

JUN 3 0 2022

**Ms. Sandra Barnes**  
Clerk of the House of Assembly  
House of Assembly  
P.O. Box 8700  
St. John's, NL  
A1B 4J6

Dear Ms. Barnes:

In accordance with section 16 of the **Transparency and Accountability Act**, I wish to issue a statement concerning the enclosed 2021 Annual Performance Report for Nalcor Energy (Nalcor) and Newfoundland and Labrador Hydro (Hydro).

In June 2021, Government announced that Nalcor's operations would move under Hydro. While Nalcor operations have effectively moved under Hydro in a streamlined executive structure, they currently remain separate legal entities under the **Energy Corporation Act** and the **Hydro Corporation Act, 2007**, and are categorized entities in accordance with the **Transparency and Accountability Act**. In consideration of the June 2021 announcement, the Boards of Directors of Nalcor and Hydro have consolidated the performance reporting into a single report that provides full transparency into the operations of both entities now operating as a single organization.

Sincerely,

  
**ANDREW PARSONS, QC**  
Minister of Industry, Energy and Technology

# **Nalcor Energy and Newfoundland and Labrador Hydro**

Transparency and Accountability

2021 Annual Performance Report

June 2022

## Message from the Boards of Directors

Honourable Andrew Parsons  
Minister of Industry, Energy and Technology  
Government of Newfoundland and Labrador  
P.O. Box 8700  
St. John's, NL  
A1B 4J6

Dear Minister Parsons:

In accordance with the **Transparency and Accountability Act**, I am pleased to provide the 2021 Annual Performance Report for Nalcor Energy (“Nalcor”) and Newfoundland and Labrador Hydro (“Hydro”), on behalf of the Boards of Directors for both entities.

In June 2021, the Government of Newfoundland and Labrador (“Province”) announced that Nalcor’s operations would move under Hydro. As such, we have determined it is appropriate to consolidate our performance reporting into a single document which provides full transparency into the operations of both entities which are now operating as a single organization.

The previously submitted 2020-2022 Strategic Plans for Nalcor and Hydro are in line with the applicable strategic directions of the Province in relation to the energy sector, as communicated by the Minister of Industry, Energy and Technology.

This report presents performance results and accomplishments for the 2021 calendar year for both Nalcor and Hydro and is the year two report under both entities’ respective 2020-2022 Strategic Plans.

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



John Green,  
Chair (Acting), Board of Directors of  
Nalcor Energy  
Chair, Board of Directors of  
Newfoundland and Labrador Hydro

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## 1.0 OVERVIEW

As of December 31, 2021, Nalcor Energy (“Nalcor”) and Newfoundland and Labrador Hydro (“Hydro”) are Crown Corporations that exist as category 1 public bodies and are therefore required to submit three-year strategic plans in accordance with the **Transparency and Accountability Act**. Likewise, they are required to provide annual performance reports with respect to the three-year strategic plans.

On June 23, 2021, the Government of Newfoundland and Labrador (“Province”) announced that Nalcor operations would move under Hydro.<sup>1</sup> As such, this 2021 Transparency and Accountability Performance Report is being provided on behalf of both Nalcor and Hydro. For clarity, within this report the use of “Hydro” and “Nalcor” is in reference to the entities of Newfoundland and Labrador Hydro and Nalcor Energy, respectively. Use of the “Organization” is in reference to the integrated company which publicly operates under the Newfoundland and Labrador Hydro brand but is responsible for the operations of all Nalcor and Hydro entities, in accordance with the direction of the Province.

### 1.1 Mandates

The mandates of both Nalcor and Hydro are established in legislation. They render the Organization responsible for the provision of electricity within Newfoundland and Labrador and the development of provincial energy resources in a manner that supports the economic prosperity of Newfoundland and Labrador. The specific mandates for each entity are further described in the sections that follow.

#### 1.1.1 Nalcor Energy

Nalcor’s mandate, established under the **Energy Corporation Act**,<sup>2</sup> is to invest in, engage in and carry out activities in all areas of the energy sector in the province and elsewhere, in accordance with the priorities of the Province, including:

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

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<sup>1</sup> Press Release, June 23, 2021, “Premier Furey and Minister Parsons Announce Nalcor Operations Moving Under Newfoundland and Labrador Hydro.”

<sup>2</sup> **Energy Corporation Act**, Section 5(1).

- Research and development.

The corporation may also engage in activities that the Lieutenant-Governor in Council may approve.<sup>3</sup>

### 1.1.2 Newfoundland and Labrador Hydro

The **Hydro Corporation Act, 2007**<sup>4</sup> mandates Hydro to be responsible for:

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

The corporation may also engage in activities that the Lieutenant-Governor in Council may approve.<sup>5</sup>

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<sup>3</sup> **Energy Corporation Act**, Section 5(2).

<sup>4</sup> **Hydro Corporation Act, 2007**, Section 5(1).

<sup>5</sup> **Hydro Corporation Act, 2007**, Section 5(2).

## 1.2 Legal Structure

Nalcor's legal structure at December 31, 2021 included the entities listed in Table 1.

**Table 1: Legal Structure<sup>6</sup>**

Entity Name	Description of Interest
Newfoundland and Labrador Hydro	Wholly-owned subsidiary
Nalcor Energy – Oil and Gas Inc. <sup>7</sup>	Wholly-owned subsidiary
Nalcor Energy Marketing Corporation	Wholly-owned subsidiary
Muskrat Falls Corporation	Wholly-owned subsidiary
Labrador Transmission Corporation	Wholly-owned subsidiary
Labrador-Island Link Holding Corporation	Wholly-owned subsidiary
Labrador-Island Link Limited Partnership	Limited partnership in which Nalcor, through LIL <sup>8</sup> Holdco, owns 100 per cent of the 75 Class A and 1 Class C partnership unit and, through LIL GP, 1 General Partner Unit
Labrador-Island Link General Partner Corporation	Wholly-owned subsidiary
Labrador-Island Link Operating Corporation	Wholly-owned subsidiary
Lower Churchill Management Corporation	Wholly-owned subsidiary
Churchill Falls (Labrador) Corporation Limited	65.8 per cent owned joint operation of Hydro
Twin Falls Power Corporation Limited	33.3 per cent owned joint venture of Churchill Falls
Gull Island Power Corporation	Wholly-owned subsidiary (inactive)
Lower Churchill Development Corporation	51 per cent owned subsidiary of Hydro (inactive)

<sup>6</sup> Labrador-Island Link General Partner (2021) Corporation and Labrador-Island Link Holding (2021) Corporation were incorporated in 2022 and as a result not shown above which reflects the structure as of December 31, 2021.

<sup>7</sup> In 2019, a stand-alone Crown Corporation (i.e., OilCo) was established to work directly with the Department of Industry, Energy and Technology to accelerate growth opportunities in the petroleum industry. Nalcor Oil and Gas will continue to hold ownership of existing equity interests and has transitioned to a supporting role in the management of these assets. The new corporation is a category 1 entity and has prepared its own three-year strategic plan in compliance with the **Transparency and Accountability Act**. As such, it will also table separate annual reports.

<sup>8</sup> Labrador-Island Link ("LIL").

### 1.3 Business Segments

The Organization is the primary generator of electricity in Newfoundland and Labrador and its activities support the fulfillment of the Province’s strategic direction for the energy sector. The Organization is comprised of regulated and non-regulated operations, as well as support services.

The regulated portion of the Organization is primarily responsible for the provