted using discount rates that are subject to Management's judgment.

(vii) Consolidation
Management applies its judgment when determining whether to consolidate structured entities in accordance with the criteria outlined in IFRS 10 and when applying the criteria outlined in IFRS 11 to determine whether joint arrangements constitute joint ventures or joint operations.

(viii) Leases
Definition of a Lease
At inception of a contract, Nalcor assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, Nalcor assesses whether the contract involves the use of an identified asset, Nalcor has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use and Nalcor has the right to direct the use of the asset.

Lease Extension and Termination Options
In determining the lease term, Nalcor considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. The assessment is reviewed if a significant event or a significant change in circumstances occurs within its control. The assessment requires the consideration of facts and circumstances such as contractual terms and conditions for option periods, significant leasehold improvements undertaken, costs to terminate the lease, the importance of the asset to the lessee's operations and past practice.

(ix) Regulatory adjustments
Regulatory assets and liabilities recorded in Hydro arise due to the rate setting process for regulated utilities governed by the PUB. The amounts relate to costs or credits which Management believes will be recovered or settled through customer rates in future periods, pursuant to the proceedings and outcomes of future PUB orders. Certain estimates are necessary since the regulatory environment often requires amounts to be recognized at estimated values until these amounts are finalized pursuant to regulatory decisions or other regulatory proceedings. The final amounts approved by the PUB for deferral as regulatory assets and liabilities and the approved recovery or settlement periods may differ from those originally expected. Any resulting adjustments to original estimates could have a material impact and are recognized in profit or loss in the period in which they become known.

3.2 Use of Estimates

(i) Property, Plant and Equipment
Amounts recorded for depreciation are based on the useful lives of Nalcor's assets. The useful lives of property, plant and equipment are determined by independent specialists and reviewed annually by Nalcor. These useful lives are Management's best estimate of the service lives of these assets. Changes to these lives could materially affect the amount of depreciation recorded.

(ii) Oil and Natural Gas Reserves
Oil and natural gas reserves are evaluated by independent reserve engineers. Reserve estimates are used in calculating depletion, impairment and decommissioning liabilities. Estimates of recoverable reserves are based upon variable factors and assumptions regarding historical production, production rates, ultimate reserve recovery, marketability of petroleum and natural gas, and timing and amount of future cash expenditures. Changes to these amounts could materially affect these calculations.

(iii) Partnership Unit Liabilities
Nalcor determines the fair value of the Class B limited partnership units at each financial reporting date. These units represent Emera Newfoundland and Labrador Island Link Inc.'s (Emera NL's) ownership interest in LIL LP. Due to the nature of the liabilities and lack of comparable market data, the fair value of these units is determined using the present value of future cash flows. Significant assumptions used in the determination of fair value include estimates of the amount and timing of future cash flows and the discount rate.

The process of valuing financial liabilities for which no published market price exists is based on inherent uncertainties and the resulting values may differ from values that would have been used had a ready market existed for the liability. These differences could be material to the fair value of the financial liability.

(iv) Decommissioning Liabilities
Nalcor recognizes a liability for the fair value of the future expenditures required to settle obligations associated with the retirement of property, plant and equipment. Decommissioning liabilities are recorded as a liability at fair value, with a corresponding increase to property, plant and equipment. Accretion of decommissioning liabilities is included in the Consolidated Statement of (Loss) Profit and Comprehensive (Loss) Income through net finance expense. Differences between the recorded decommissioning liabilities and the actual decommissioning costs incurred are recorded as a gain or loss in the settlement period.

(v) Employee Future Benefits
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 benefits is accounted for on an accrual basis, and has been actuarially determined using the projected unit credit method prorated on service, and Management's best estimate of salary escalation, retirement ages of employees, and expected health care costs.

(vi) Revenue
In the absence of a signed agreement with Hydro-Québec regarding the Annual Energy Base (AEB) value, Churchill Falls and Hydro-Québec have been using the 2008 AEB value on an interim basis since September 1, 2016. Now that a final judgment has been received in the Declaratory Judgment Case, the Parties are in the process of finalizing the value of the final AEB that will establish the Continuous Energy for the term of the Renewed Power Contract.

(vii) Leases Incremental Borrowing Rate
Nalcor uses its incremental borrowing rates in measuring its lease liabilities. The incremental borrowing rate is the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The determination of the incremental borrowing rate requires the consideration of different components, all of which are to incorporate a number of important lease characteristics.

4. CURRENT AND FUTURE CHANGES IN ACCOUNTING POLICIES

The following is a list of standards/interpretations that have been issued and are effective for accounting periods commencing on or after January 1, 2020, as specified.

- *IAS 1 – Presentation of Financial Statements*[1] *and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors*[1] *(Amendments to IAS 1 and IAS 8)*
- *IFRS 16 – Leases – COVID-19 Related Rent Concessions (Amendment to IFRS 16)*[2]
- *IAS 16 – Property, Plant and Equipment – Proceeds before Intended Use (Amendments to IAS 16)*[3]
- *IAS 37 – Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Costs of Fulfilling a Contract (Amendments to IAS 37)*[3]
- *IAS 1 – Presentation of Financial Statements – Classification of Liabilities as Current or Non-Current (Amendments to IAS 15)*[4]

[1] Effective for annual periods beginning on or after January 1, 2020.
[2] Effective for annual periods beginning on or after June 1, 2020.
[3] Effective for annual periods beginning on or after January 1, 2022, with earlier application permitted.
[4] Effective for annual periods beginning on or after January 1, 2023, with earlier application permitted.

4.1 **IAS 1 – Presentation of Financial Statements and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors (Amendments to IAS 1 and IAS 8)**
Effective January 1, 2020, Nalcor adopted the amendments to IAS 1 and IAS 8 to align the definition of 'material' across the standards and to clarify certain aspects of the definition and to include the concept of 'obscuring information'. The amendments are intended to improve the understanding of the existing requirements rather than to significantly impact Nalcor's materiality judgments.

4.2 **IFRS 16 – Leases – COVID-19 Related Rent Concessions (Amendment to IFRS 16)**
The IASB issued an amendment to IFRS 16 that provides lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification. Since Nalcor does not have any COVID-19 related rent concessions, the application of this amendment did not have an impact on Nalcor's financial statements.

4.3 **IAS 16 – Property, Plant and Equipment – Proceeds before Intended Use (Amendments to IAS 16)**
The IASB issued amendments to IAS 16 relating to proceeds before intended use. The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by Management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss. The amendments also clarify the meaning of 'testing whether an asset is functioning properly'. IAS 16 now specifies this as assessing whether the technical and physical performance of the asset is such that it is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes.

These amendments are applied retrospectively, but only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by Management on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. Nalcor early adopted the amendments to IAS 16 as of January 1, 2020, with retrospective application as of January 1, 2019. The application of these amendments to IAS 16 did not have any transitional impact on Nalcor's financial statements.

4.4 **IAS 37 – Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Costs of Fulfilling a Contract (Amendments to IAS 37)**
The amendments to IAS 37 specify that the cost of fulfilling a contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract, such as direct labour and materials, or an allocation of other costs that relate directly to fulfilling contracts, such as the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract. These amendments apply to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the amendments and are currently not applicable to Nalcor, however, may apply to future transactions.

4.5 **IAS 1 – Presentation of Financial Statements – Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)**
The IASB issued amendments to IAS 1 to promote consistency in applying the requirements by helping companies determine whether, in the Statement of Financial Position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The classification is based on rights that are in existence at the end of the reporting period and specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability. The amendments are applied retrospectively upon adoption.

5. DISCONTINUED OPERATIONS

Effective January 1, 2020, the shares of Bull Arm Fabrication were distributed to the new Crown corporation, Oil and Gas Corporation of Newfoundland and Labrador for a nominal amount. As at December 31, 2019, Bull Arm Fabrication represented a discontinued operation.

6. CASH AND CASH EQUIVALENTS

As at December 31, 2020 and 2019, cash and cash equivalents consisted entirely of cash.

7. TRADE AND OTHER RECEIVABLES

As at December 31 (millions of Canadian dollars)		**2020**	2019
Trade receivables		**157**	171
Advances	(a)	**1**	25
Other receivables	(b)	**22**	58
Allowance for doubtful accounts		**(17)**	(14)
		163	240

(a) Advances relate to deposits paid to suppliers in relation to construction of the LCP.

(b) Other receivables are comprised primarily of harmonized sales tax (HST) as well as bank interest.

As at December 31 (millions of Canadian dollars)	**2020**	2019
0-60 days	**149**	223
60+ days	**14**	17
	163	240

As at December 31 (millions of Canadian dollars)	**2020**	2019
Allowance for doubtful accounts, beginning of the year	**(14)**	(17)
(Increase) decrease in allowance during the year	**(3)**	3
Allowance for doubtful accounts, end of the year	**(17)**	(14)

8. INVENTORIES

As at December 31 (millions of Canadian dollars)	**2020**	2019
Materials	**63**	60
Fuel	**54**	65
Crude oil	**3**	6
Other	**2**	3
	122	134

The amount of inventory recognized as an expense during the year was $162.1 million (2019 - $221.6 million) and is included in operating costs and fuels.

9. OTHER CURRENT ASSETS

As at December 31 (millions of Canadian dollars)	**2020**	2019
Prepayments	**27**	27
Derivative assets	**3**	4
	30	31

10. PROPERTY, PLANT AND EQUIPMENT

(millions of Canadian dollars)	Generation Plant	Transmission and Distribution	Petroleum and Natural Gas Properties	Other	Assets Under Development	Total
Cost						
Balance as at January 1, 2019	1,932	1,298	1,489	503	11,897	17,119
Additions	6	5	73	4	1,129	1,217
Disposals	(6)	(4)	-	(4)	(5)	(19)
Transfers	81	69	-	15	(166)	(1)
Decommissioning liabilities and revisions	-	-	13	-	-	13
Other adjustments	1	-	-	-	-	1
Balance as at December 31, 2019	2,014	1,368	1,575	518	12,855	18,330
Additions	**1**	**-**	**37**	**3**	**809**	**850**
Disposals	**(6)**	**(3)**	**(2)**	**(3)**	**(2)**	**(16)**
Transfers	**41**	**72**	**-**	**14**	**(127)**	**-**
Decommissioning liabilities and revisions	**1**	**-**	**18**	**-**	**-**	**19**
Other adjustments	**-**	**(1)**	**-**	**-**	**(4)**	**(5)**
Balance as at December 31, 2020	**2,051**	**1,436**	**1,628**	**532**	**13,531**	**19,178**
Depreciation, depletion and impairment						
Balance as at January 1, 2019	555	220	341	193	55	1,364
Depreciation and depletion	59	30	92	12	-	193
Disposals	(2)	(2)	-	(7)	-	(11)
Other adjustments	(6)	(6)	-	(2)	-	(14)
Balance as at December 31, 2019	606	242	433	196	55	1,532
Depreciation and depletion	**55**	**32**	**101**	**13**	**-**	**201**
Disposals	**(4)**	**(2)**	**(1)**	**(3)**	**-**	**(10)**
Impairment	**2**	**-**	**225**	**-**	**-**	**227**
Balance as at December 31, 2020	**659**	**272**	**758**	**206**	**55**	**1,950**
Carrying value						
Balance as at January 1, 2019	1,377	1,078	1,148	310	11,842	15,755
Balance as at December 31, 2019	1,408	1,126	1,142	322	12,800	16,798
Balance as at December 31, 2020	**1,392**	**1,164**	**870**	**326**	**13,476**	**17,228**

Capitalized interest for the year ended December 31, 2020 was $297.3 million (2019 - $290.9 million) related to assets under development.

On a quarterly basis, the Company assesses its CGUs for indicators of impairment or when events or changes in circumstances indicate the carrying amount may exceed its recoverable amount. As at March 31, 2020 the impact of the COVID-19 pandemic resulted in a significant decline in global demand for crude oil and in the same time-frame, an over-supply of crude oil resulted in a significant decrease in crude oil commodity prices, which was considered an indicator of impairment. The impairment assessments of the Company CGUs were completed based on value in use, estimating discounted future cash flows based on forecasted oil prices, proved and probable reserves and a discount rate derived from post-tax weighted average cost of capital, adjusted to reflect specific risks to the CGUs and resulted in $225 million of impairment recorded as of March 31, 2020. As at December 31, 2020, management determined that no further adjustments to provisions were required.

The forecasted crude oil prices as at March 31, 2020, used to determine future cash flows from oil reserves were:

	2020	2021	2022	2023	2024	Average Annual Change thereafter
Brent Price (USD/barrel)	30.00	40.00	50.00	51.00	52.02	2.00%

Fluctuations to the discount rate or forecasted oil prices over the life of the reserves would have had the following impact on the impairment as at March 31, 2020, of the White Rose Extension and Hibernia South Extension CGUs:

	Discount Rate		Forecasted Price Estimates	
(millions of Canadian dollars)	1% Decrease	1% Increase	5% Decrease	5% Increase
Total impairment – Increase (Decrease)	(10.7)	9.9	19.4	(23.4)

11. INTANGIBLE ASSETS

(millions of Canadian dollars)	Computer Software	Feasibility Studies	Assets Under Development	Total
Cost				
Balance as at January 1, 2019	40	2	8	50
Additions	-	-	6	6
Transfers	5	-	(4)	1
Balance as at December 31, 2019	45	2	10	57
Additions	**2**	-	**3**	**5**
Disposals	**(5)**	**(1)**	-	**(6)**
Transfers	**4**	-	**(4)**	-
Other adjustments	-	-	**4**	**4**
Balance as at December 31, 2020	**46**	**1**	**13**	**60**
Amortization and impairment				
Balance as at January 1, 2019	15	1	-	16
Amortization	5	-	-	5
Balance as at December 31, 2019	20	1	-	21
Amortization	**4**	**1**	-	**5**
Disposals	**(3)**	**(1)**	-	**(4)**
Balance as at December 31, 2020	**21**	**1**	-	**22**
Carrying value				
Balance as at January 1, 2019	25	1	8	34
Balance as at December 31, 2019	25	1	10	36
Balance as at December 31, 2020	**25**	-	**13**	**38**

12. INVESTMENTS

As at December 31 (millions of Canadian dollars)		**2020**	2019
Sinking funds	(a)	**219**	211
Reserve fund	(b)	**39**	25
Investments	(c)	**100**	100
Total investments		**358**	336
Less: amounts classified as short-term		**(105)**	(2)
		253	334

a) As at December 31, 2020, sinking funds include $182.6 million (2019 - $174.0 million) related to repayment of Hydro's long-term debt and $36.1 million (December 31, 2019 - $36.6 million) related to funding of Nalcor's long-term payable under the Upper Churchill Redress Agreement (UCRA).

Hydro debentures held in its own debt issue, are deducted from debt while all other sinking fund investments are shown separately on the Consolidated Statement of Financial Position as assets. Annual contributions to the various sinking funds are in accordance with bond indenture terms, and are structured to ensure the availability of adequate funds at the time of expected bond redemption. Effective yields range from 1.52% to 6.82% (2019 - 2.51% to 6.82%).

Sinking fund investments consist of bonds, debentures and coupons issued by, or guaranteed by, the Government of Canada, provincial governments, agencies guaranteed by the provinces or Schedule 1 banks, and have maturity dates ranging from 2021 to 2041.

LIL LP, Muskrat Falls and Labrador Transco are required to contribute to sinking funds as part of the federal loan guarantee on Tranche A, B and C debentures. Sinking fund payments due between December 2020 and the earlier of December 31, 2021 and commissioning have been deferred and will now be payable on a straight-line basis commencing after commissioning until the first corresponding tranche maturity date.

The movements within sinking funds in the year are outlined below:

As at December 31 (millions of Canadian dollars)	**2020**	2019
Sinking funds, beginning of the year	**211**	202
Contributions	**7**	7
Earnings	**13**	12
Disposals and maturities	**(2)**	(2)
Change in sinking fund investments in own debentures	**(10)**	(8)
Sinking funds, end of the year	**219**	211
Less: amounts classified as short-term	**(2)**	(2)
	217	209

Sinking fund contributions required over the next five years are as follows:

(millions of Canadian dollars)	2021	2022	2023	2024	2025
Sinking fund contributions	78	148	148	148	148

b) In 2007 Churchill Falls commenced the creation of a $75.0 million segregated reserve fund pursuant to the terms of the Shareholders' Agreement to contribute towards the funding of capital expenditures related to Churchill Falls' existing facilities and their replacement. The fund must remain in place until the end of the Shareholders' Agreement in 2041. The $75.0 million fund has been withdrawn in recent years and, as per the terms of the Shareholders' Agreement, these funds are required to be replaced over a five year period. Reserve fund holdings consist of securities issued by the Government of Canada, various provinces of Canada, agencies guaranteed by the provinces and Canadian banks rated A or better (Standard and Poor's).

Nalcor's proportionate share of the reserve fund consists of the following:

As at December 31 (millions of Canadian dollars)	**2020**	2019
Reserve fund, beginning of the year	**25**	12
Principal contributions	**13**	12
Mark-to-market adjustment	**1**	1
Reserve fund, end of the year	**39**	25
Less: amounts classified as short-term	**(3)**	-
	36	25

Nalcor's proportionate share of reserve fund contributions for the next two years are as follows:

(millions of Canadian dollars)	2021	2022
Reserve fund contributions	6	6

c) Nalcor’s Redeemable Guaranteed Investment Certificate, with interest paid at a rate of 3.00% per annum is classified as a short-term investment, as it matures in 2021.

13. REGULATORY DEFERRALS

(millions of Canadian dollars)		January 1 2020	Reclass and Disposition	Regulatory Activity	**December 31 2020**	Remaining Recovery Settlement Period (years)
Regulatory asset deferrals						
Supply deferrals	(a)	35	(20)	44	**59**	n/a
Deferred energy conservation costs	(b)	9	-	(1)	**8**	n/a
Foreign exchange losses	(c)	48	-	(2)	**46**	21.0
Rate stabilization plan (RSP)	(d)	16	49	(25)	**40**	n/a
Retirement asset pool	(e)	11	-	2	**13**	n/a
Business system transformation program	(f)	3	-	1	**4**	n/a
Other	(i-v)	1	-	1	**2**	n/a
		123	29	20	**172**	
Regulatory liability deferrals						
Insurance amortization and proceeds	(g)	(3)	-	-	**(3)**	n/a
Removal provision	(h)	(8)	-	(4)	**(12)**	n/a
Other	(i-v)	(2)	1	(1)	**(2)**	n/a
		(13)	1	(5)	**(17)**	

Regulatory Adjustments Recorded in the Consolidated Statement of (Loss) Profit and Comprehensive (Loss) Income

Nalcor's regulatory deferrals which will be, or are expected to be, reflected in customer rates in future periods, have been established through the rate setting process. In the absence of rate regulation, these amounts would be reflected in operating results in the year and the loss for the year ended December 31, 2020 would have increased by $14.2 million (2019 decrease to profit of $36.0 million).

For the year ended December 31 (millions of Canadian dollars)	**2020**	2019
RSP amortization	**(32)**	4
RSP fuel deferral	**57**	34
RSP interest	**(2)**	2
Rural rate adjustment	**2**	1
Total RSP activity	**25**	41
Supply deferral recovery	**11**	3
Supply deferrals	**(55)**	(30)
Total supply deferrals	**(44)**	(27)
2019 revenue deficiency	-	(52)
Removal provision	**4**	4
Other	**1**	(2)
	(14)	(36)

(a) Supply Deferrals

Pursuant to Board Order No. P.U. 22 (2017), the Board approved the deferral of Energy Supply costs using three specific deferral accounts: the Energy Supply, Holyrood Conversion and Isolated Systems Supply cost deferrals. In 2020, Hydro recorded a net increase to the deferrals of $55.0 million (2019 - $29.6 million) with recovery determined through an annual application process. Board Order No. P.U. (2019) approved the recovery from customers of $18.4 million over a 20 month period; of which, in 2020 Hydro recovered $10.9 million (2019 - $2.7 million). In Board Order No. P.U. 13 (2020), the Board approved the recovery of the 2019 supply cost deferral of $19.8 million from the RSP.

(b) Deferred Energy Conservation Costs

In 2020, Hydro deferred $0.6 million (2019 - $1.5 million) in Energy Conservation Costs associated with an electrical conservation demand management program for residential, industrial, and commercial sectors. As per Board Order No. P.U. 22 (2017), Hydro recovered $1.5 million (2019 – $1.4 million) of the balance through a rate rider.

(c) Foreign Exchange Losses

In 2002, the PUB ordered Hydro to defer realized foreign exchange losses related to the issuance of Swiss Franc and Japanese Yen denominated debt and amortize the balance over a 40 year period. Accordingly, these costs were recognized as a regulatory asset. During 2020, amortization expense of $2.2 million (2019 - $2.2 million) was recorded.

(d) RSP

In 1986, the PUB ordered Hydro to implement the RSP which primarily provides for the deferral of fuel expense variances resulting from changes in fuel prices, hydrology, load and associated interest. Adjustments required in utility rates to cover the amortization of the balance are implemented on July 1 of each year. Similar adjustments required in industrial rates are implemented on January 1 of each year.

Hydro recorded a net increase in the RSP balance in 2020 of $23.7 million (2019 - decrease of $89.9 million) resulting in a balance from customers of $39.9 million (2019 - $16.2 million). The increase in the RSP asset is primarily due to Board Order P.U. 16 (2020) which approved a one-time bill credit resulting in a net increase to the RSP of $30.8 million; Board Order P.U. 13 (2020) which approved the recovery of the 2019 supply cost deferrals of $19.8 million resulting in an increase to the RSP; partially offset by normal operation of the RSP which resulted in a net decrease to the RSP of $25.4 million (2019 - $40.7 million) and Board Order P.U. 29 (2019) which approved the refund of the firm energy savings deferral resulting in a decrease of $1.5 million from the RSP.

(e) Retirement Asset Pool

As per Board Order No. P.U. 30 (2019), the Board approved Hydro's proposed depreciation methodology which includes the deferral of gains and losses on retirement of assets. The deferral will be recovered through future depreciation expense. The depreciation methodology and corresponding retirement asset pool was approved effective January 1, 2018. In 2020, Hydro deferred $2.1 million (2019 - $1.9 million) of retirement asset activity resulting in a total balance of $13.2 million.

(f) Business System Transformation Program

As per Board Order No.'s P.U. 23 (2019) and P.U. 30 (2019), the Board approved the deferral of business system transformation program costs commencing in 2018. The recovery of the deferral is subject to a future Board order. During the year, Hydro deferred $1.1 million (2019 – $2.5 million).

(g) Insurance Amortization and Proceeds

Pursuant to Board Order No. P.U. 13 (2012), Hydro records net insurance proceeds against the capital costs and amortizes the balance over the life of the asset. Under IFRS, Hydro is required to recognize the insurance proceeds and corresponding amortization in regulatory liabilities. During 2020, Hydro recorded a decrease to regulatory liabilities resulting from amortization of $nil (2019 - $0.6 million) related to the assets.

(h) Removal Provision

As per Board Order No. P.U. 30 (2019), the Board approved Hydro's proposed depreciation methodology which includes the provision for removal costs. The depreciation methodology and corresponding removal provision was approved effective January 1, 2018. Hydro recorded a net increase to the provision relating to 2020 activity of $4.1 million (2019 - $4.1 million) resulting in a total balance of $12.0 million.

(i) Hearing Costs

As per Board Order No. P.U. 30 (2019), the Board approved the deferral of $1.7 million in hearing costs relating to the 2017 General Rate Application hearing and the Cost of Service hearing to be amortized over a three year period commencing 2018. In 2020, Hydro recorded amortization of $0.6 million (2019 - $1.1 million) resulting in a net balance of $nil.

(j) 2018 Revenue Deficiency

In Board Order P.U. 30 (2019), the Board approved the 2018 Revenue Deficiency of $0.8 million. The Revenue Deficiency consists of $2.3 million which was approved to be recovered through a transfer to the RSP and a refund to customers of $1.5 million. A refund of $0.6 million was paid to industrial customers in 2019 with the remaining balance of $0.9 million refunded to the Labrador Rural Interconnected customers in 2020.

(k) 2019 Revenue Deficiency

In Board Order P.U. 30 (2019), the Board approved the 2019 Revenue Deficiency of $51.8 million. The Revenue Deficiency consists of $52.6 million which was approved to be recovered through a transfer to the RSP, $0.1 million to be recovered over a 20 month period and a refund to customers of $0.9 million. A refund of $0.3 million was paid to Industrial customers in 2019 which resulted in a December 31, 2019 balance in the 2019 Revenue Deficiency of $0.6 million. The remaining refund of $0.6 million to the Labrador Rural Interconnected customers was paid in 2020.

(l) Deferred Lease Costs

In Board Order No's. P.U. 17 (2016), P.U. 23 (2016) and No. P.U. 49 (2016) the Board approved amortization of lease costs associated with mobile diesel units at Holyrood Thermal Generating Station (HTGS) over a period of five years. In 2020, Hydro recorded amortization of $0.3 million (2019 - $1.3 million) of the deferred lease costs.

(m) Deferred Foreign Exchange on Fuel

Hydro purchases fuel for HTGS in United States Dollars (USD). The RSP allows Hydro to defer variances in fuel prices (including foreign exchange fluctuations). During 2020, Hydro recognized a reduction to regulatory assets for foreign exchange gains on fuel purchases of $0.2 million (2019 - $1.0 million).

(n) Phase Two Hearing Costs

Pursuant to Board Order No. P.U. 13 (2016), Hydro received approval to defer consulting fees and salary related costs relating to Phase Two of the investigation into the reliability and adequacy of power on the Island Interconnected system after the interconnection with the Muskrat Falls generating station. As a result, Hydro recorded a net increase to regulatory assets of $nil (2019 - $0.2 million) for a total deferred balance of $1.4 million (2019 - $1.4 million).

(o) Asset Disposal

As per Board Order No. P.U. 49 (2016), the Board ordered that Hydro recognize a regulatory asset of $0.4 million related to the Sunnyside transformer that was disposed of in 2014. Hydro is required to recover the deferred asset in rate base and amortize the asset for 22.4 years commencing in 2015. Hydro is required to exclude the new Sunnyside transformer from rate base until the Sunnyside transformer original asset deferral has been fully amortized.

(p) Firm Energy Purchase

Pursuant to Board Order No. P.U. 3 (2020), the Board approved the deferral of savings associated with firm energy power purchases. Hydro recorded a regulatory liability of $1.5 million in 2019. In 2020, pursuant to Board Order No. 29 (2020), the balance of $1.5 million was refunded through the RSP.

(q) Hydraulic Resources Optimization Deferral Account

In Board Order P.U. 49 (2018), a deferral account to capture the revenues and costs associated with the hydraulic optimization activities was approved. For the year ended December 31, 2020, the balance of hydraulic optimization activities is a net gain of $1.0 million (2019 - $0.3 million) recorded as a deferred liability.

(r) Deferred Purchased Power Savings

In 1997, the PUB ordered Hydro to defer $1.1 million related to reduced purchased power rates resulting from the interconnection of communities in the area of L'Anse au Clair to Red Bay to the Hydro-Québec system and amortize the balance over a 30 year period. The remaining unamortized savings in the amount of $0.2 million (2019 - $0.3 million) are deferred as a regulatory liability.

(s) Non-Customer Contributions in Aid of Construction

Pursuant to Board Order No. P.U. 1 (2017), Hydro recognized amortization of deferred contributions in aid of construction (CIAC) from entities which are not customers in profit or loss. During 2020, Hydro recorded $0.9 million (2019 - $0.7 million) non-customer CIAC amortization as a regulatory adjustment. In the absence of rate regulation, IFRS requires non-customer CIACs to be recorded as contributed capital with no corresponding amortization. As a result, during 2020 Hydro also recorded an increase of $0.9 million (2019 - $0.7 million) to contributed capital to recognize the amount that was reclassified to profit or loss.

(t) Employee Future Benefits Actuarial Loss

Pursuant to Board Order No. P.U. 36 (2015), Hydro has recognized the amortization of employee future benefit actuarial gains and losses in net income. During 2020 Hydro recorded $0.1 million (2019 - $nil) employee future benefits losses as a regulatory adjustment. In the absence of rate regulation, IFRS would require Hydro to include employee future benefits actuarial gains and losses in other comprehensive income. As a result, during 2020 Hydro also recorded a decrease of $0.1 million (2019 - $nil) to other comprehensive income to recognize the amount that was reclassified to profit or loss.

(u) Reliability and Resource Adequacy Study

Pursuant to Board Order No. P.U. 29 (2019), the Board approved the deferral of costs associated with the Reliability and Resource Adequacy proceeding. Hydro deferred $0.6 million in 2020 (2019 - $0.2 million). The recovery of the balance is to be determined in a future Board Order.

(v) Frequency Converter Revenue Deferral Account

In Board Order P.U. 35 (2020), the Board approved the deferral of the cumulative revenue requirement impact associated with the loss on the sale of a frequency converter, commencing December, 2019. The disposition of the cumulative revenue requirement impact included in the deferral account balance will be addressed as part of Hydro's next general rate application. During 2020, Hydro deferred $0.2 million as a regulatory liability (2019 - $nil).

14. TRADE AND OTHER PAYABLES

As at December 31 (millions of Canadian dollars)	**2020**	2019
Trade payables and accruals	**291**	305
Accrued interest payable	**76**	76
Rent and royalty payable	**4**	5
Other payables	**38**	49
	409	435

15. DEBT

15.1 Short-term Borrowings

Nalcor maintains a $250.0 million CAD or USD equivalent committed revolving term credit facility with its banker, with a maturity date of January 31, 2022. There were no amounts drawn on this facility as at December 31, 2020 (2019 - $nil), however $7.8 million of the borrowing limit has been used to issue 10 irrevocable letters of credit (2019 - $8.0 million to issue 11 irrevocable letters of credit) which relate to power purchases and sale contracts with various independent system operators, transmission providers and bilateral counterparties. Borrowings in CAD may take the form of Prime Rate Advances, Bankers' Acceptances (BAs) and letters of credit. Borrowings in USD may take the form of Base Rate Advances, London Interbank Offer Rate (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.

Hydro maintains a $200.0 million CAD or USD equivalent committed revolving term credit facility with a maturity date of July 27, 2021. As at December 31, 2020, there were no amounts drawn on the facility (2019 - $nil). Borrowings in CAD may take the form of Prime Rate Advances, BAs and letters of credit, with interest calculated at the Prime Rate or prevailing Government BA fee. Borrowings in USD may take the form of Base Rate Advances and letters of credit. The facility also provides coverage for overdrafts on Hydro's bank accounts, with interest calculated at the Prime Rate.

On April 17, 2020, Hydro obtained additional credit through establishment of a committed credit facility with its banker in the amount of $300.0 million with a maturity date of April 17, 2021. As at December 31, 2020, there were no amounts drawn on this facility. Borrowings in CAD may take the form of BAs and, in certain circumstances, Prime Rate advances. The facility also provides coverage for overdrafts on Hydro's bank accounts, with interest calculated at the Prime Rate.

Hydro utilized its $300.0 million government guaranteed promissory note program to fulfil its short-term funding requirements. As at December 31, 2020, there were three promissory notes outstanding for a total of $262.0 million with a maturity date of January 4, 2021 bearing an average interest rate of 0.17% (2019 - $233.0 million bearing an interest rate of 1.82%). Upon maturity, the promissory notes were reissued.

Legislation stipulates that the total of the Government guaranteed 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. On February 20, 2020, the Lieutenant-Governor in Council issued Order in Council OC2020-18 to increase the level of short-term borrowings permitted by Hydro from $300 million to $500 million, effective until March 31, 2022. As a result, the current limit is now $500.0 million and $262.0 million is outstanding as at December 31, 2020 (2019 - $233.0 million). The Hydro Corporation Act, 2007 (the Act) limits Hydro's total borrowings outstanding at any point in time, which includes both short-term borrowings and long-term debt. Bill 33 passed on March 26, 2020 increased Hydro's total borrowing limit under the Act from $2.1 billion to $2.6 billion.

Churchill Falls maintains a $10.0 million CAD or USD equivalent unsecured demand operating credit facility with its banker.

Borrowings may take the form of Prime Rate Advances, 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. There were no amounts drawn on this facility as at December 31, 2020 (2019 - $nil).

Churchill Falls has issued three irrevocable letters of credit totaling $2.0 million (2019 - $2.0 million to issue three irrevocable letters of credit), $1.0 million of which does not impact the borrowing limit of the operating facility (2019 - $1.0 million). The letters of credit ensure satisfactory management of its waste management system and compliance with a certificate of approval for the transportation of special and hazardous wastes, granted by the Provincial Department of Environment and Conservation.

Oil and Gas maintains a $30.0 million CAD or USD equivalent unsecured demand operating facility with its banker and as at December 31, 2020, there were no amounts drawn on this facility (2019 - $nil). Borrowings in CAD may take the form of Prime Rate Advances and letters of credit. Borrowings in USD may take the form of Base Rate Advances and letters of credit. $22.2 million of the borrowing limit has been used to issue two irrevocable letters of credit (2019 - $22.2 million to issue two irrevocable letters of credit) to ensure compliance with service agreements and regulations relating to petroleum and natural gas exploration and production activities.

Energy Marketing maintains a $20.0 million CAD or USD equivalent demand operating credit facility with its banker, and as at December 31, 2020, there were no amounts drawn on this facility (2019 - $nil). This facility has an unconditional and irrevocable guarantee from Nalcor. Borrowings in CAD may take the form of Prime Rate Advances, BAs and letters of credit. Borrowings in USD may take the form of Base Rate Advances, London Interbank Offer Rate (LIBOR) Advances and letters of credit. $1.7 million of the borrowing limit has been used to issue three irrevocable letters of credit (2019 - $1.9 million to issue three irrevocable letters of credit) to various independent system operators, transmission providers, and bilateral counterparties in relation to power purchase and sale contracts. These letters of credit have automatic renewal clauses, unless cancelled with appropriate notice by the issuer or beneficiary.

As at December 31, 2020, Nalcor, on behalf of Energy Marketing, has issued unconditional guarantees in the amount of $15.0 million (2019 - $15.0 million) in order to guarantee amounts under power purchase and sale contracts with bilateral counterparties.

15.2 Long-term Debt

As at December 31 (millions of Canadian dollars)	Face Value	Coupon Rate %	Year of Issue	Year of Maturity	**2020**	2019
Hydro						
Y*	300	8.40	1996	2026	**297**	296
AB*	300	6.65	2001	2031	**304**	305
AD*	125	5.70	2003	2033	**124**	124
AF	500	3.60	2014/2017	2045	**481**	481
1A	600	3.70	2017/2018	2048	**639**	640
LIL LP						
Tranche A*	725	3.76	2013	2033	**725**	725
Tranche B*	600	3.86	2013	2045	**600**	600
Tranche C*	1,075	3.85	2013	2053	**1,075**	1,075
Tranche 1-10	95	1.14-1.75	2017	2020-2025	**95**	105
Tranche 11-20	105	1.84-2.37	2017	2025-2030	**105**	105
Tranche 21-30	105	2.41-2.64	2017	2030-2035	**105**	105
Tranche 31-40	105	2.66-2.80	2017	2035-2040	**105**	105
Tranche 41-50	105	2.81-2.86	2017	2040-2045	**105**	105
Tranche 51-60	105	2.84-2.86	2017	2045-2050	**105**	105
Tranche 61-70	105	2.85	2017	2050-2055	**105**	105
Tranche 71-74	315	2.85	2017	2055-2057	**316**	316
Labrador Transco/Muskrat Falls						
Tranche A*	650	3.63	2013	2029	**650**	650
Tranche B*	675	3.83	2013	2037	**675**	675
Tranche C*	1,275	3.86	2013	2048	**1,275**	1,275
Tranche 1-10	185	1.14-1.75	2017	2020-2025	**185**	205
Tranche 11-20	224	1.84-2.37	2017	2025-2030	**224**	224
Tranche 21-30	253	2.41-2.64	2017	2030-2035	**253**	253
Tranche 31-40	288	2.66-2.80	2017	2035-2040	**289**	289
Tranche 41-50	331	2.81-2.86	2017	2040-2045	**331**	331
Tranche 51-60	381	2.84-2.86	2017	2045-2050	**382**	382
Tranche 61-64	168	2.85	2017	2050-2052	**168**	168
Total	9,695				**9,718**	9,749
Less: Sinking fund investments in own debentures					**(73)**	(63)
					9,645	9,686
Less: repayment of debt due within one year					**(68)**	(37)
					9,577	9,649

*Sinking funds are required to be established for these issues.

Hydro's promissory notes and debentures are unsecured and unconditionally guaranteed as to principal and interest and, where applicable, sinking fund payments, by the Province, with exception of Series 1A. LIL LP, Labrador Transco and Muskrat Falls financing benefits from a direct, absolute, unconditional and irrevocable guarantee from the Government of Canada.

On December 18, 2020, Hydro received approval from the Board of Public Utilities to issue debt with a face value of up to $300.0 million (Board Order No. P.U. 40 (2020)) on or before April 30, 2021.

16. CLASS B LIMITED PARTNERSHIP UNITS

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

The Class B limited partnership units represent Emera NL's ownership interest in the Partnership. As described in the Partnership Agreement, these units have certain rights and obligations, including mandatory distributions, that indicate that the substance of the units represent a financial liability and are measured at amortized cost using the effective interest rate method. The return on the units is classified as a finance expense. All finance expenses associated with the units have been capitalized.

As at December 31 (millions of Canadian dollars)	**Units**	**2020**	Units	2019
Class B limited partnership units, beginning of the year	**25**	**578**	25	533
Accrued interest	-	**50**	-	45
Class B limited partnership units, end of the year	**25**	**628**	25	578

17. DEFERRED CREDITS

Deferred credits consist of deferred energy sales to Emera NL, deferred revenue related to Menihek assets for the sale of energy to Hydro-Québec and funding from the Province.

As at December 31, 2020 (millions of Canadian dollars)	Deferred Energy Sales	Deferred Lease Revenue	Other	Total
Deferred credits, beginning of the year	1,776	35	2	1,813
Additions	6	1	-	7
Amortization	-	1	(1)	-
Deferred credits, end of the year	1,782	37	1	1,820
Less: current portion	-	-	(1)	(1)
	1,782	37	-	1,819

Nalcor has recorded deferred energy sales of $1,782.2 million (2019 - $1,776.1 million) which equals the construction costs to date incurred by Emera Inc. related to the Maritime Link. Nalcor has determined that it controls the Maritime Link asset for financial reporting purposes, and as such, has recorded the costs as construction in progress within property, plant and equipment.

18. DECOMMISSIONING LIABILITIES

Nalcor has recognized liabilities associated with the retirement of portions of the Holyrood Thermal Generating Station (HTGS), disposal of Polychlorinated Biphenyls (PCB) and decommissioning liabilities resulting from its net ownership interests in petroleum and natural gas properties and related well sites.

The reconciliation of the beginning and ending carrying amounts of decommissioning liabilities as at December 31, 2020 and 2019 are as follows:

As at December 31 (millions of Canadian dollars)	**2020**	2019
Decommissioning liabilities, beginning of the year	**102**	86
Accretion	**4**	3
Revisions	**18**	13
Decommissioning liabilities, end of the year	**124**	102

The total estimated undiscounted cash flows required to settle the HTGS obligations at December 31, 2020 are $15.2 million (2019 - $15.2 million). Payments to settle the liability are expected to occur between 2021 and 2025. The fair value of the decommissioning liabilities was determined using the present value of future cash flows discounted at a rate of 0.5% (2019 - 2.0%).

Oil and Gas' decommissioning liabilities result from net ownership interests in petroleum and natural gas properties and related well sites. The total undiscounted estimated cash flows required to settle the obligations, including a rate of inflation of 2%, at December 31, 2020 are $165.5 million (2019 - $162.5 million). Payments to settle the liabilities are expected to occur between 2032 and 2039. The fair value of the decommissioning liabilities was determined using the present value of future cash flows discounted at rates ranging from 2.5% to 3.0% (2019 – 3.5% to 3.9%).

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 decommissioning liability cannot be determined at this time. If it becomes possible to estimate the fair value of the cost of removing assets that Nalcor is required to remove, a decommissioning liability for those assets will be recognized at that time.

19. EMPLOYEE FUTURE BENEFITS

19.1 Pension Plan

Employees participate in the Province's Public Service Pension Plan, a multi-employer defined benefit plan. The employer's contributions for the year ended December 31, 2020 of $13.0 million (2019 - $13.6 million) are expensed as incurred.

19.2 Other Benefits

Nalcor provides group life insurance and health care benefits on a cost shared basis to retired employees, and in certain cases, their surviving spouses, in addition to a retirement allowance. In 2020, cash payments to beneficiaries for its unfunded other employee future benefits were $4.4 million (2019 - $4.1 million). An actuarial valuation was performed as at December 31, 2020.

As at December 31 (millions of Canadian dollars)	**2020**	2019
Accrued benefit obligation, beginning of the year	**144**	123
Current service cost	**7**	6
Past service cost including curtailment	-	3
Interest cost	**4**	5
Defined benefit obligation extinguished on settlement	-	(1)
Benefits paid	**(4)**	(4)
Actuarial loss	**2**	12
Accrued benefit obligation, end of the year	**153**	144

For the year ended December 31 (millions of Canadian dollars)	**2020**	2019
Component of benefit cost		
Current service cost	**7**	6
Past service cost including curtailment	-	3
Interest cost	**4**	5
Total benefit expense for the year	**11**	14

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

	2020	2019
Discount rate - benefit cost	**3.20%**	3.90%
Discount rate - accrued benefit obligation	**2.70%**	3.20%
Rate of compensation increase	**3.50%**	3.50%

Assumed healthcare trend rates:

	2020	2019
Initial health care expense trend rate	**5.64%**	5.85%
Cost trend decline to	**3.60%**	3.60%

Current rate 5.64%, reducing linearly to 3.6% in 2040 and thereafter.

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

Increase (millions of Canadian dollars)	2020	2019
Current service and interest cost	**2.5**	2.4
Accrued benefit obligation	**26.3**	24.3

Decrease (millions of Canadian dollars)	2020	2019
Current service and interest cost	**(1.8)**	(1.7)
Accrued benefit obligation	**(19.9)**	(18.4)

20. OTHER LONG-TERM LIABILITIES

As at December 31 (millions of Canadian dollars)		2020	2019
Long-term payables	(a)	**39**	41
Deferred contributions	(b)	**26**	24
Non-current lease liabilities	(c)	**5**	5
		70	70

(a) Long-term payables:

As at December 31 (millions of Canadian dollars)	2020	2019
Long-term payables, beginning of the year	**49**	54
Payments	**(10)**	(8)
Additions and revisions	**6**	1
Accretion	**2**	2
Long-term payables, end of the year	**47**	49
Less: current portion	**(8)**	(8)
	39	41

As at December 31, 2020, long-term payables consist of a payable to the Innu Nation under the UCRA and a payable to the NunatuKavut Community Council under the Community Development Agreement. Under the UCRA, Nalcor is required to pay to the Innu Nation $2.0 million annually, escalating by 2.5% annually until 2041. At December 31, 2020, $2.5 million (2019 - $2.5 million) of the amount is current and is recorded in trade and other payables. Nalcor has sinking funds in the amount of $36.1 million (2019 - $36.6 million) to fund these future obligations. The present value of the remaining payments using a discount rate of 2.4% (2019 - 3.3%) is $37.8 million (2019 - $31.5 million).

(b) Deferred contributions:

As at December 31 (millions of Canadian dollars)	2020	2019
Deferred contributions, beginning of the year	**26**	28
Additions	**3**	(1)
Amortization	**(2)**	(1)
Deferred contributions, end of the year	**27**	26
Less: current portion	**(1)**	(2)
	26	24

Nalcor has received contributions in aid of construction of property, plant and equipment. These contributions are deferred and amortized to other revenue over the life of the related property, plant and equipment asset.

(c) Non-current lease liabilities:

As at December 31 (millions of Canadian dollars)	**2020**	2019
Maturity analysis - contractual undiscounted cash flows		
Less than one year	-	2
One to five years	**1**	1
More than five years	**13**	13
Total undiscounted lease liabilities	**14**	16
Lease liabilities included in the Consolidated Statement of Financial Position		
Current lease liabilities	-	1
Non-current lease liabilities	**5**	5
Total lease liabilities	**5**	6

Amounts recognized in the Consolidated Statement of (Loss) Profit and Comprehensive (Loss) Income

For the year ended December 31 (millions of Canadian dollars)		**2020**	2019
Expenses relating to short-term leases		-	2
Variable lease payments not included in the measurement of leases	(i)	**28**	28

(i) Variable lease payments not included in the measurement of leases include payments made to the Province for power generated from assets which are owned by the Province. These variable lease payments are included in power purchased in the Consolidated Statement of (Loss) Profit and Comprehensive (Loss) Income.

The total cash outflow for leases amount to \$30.0 million for the year ended December 31, 2020 (2019 - \$32.0 million).

21. SHAREHOLDER'S EQUITY

21.1 Share Capital

As at December 31 (millions of Canadian dollars)	**2020**	2019
Common shares of par value \$1 each		
Authorized - unlimited		
Issued and outstanding - 122,500,000	**123**	123

22. CAPITAL MANAGEMENT

Nalcor's principal business requires ongoing access to capital in order to maintain assets and ensure the continuity of its operations as a going concern. Nalcor also requires access to capital to fund its various development activities relating to the LCP. Therefore, Nalcor's primary objective when managing capital is to ensure ready access to capital at a reasonable cost, to minimize its cost of capital within the confines of established risk parameters, and to safeguard Nalcor's ability to continue as a going concern.

The capital managed by Nalcor is comprised of debt (long-term debentures, promissory notes, bank credit facilities and Class B limited partnership units) and equity (share capital, shareholder contributions, reserves and retained earnings).

A summary of the consolidated capital structure is outlined below:

As at December 31 (millions of Canadian dollars)	**2020**		2019	
Debt				
Sinking funds (Hydro portion only)	**(183)**		(174)	
Short-term borrowings	**262**		233	
Current portion of long-term debt	**68**		37	
Long-term debt	**9,577**		9,649	
Class B limited partnership units	**628**		578	
Lease liabilities	**5**		6	
	10,357	**63%**	10,329	62%
Equity				
Share capital	**123**		123	
Shareholder contributions	**4,609**		4,608	
Reserves	**(98)**		(101)	
Retained earnings	**1,535**		1,625	
	6,169	**37%**	6,255	38%
Total Debt and Equity	**16,526**	**100%**	16,584	100%

Nalcor's committed operating facility has covenants restricting the issuance of debt such that the unconsolidated debt to total capitalization ratio cannot exceed 70.0%. The covenants further stipulate that the debt service coverage ratio should at all times be greater than 1.5 on an unconsolidated basis. As at December 31, 2020 and 2019, Nalcor was in compliance with these covenants.

22.1 Hydro

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

The capital managed by Hydro is comprised of debt (long-term debentures, short-term borrowings, bank credit facilities and bank indebtedness) and equity (share capital, shareholder contributions, reserves and retained earnings).

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

For the regulated portion of Hydro's operations, Management targets a capital structure comprised of 75% debt and 25% equity, 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, shareholder contributions and debt issuance. The issuance of any new debt with a term greater than one year requires prior approval of the PUB. Hydro's committed operating facility has a covenant requiring Hydro to ensure that its consolidated debt to total capitalization ratio does not exceed 85%. As at December 31, 2020 and 2019, Hydro was in compliance with this covenant.

Legislation stipulates that the total of the Government guaranteed 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. On February 20, 2020, the Lieutenant-Governor in Council issued Order in Council OC2020-18 to increase the level of short-term borrowings permitted by Hydro from $300 million to $500 million, effective until March 31, 2022. As a result, the current limit is now $500.0 million and $262.0 million is outstanding as at December 31, 2020 (2019 - $233.0 million). The Act limits Hydro's total borrowings outstanding at any point in time, which includes both short-term borrowings and long-term debt. Bill 33 passed on March 26, 2020 increased Hydro's total borrowing limit under the Act from $2.1 billion to $2.6 billion.

Historically, Hydro Regulated addressed longer-term capital funding requirements by issuing government guaranteed long-term debt in the domestic capital markets. However, in December 2017, Hydro Regulated's process changed; the Province now issues debt in the domestic capital markets, on Hydro Regulated's behalf, and in turn loans the funds to Hydro Regulated on a cost recovery basis. Any additional funding to address long-term capital funding requirements, will require approval from the Province and the PUB.

22.2 Oil and Gas

Oil and Gas' objective when managing capital is to maintain the ability to fund operating costs and expenditures related to development and production assets, on a timely basis. Oil and Gas maintains an unsecured demand credit facility, which is used to finance operations in the short-term. Long-term capital includes share capital, shareholder contributions and retained earnings. Additional requirements will be funded through Oil and Gas' credit facility.

22.3 Energy Marketing

Energy Marketing's objective when managing capital is to maintain its ability to continue as a going concern. Energy Marketing's capital consists of shareholder's equity, specifically, share capital, and retained earnings. Capital resource requirements are limited to working capital needs, which are funded through cash from operations, support from its parent, and a $20.0 million demand operating facility with its primary banker.

22.4 Churchill Falls

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

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

22.5 Muskrat Falls

Capital includes share capital, shareholder contributions and long-term debt. Muskrat Falls' objectives for managing capital are to maintain its ability to continue as a going concern and to ensure timely payment of its contractual obligations as they relate to the construction of the Muskrat Falls plant. Muskrat Falls' future requirements for capital are expected to increase commensurate with progress on the construction. During this time, it is expected that proceeds from shareholder contributions and energy sales will be sufficient to fund the development and operations of the Muskrat Falls plant. The Province of Newfoundland and Labrador, has provided guarantees of equity support in relation to the construction of the Muskrat Falls plant. These guarantees will ensure sufficient funds are available to finance remaining construction costs.

22.6 LCP Transmission

The capital structure of the LIL LP is comprised of partner capital (issued units, cash calls and deficit) and long-term debt. The capital structure is adjusted through the amount of distributions paid to the Partners as well as capital contributions.

LIL LP's objective when managing capital is to fund the construction of the LIL while providing its partners a required return. The Partnership's requirements for capital in the future are expected to increase, coincident with the development of the LIL. The focus of the capital management policy is to provide flexibility to ensure cash continues to be available to satisfy capital requirements. Managing cash calls from the limited partners is a key aspect of ensuring the availability of funding to develop the LIL. The Province of Newfoundland and Labrador has provided guarantees to ensure partner contributions in relation to the construction of the LIL. These partner contributions will ensure sufficient funds are available to finance remaining construction costs.

The capital structure of Labrador Transco includes share capital, shareholder contributions, and long-term debt. Labrador Transco's objectives for managing capital are to maintain its ability to continue as a going concern and to ensure timely payment of its contractual obligations as they relate to the construction of the LTA. The Province of Newfoundland and Labrador, has provided guarantees of equity support in relation to the construction of the LTA. These guarantees will ensure sufficient funds are available to finance remaining construction costs.

The capital structure of LIL Opco and LIL GP includes share capital and shareholder contributions. LIL Opco's and LIL GP's objectives when managing capital are to maintain its ability to continue as a going concern and ensure timely payment of its contractual obligations as it relates to the operations and maintenance of the LIL.

23. ENERGY SALES

For the year ended December 31 (millions of Canadian dollars)	**2020**	2019
Electricity sales	**697**	752
Petroleum and natural gas sales	**243**	303
Royalty expense	**(27)**	(39)
Total energy sales	**913**	1,016

24. OPERATING COSTS

For the year ended December 31 (millions of Canadian dollars)	**2020**	2019
Salaries and benefits	**142**	144
Maintenance and materials	**31**	36
Professional services	**19**	25
Insurance	**7**	6
Travel and transportation	**5**	8
Other operating costs	**7**	7
	211	226

25. PRODUCTION, MARKETING AND TRANSPORTATION COSTS

Production, marketing and transportation costs include costs incurred related to the operating, processing and transportation of oil.

For the year ended December 31 (millions of Canadian dollars)	**2020**	2019
Project operating costs	**26**	25
Processing and marketing	**6**	5
Transportation and transshipment	**7**	6
	39	36

26. NET FINANCE EXPENSE

For the year ended December 31 (millions of Canadian dollars)	**2020**	2019
Finance income		
Interest on investments	**17**	16
Interest on restricted cash	**12**	29
Other interest income	**3**	7
	32	52
Finance expense		
Interest on long-term debt	**357**	357
Interest on Class B limited partnership units	**50**	45
Debt guarantee fee	**23**	23
Other	**8**	10
	438	435
Interest capitalized during construction	**(297)**	(291)
	141	144
Net finance expense	**109**	92

27. OTHER (INCOME) EXPENSE

For the year ended December 31 (millions of Canadian dollars)	**2020**	2019
Settlement of commodity price swap contracts	**(49)**	2
Other	**12**	16
Other (income) expense	**(37)**	18

28. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

28.1 Fair Value

The estimated fair values of financial instruments as at December 31, 2020 and 2019 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.

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. For assets and liabilities that are recognized at fair value on a recurring basis, Nalcor determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. There were no transfers between Level 1, 2 and 3 during the year ended December 31, 2020 and 2019.

	Level	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
As at (millions of Canadian dollars)		**December 31, 2020**		December 31, 2019	
Financial assets					
Derivative assets	**2**	**3**	**3**	4	4
Sinking funds - investments in Hydro debt issue	**2**	**73**	**88**	63	75
Sinking funds - other investments	**2**	**219**	**279**	211	253
Reserve fund	**2**	**39**	**39**	25	25
Other investments	**2**	**100**	**101**	100	100
Financial liabilities					
Derivative liabilities	**2**	**9**	**9**	9	9
Long-term debt including amount due within one year (before sinking funds)	**2**	**9,718**	**12,543**	9,749	11,576
Class B limited partnership units	**3**	**628**	**628**	578	578
Long-term payables	**2**	**39**	**41**	41	37

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

The fair values of Level 2 financial instruments are determined using quoted prices in active markets, which in some cases are adjusted for factors specific to the asset or liability. Level 2 derivative instruments are valued based on observable commodity future curves, broker quotes or other publicly available data. Level 2 fair values of other risk management assets and liabilities and long-term debt are determined using observable inputs other than unadjusted quoted prices, such as interest rate yield curves and currency rates.

Level 3 financial instruments include Class B limited partnership units.

The Class B limited partnership units are carried at amortized cost calculated using the effective interest rate method. The effective interest rate of 8.5% (2019 – 8.5%) is defined in the Newfoundland and Labrador Development Agreement as Emera NL's rate of return on equity, and is equal to the rate approved by the PUB for privately-owned regulated electrical utilities. Due to the unobservable nature of the effective interest rate and cash flows associated with the units, the fair value is assumed to approximate carrying value and the instruments have therefore been classified as Level 3.

The table below sets forth a summary of changes in fair value of the Class B limited partnership units given a one percent change in the discount rate while holding other variables constant:

(millions of Canadian dollars)	1% Increase	1% Decrease
Class B limited partnership units	(31.3)	30.0

28.2 Risk Management

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

Credit Risk

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

The COVID-19 pandemic has increased the credit risk of the Company, as the potential risk for non-performance of the Company's customers has increased with the current economic slowdown. Nalcor established flexible collection practices when the COVID-19 pandemic was declared for its customers including flexible bill payment arrangements and waiving interest on overdue accounts for residential and general service customers, which is recoverable from the Province. In September 2020, Nalcor returned to its normal customer collections practices, but continues to waive interest on overdue accounts, which is recoverable from the Province. Nalcor is continuing to monitor the risk of non-performance by its customers, as at December 31, 2020 the impact on the Company's expected credit loss allowance is not considered material. Nalcor is continuing to monitor the implications of COVID-19, including the risk of credit losses, pronouncements from governments and regulators and if required, will make adjustments to the expected credit loss allowance in future periods.

Credit risk on cash and cash equivalents is considered to be minimal, as Nalcor's cash deposits are held by a Schedule 1 Canadian Chartered bank with a rating of A+ (Standard and Poor's). Credit risk on restricted cash is considered to be minimal, as Nalcor's restricted cash deposits are held by Schedule 1 Canadian Chartered banks with a rating of A+ to AA- (Standard and Poor's). Restricted cash also includes funds held in trust by solicitors of the Company. Credit risk on short-term investments is minimized by limiting holdings to high-quality, investment grade securities issued by the Federal and Provincial governments, as well as BAs and term deposits issued by Schedule 1 Canadian Chartered banks. The Financial Risk Management Policy as approved by the Board, also restricts the aggregate principal amount of permitted investments issued by a single Canadian Schedule 1 or 2 bank from exceeding 30% of the total principal amount of all investments on a consolidated basis.

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

	Issuer Credit Rating	**Fair Value of Portfolio (%)**	Issuer Credit Rating	Fair Value of Portfolio (%)
	2020		2019	
Provincial governments	**AA-to AAA**	**17.80%**	AA-to AAA	17.86%
Provincial governments	**A -to A+**	**26.75%**	A- to A+	27.22%
Provincially owned utilities	**AA-to AAA**	**26.45%**	AA-to AAA	28.03%
Provincially owned utilities	**A- to A+**	**29.00%**	A- to A+	26.89%
		100.00%		100.00%

Credit exposure on the reserve fund is mitigated by adhering to an investment policy which restricts the holdings to long-term debt instruments issued or guaranteed by the Government of Canada or any province of Canada. Investments in the long-term debt instruments of Canadian banks are also permitted, provided the bank is rated A or higher by Standard and Poor's. With the exception of the Government of Canada, holdings of any one issuer are limited to 10.0% of the total principal amount of the portfolio.

The following credit risk table provides information on credit exposures according to issuer type and credit rating for the reserve fund:

	Issuer Credit Rating	**Fair Value of Portfolio (%)**	Issuer Credit Rating	Fair Value of Portfolio (%)
	2020		2019	
Provincial governments	**A- to A+**	**40.58%**	A- to A+	40.50%
Provincially owned utilities	**AA- to AAA**	**8.26%**	AA- to AAA	8.93%
Provincially owned utilities	**A- to A+**	**6.00%**	A- to A+	4.54%
Schedule 1 Canadian banks	**AA- to AAA**	**18.53%**	AA- to AAA	12.17%
Schedule 1 Canadian banks	**A- to A+**	**26.63%**	A- to A+	33.86%
		100.00%		100.00%

Credit exposure on Nalcor's long-term and short-term investments is considered to be limited as the investments are held by Schedule 1 Canadian Chartered banks and Provincially owned utilities with investment grade ratings of A- or higher (Standard and Poor's). The following credit risk table provides information on long-term and short-term investment credit exposures according to issuer type and credit rating:

	Issuer Credit Rating	**Fair Value of Portfolio (%)**	Issuer Credit Rating	Fair Value of Portfolio (%)
	2020		2019	
Provincial governments	**A- to A+**	**0.20%**	A- to A+	-
Schedule 1 Canadian Banks	**A- to A+**	**99.80%**	A- to A+	100.00%
		100.00%		100.00%

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

Nalcor does not have any significant amounts that are past due and uncollectable, for which a provision has not been recognized as at December 31, 2020.

Liquidity Risk

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

Short-term liquidity for Nalcor and its subsidiaries is mainly provided through cash and cash equivalents on hand, funds from operations, an operating credit facility which Nalcor maintains with its banker, and shareholder contributions. Nalcor maintains a $250.0 million (2019 - $250.0 million) committed revolving term credit facility, with a maturity date of January 31, 2022. There were no amounts drawn on this facility at December 31, 2020 (2019 - $nil). In addition, Hydro has access to a $300.0 million promissory note program and a $200.0 million (2019 - $200.0 million) committed revolving term credit facility. On April 17, 2020, Hydro signed a credit agreement with the Bank of Nova Scotia to establish an additional credit facility in the amount of $300.0 million with a maturity date of April 17, 2021. These two credit facilities are held with its primary banker in order to meet any requirements beyond those forecasted for a given period. Oil and Gas, Energy Marketing and Churchill Falls also maintain demand operating facilities of $30.0 million (2019 - $30.0 million), $20.0 million (2019 - $20.0 million) and $10.0 million (2019 - $10.0 million), respectively. In addition, Churchill Falls maintains a $23.0 million minimum cash balance (2019 - $23.0 million).

Liquidity risk for Muskrat Falls, Labrador Transco, and Labrador Island Link is considered to be minimal due to the prefunded equity reserves held in the respective COREA accounts as instructed in the Project Finance Agreements as well as the equity support guarantees with the Province of Newfoundland and Labrador.

Long-term liquidity risk for Hydro is managed by the issuance of a portfolio of debentures with maturity dates ranging from 2026 to 2048. Sinking funds have been established for these issues, with the exception of the issues maturing in 2045 and 2048.

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

The following are contractual maturities of Nalcor's financial liabilities as at December 31, 2020:

(millions of Canadian dollars)	< 1 Year	1-3 Years	3-5 Years	> 5 Years	Total
Trade and other payables	409	-	-	-	409
Short-term borrowings	262	-	-	-	262
Long-term debt (including sinking funds)	139	420	423	8,713	9,695
Interest and guarantee fees	380	756	750	5,945	7,831
Class B partnership units	-	159	168	3,220	3,547
Long-term payables	6	3	2	36	47
	1,196	1,338	1,343	17,914	21,791

Market Risk

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

Interest Rates

The impact of interest rates on the expected future cash outflows related to short-term borrowings (which includes promissory notes and BAs issued under Nalcor's credit lines) and long-term debt are managed within the corporate financing strategy whereby floating rate debt exposures and interest rate scenarios are forecasted 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 profit or loss resulting from an unexpected change in interest rates.

Foreign Exchange and Commodity Exposure

Nalcor's primary exposure to both foreign exchange and commodity price risk arises from its purchases of No. 6 fuel for consumption at the HTGS, capital purchases, USD denominated electricity sales and the sale of crude oil. For the purchase of No.6 fuel, these risks are mitigated through the operation of the RSP. Exposures to USD denominated electricity sales are addressed in accordance with the Board-approved Financial Risk Management Policy. Tactics include the use of foreign exchange forward contracts and fixed price commodity swaps.

As at December 31, 2020, trade and other receivables included balances of $29.3 million (2019 - $35.9 million) denominated in USD. As at December 31, 2020, trade and other payables included balances of $1.2 million (2019 - $6.1 million) denominated in USD, $0.7 million (2019 - $2.6 million) denominated in Euros and $0.2 million (2019 - $nil) denominated in British Pounds (GBP). Nalcor does not have significant exposure to fluctuations in foreign exchange with respect to its trade and other receivables and trade and other payables.

During 2020, total energy sales denominated in USD were $21.0 million (2019 - $26.3 million). As at December 31, 2020, Energy Marketing had no remaining foreign currency forward contracts or commodity price swap contracts. No hedging was entered into for 2020.

During 2020, total oil sales denominated in USD were $182.3 million (2019 - $227.7 million). To mitigate foreign exchange risk and commodity price risk on a portion of these sales, Oil and Gas used foreign currency forward contracts and fixed price commodity swaps, respectively.

On November 30, 2020 Oil and Gas entered into a series of commodity price swap contracts to hedge commodity price risk on approximately 56% of anticipated 2021 production.

As at December 31, 2020, Oil and Gas has 48 commodity price swaps remaining with a notional value of $89.0 million USD, and an average fixed price of $47.24 USD per barrel. As the contracts have been designated as hedging instruments, changes in fair value have been recorded in other comprehensive income (loss).

During 2020, $48.6 million in realized gains on commodity price swap contracts (2019 - $2.3 million in realized losses) have been recorded in other (income) expense and $8.8 million in unrealized losses (2019 - $8.8 million in unrealized losses) remain in other comprehensive income (loss).

On November 27, 2019 Oil and Gas entered into a series of foreign exchange forward contracts to hedge foreign exchange risk on 50% of anticipated 2020 USD oil sales. At December 31, 2020, one contract remained unsettled with a notional value of $9.3 million USD and a fixed rate of $1.33 CAD per USD.

On November 30, 2020 Oil and Gas entered into a series of foreign exchange forward contracts to hedge foreign exchange risk on 62% of anticipated 2021 USD oil sales.

As at December 31, 2020, Oil and Gas has 13 foreign exchange forward contracts remaining with a notional value of $98.3 million USD (2019 - 13 foreign exchange forward contract with a notional value of $126.8 million), and an average fixed exchange rate of $1.30 CAD per USD (2019 - $1.33 CAD per USD). As the contracts have been designated as hedging instruments, the effective portion of changes in fair value have been recorded in other comprehensive income (loss).

During 2020, $2.0 million in realized losses related to foreign exchange forward contracts (2019 - $0.7 million in realized losses) have been included in other (income) expense and $2.6 million in unrealized gains (2019 - $3.6 million in unrealized gains) remain in other comprehensive income (loss).

During 2020, additional financial transmission rights with notional values of $1.6 million (2019 - $1.5 million) were purchased to mitigate risk on congestion for the remainder of 2020, and a significant portion of 2021 and 2022. As the rights have not been designated as hedging instruments, changes in fair value have been recorded in other (income) expense.

29. RELATED PARTY TRANSACTIONS

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

Related Party	Relationship
The Province	100% shareholder of Nalcor
Churchill Falls	Joint arrangement of Hydro
Hydro-Québec	34.2% shareholder of Churchill Falls
Twin Falls	Joint venture of Churchill Falls
Churchill Falls (Labrador) Corporation Trust	Created by the Province with Churchill Falls as the beneficiary
Oil and Gas Corporation of Newfoundland and Labrador	Wholly-owned subsidiary of the Province
Bull Arm Fabrication Inc.	Wholly-owned subsidiary of Oil and Gas Corporation of Newfoundland and Labrador
Emera Newfoundland and Labrador Island Link Inc.	Limited Partner holding 25 Class B limited partnership units of LIL LP
PUB	Agency of the Province

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. Outstanding balances due to or from related parties are non-interest bearing with no set terms of repayment, unless otherwise stated.

(a) Hydro is required to incur the costs of operations, hearings and application costs of the PUB, including costs of any experts and consultants engaged by the PUB. During 2020, Hydro incurred $1.1 million (2019 - $2.1 million) in costs related to the PUB and has included $0.1 million (2019 - $0.7 million) in trade and other payables.

(b) The Hydro debt guarantee fee paid to the Province for 2020 was $8.6 million (2019 - $8.6 million). Interest paid to the Province on series 1A long-term debt for 2020 was $22.2 million (2019 - $22.2 million).

(c) During 2020, Hydro has purchased $28.0 million (2019 - $28.0 million) of power generated from assets related to Exploits Generation, which are held by the Province. Nalcor operates these assets on behalf of the Province and recovered costs in 2020 of $25.5 million (2019 - $37.6 million).

(d) Hydro recorded $2.3 million (2019 - $2.2 million) as an energy rebate from the Province to offset the cost of basic electricity consumption for Labrador rural isolated residential customers under the Northern Strategic Plan. As at December 31, 2020, there is a balance of $0.2 million (2019 - $0.4 million) outstanding in trade and other receivables.

(e) During 2020, Churchill Falls generated revenue from Hydro-Québec of $95.0 million (2019 - $95.4 million) and Nalcor has recognized its share of $62.5 million (2019 - $62.8 million).

(f) Under the terms of the Churchill Falls (Labrador) Corporation Limited (Lease) Act, 1961 (the Lease) and amendments thereto, Churchill Falls is required to pay the Province an annual rental of 8% of the consolidated net profits before income taxes and an annual royalty of $0.50 per horsepower year generated, as defined in the Lease. At December 31, 2020, $6.5 million (2019 - $6.9 million) was payable to the Province. Nalcor has recognized its share of $4.3 million (2019 - $4.5 million).

(g) During 2020, Nalcor’s shareholder contributed capital in the amount of $nil (2019 - $383.5 million) in relation to capital expenditures.

(h) During 2020, Oil and Gas expensed $26.8 million (2019 - $39.3 million) to the Province for royalties on its oil and gas operations.

(i) As at December 31, 2020, Oil and Gas had a net receivable from Bull Arm Fabrication of $3.3 million (2019 - $2.8 million).

(j) As at December 31, 2020, Oil and Gas had a net receivable from the Oil and Gas Corporation of Newfoundland and Labrador of $2.5 million (2019 - $nil).

(k) During 2020, Oil and Gas was charged $4.2 million (2019 - $nil) by Oil and Gas Corporation of Newfoundland and Labrador for management services.

29.1 Key Management Personnel

Compensation for key management personnel, which Nalcor defines as its executives who have the primary authority and responsibility in planning, directing and controlling the activities of the entity, includes compensation for senior executives. Salaries and employee benefits include base salaries, performance contract payments, vehicle allowances and contributions to employee benefit plans. Post-employment benefits include contributions to the Province's Public Service Pension Plan.

For the year ended December 31 (millions of Canadian dollars)	**2020**	2019
Salaries and employee benefits	**8**	8
Post-employment benefits	**1**	1
	9	9

30. COMMITMENTS AND CONTINGENCIES

(a) Nalcor and its subsidiaries are subject to legal claims with respect to power delivery, construction, impact on land use and other various matters. For some legal claims, it is not possible at this time to predict with any certainty the outcome of such litigation. Should these claims result in an unfavourable outcome for the Company, they may have a significant adverse effect on the Company's financial position. Management has not disclosed the ranges of possible outcomes due to the potentially adverse effect on the Company's position with respect to a claim.

(b) Outstanding commitments for capital projects, excluding those related to Oil and Gas, total approximately $214.8 million as at December 31, 2020 (2019 - $208.3 million). Under the terms of the MF/LTA PFA and the LIL PFA, the Project is required to fund $347.9 million during 2021.

(c) Nalcor and its subsidiaries have issued 18 irrevocable letters of credit with a total value of $33.7 million as per Note 15.1.

(d) Oil and Gas has the following capital and operating commitments as a result of its joint venture partnerships:

(millions of Canadian dollars)	Total Commitments
2021	14.9
2022	8.2
2023	5.6
2024	5.2
2025	5.2
Thereafter	12.6

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

Type	Rating	Effective Date	Term
Hydroelectric	3 MW	1995	25 years*
Hydroelectric	4 MW	1998	25 years
Cogeneration	15 MW	2003	20 years
Wind	390 kW	2004	Continual
Wind	27 MW	2008	20 years
Wind	27 MW	2009	20 years
Wind	300 kW	2010	Continual
Hydroelectric	175 kW	2019	15 years
Biomass	450 kW	2018	1 year post in-service of Muskrat Falls in-service date

* This agreement is currently in discussion for renewal

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

(millions of Canadian dollars)	2021	2022	2023	2024	2025
Power purchases	30.0	30.1	19.3	18.4	18.3

(f) In 2014, Hydro entered into three Capacity Assistance Agreements, one with Vale Newfoundland & Labrador Limited (Vale) and two with Corner Brook Pulp and Paper Limited (CBPP) for the purchase of relief power during the winter period. In February 2019, Hydro entered into a revised agreement with CBPP that expires the earlier of April 30, 2022 or the commissioning of the Muskrat Falls plant. In December 2020, Hydro entered into a revised agreement with Vale that expires in March of 2021. Payment for services will be dependent on the successful provision of capacity assistance for the winter period by Vale and CBPP.

(g) Energy Marketing holds firm transmission rights with a number of counterparties in order to gain additional access to export markets. As at December 31, 2020, commitments for firm transmission rights to third parties totaled \$8.1 million (2019 - \$5.6 million).

(h) Hydro holds firm transmission rights with Hydro Québec TransÉnergie which concludes in 2024.

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

2021	\$20.6 million
2022	\$20.8 million
2023	\$21.0 million
2024	\$5.3 million

(i) As part of the LIL PFA, LIL LP has pledged its current and future assets as security to the Collateral Agent. Under the terms and conditions of the IT PFA, LIL LP has also provided a guarantee of the IT's payment obligations to the Collateral Agent for the benefit of the LIL Funding Trust. LIL Holdco has pledged the escrow account, where pre-funded equity contributions have been deposited, as security to the Collateral Agent.

(j) As part of the MF/LTA PFA, Muskrat Falls and Labrador Transco have pledged its present and future assets as security to the Collateral Agent.

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

(l) In July 2012, Nalcor entered into the Energy and Capacity Agreement with Emera NL providing for the sale and delivery of the Nova Scotia Block, being 0.986 TWh of energy annually for a term of 35 years. In October 2015 Nalcor assigned this agreement to Muskrat Falls. As a result of this assignment, Nalcor and Muskrat Falls are jointly liable for the delivery of the Nova Scotia Block to Emera.

(m) Under the IBA, Nalcor is required to make implementation payments to the Innu Nation that commenced upon sanction of the Muskrat Falls plant of $5.0 million annually escalating by an annual consumer price index. Post first commercial power, when Nalcor begins earning revenue from the sale and delivery of capacity and energy from the facility, Nalcor is required to continue to make annual payments of the greater of $5.0 million escalating by an annual consumer price index and 5% of after debt net cash flow, as defined by the agreement.

31. SUPPLEMENTARY CASH FLOW INFORMATION

For the year ended December 31 (millions of Canadian dollars)	**2020**	2019
Trade and other receivables	**77**	194
Prepayments	**-**	7
Inventories	**12**	(13)
Trade and other payables	**(28)**	(52)
Changes in non-cash working capital balances	**61**	136
Related to:		
Operating activities	**32**	(13)
Investing activities	**29**	149
	61	136

32. SEGMENT INFORMATION

The operating structure as at December 31, 2020 is comprised of five business segments. The designation of segments is based on a combination of regulatory status and management accountability. The following summary provides a brief overview of the nature of the operations included in each of the Company's operating segments.

Hydro – is comprised of both regulated and non-regulated activities.

- **Hydro Regulated** activities encompass sales of electricity to customers within the Province that are regulated by the PUB.
- **Hydro Non-Regulated** activities include the sale of power to mining operations in Labrador West as well as costs related to operations that Hydro manages that are not subject to rate regulation by the PUB.

Power Development – is comprised of the following:

- **Muskrat Falls** includes the 824MW hydroelectric generating facility currently under construction in Labrador on the Lower Churchill River. Once construction is complete this asset and its operating results will become part of the Power Supply segment.
- **Other** includes costs associated with other ongoing and potential future power development activities, such as costs and assets associated with Gull Island.

Power Supply – is comprised of the following:

- **LCP Transmission** includes the construction and operation of the LIL and LTA, which consists of transmission lines connecting the Muskrat Falls Generating Facility, the Churchill Falls Generating Plant, and certain portions of the transmission system in Labrador to the island of Newfoundland.
- **Churchill Falls** owns and operates a hydroelectric generating facility which sells electricity to Hydro-Québec and Hydro.
- **Energy Trading** includes energy trading and commercial activities related to securing and optimizing markets to extract the greatest value from Nalcor's existing generation resources through the participation in export electricity markets.
- **Other** includes revenues and costs recovered from Hydro-Québec associated with Nalcor's operation of the Menihek Generating Station, the Maritime Link (which is owned by Emera Inc. but consolidated by Nalcor), costs related to Power Supply management and administration, and community development costs related to Power Supply, and costs associated with the management of LCP construction.

Oil and Gas – includes Nalcor's share of exploration, development, production, transportation and processing sectors of the oil and gas industry.

Corporate – includes corporate support, business development and shared services functions.

	Hydro		Power Development		Power Supply							
(millions of Canadian dollars)	Regulated	Non-Regulated	Muskrat Falls	Other	LCP Transmission	Churchill Falls	Energy Trading	Other	Oil and Gas	Corporate	Inter-Segment	Total
	For the year ended December 31, 2020											
Energy sales	557	50	-	-	4	94	29	-	216	-	(37)	913
Other revenue	6	-	-	-	-	-	-	8	-	-	3	17
Revenue	563	50	-	-	4	94	29	8	216	-	(34)	930
Fuels	158	-	-	-	-	-	-	-	-	-	-	158
Power purchased	75	43	-	-	-	-	4	-	-	-	(31)	91
Operating costs	135	1	2	-	6	38	5	6	4	12	2	211
Production, marketing and transportation costs	-	-	-	-	-	-	-	-	38	-	1	39
Transmission rental	1	-	4	-	-	-	24	-	-	-	(3)	26
Depreciation, depletion, amortization and impairment	79	-	-	-	-	21	-	1	330	5	1	437
Net finance expense (income)	90	-	-	-	22	(1)	-	-	3	(3)	(2)	109
Other expense (income)	4	-	-	-	1	6	1	-	(47)	-	(2)	(37)
Preferred dividends	-	-	-	-	-	(3)	-	-	-	-	3	-
Expenses	542	44	6	-	29	61	34	7	328	14	(31)	1,034
Profit (loss) for the year before regulatory adjustments	21	6	(6)	-	(25)	33	(5)	1	(112)	(14)	(3)	(104)
Regulatory adjustments	(15)	-	-	-	-	-	-	-	-	-	1	(14)
Profit (loss) for the year from continuing operations	36	6	(6)	-	(25)	33	(5)	1	(112)	(14)	(4)	(90)
Capital expenditures*	90	-	434	-	245	42	-	9	37	2	(4)	855
Total assets**	2,780	9	6,588	140	5,987	683	29	1,846	946	434	(135)	19,307
Total debt***	1,854	-	3,697	-	4,806	-	-	-	-	-	-	10,357

*Capital expenditures (inclusive of property, plant and equipment and intangible assets) include non-cash additions of $6.2 million related to the Maritime Link, $49.7 million related to Class B Limited Partnership Unit accrued interest, and $247.6 million of interest capitalized during construction.

**Total assets include $1,784.5 million related to the Maritime Link and $218.4 million related to Class B Limited Partnership Unit accrued interest.

***Total debt includes short-term borrowings, long-term debt including current portion less Hydro's sinking funds of $182.6 million, Class B Limited Partnership Units, and lease liabilities.

(millions of Canadian dollars)	Hydro		Power Development		Power Supply							
	Regulated	Non-Regulated	Muskrat Falls	Other	LCP Transmission	Churchill Falls	Energy Trading	Other	Oil and Gas	Corporate	Inter-Segment	Total
	For the year ended December 31, 2019											
Energy sales	608	44	-	-	-	94	36	-	264	-	(30)	1,016
Other revenue	5	(1)	-	-	-	-	-	10	4	-	4	22
Revenue	613	43	-	-	-	94	36	10	268	-	(26)	1,038
Fuels	217	-	-	-	-	-	-	-	-	-	-	217
Power purchased	84	42	-	-	-	-	6	-	-	-	(30)	102
Operating costs	136	5	1	-	7	39	5	8	6	19	-	226
Production, marketing and transportation costs	-	-	-	-	-	-	-	-	36	-	-	36
Transmission rental	1	-	-	-	-	-	25	-	-	-	-	26
Depreciation, depletion and amortization	83	-	-	-	-	20	-	-	90	3	1	197
Exploration and evaluation	-	-	-	-	-	-	-	-	33	-	-	33
Net finance expense (income)	91	(1)	-	-	6	(1)	-	-	2	(5)	-	92
Other expense	8	-	-	-	-	4	-	-	5	-	1	18
Preferred dividends	-	-	-	-	-	(3)	-	-	-	-	3	-
Expenses	620	46	1	-	13	59	36	8	172	17	(25)	947
(Loss) profit for the year before regulatory adjustments	(7)	(3)	(1)	-	(13)	35	-	2	96	(17)	(1)	91
Regulatory adjustments	(37)	-	-	-	-	-	-	-	-	-	1	(36)
Profit (loss) for the year from continuing operations	30	(3)	(1)	-	(13)	35	-	2	96	(17)	(2)	127
Capital expenditures*	129	-	653	-	286	44	-	36	73	5	(3)	1,223
Total assets**	2,735	11	6,556	140	5,969	647	20	1,835	1,234	291	(98)	19,340
Total debt***	1,843	-	3,696	-	4,789	-	-	1	-	-	-	10,329

*Capital expenditures (inclusive of property, plant and equipment and intangible assets) include non-cash additions of $28.0 million related to the Maritime Link, $45.3 million related to Class B Limited Partnership Unit accrued interest, and $245.6 million of interest capitalized during construction.

**Total assets include $1,778.3 million related to the Maritime Link and $169.1 million related to Class B Limited Partnership Unit accrued interest less $1.0 million related to Bull Arm Fabrication.

***Total debt includes short-term borrowings, long-term debt including current portion less Hydro's sinking funds of $174.0 million, Class B Limited Partnership Units, and lease liabilities.

33. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform to the basis of presentation adopted during the current reporting period. Specifically, reserve fund and sinking fund investments, previously reported in other long-term assets, have been presented with investments.

Consolidated Statement of Financial Position

As at December 31, 2019 (millions of Canadian dollars)	As previously reported	Adjustment	**Reclassified 2019**
Non-current assets			
Right-of-use assets	6	(6)	-
Investments	100	234	**334**
Other long-term assets	236	(228)	**8**

34. SUBSEQUENT EVENT

On March 1, 2021 First Redetermination under the HSE Operating Agreement became effective, resulting in a reduction in Nalcor's working interest in the HSE field from 10% to 8.7%. The impact of the decrease in working interest will include a historical true-up of production and capital costs, as well as reduced future revenue through a reduction in volume entitlement, partially offset by a decrease in royalties, production and capital costs.

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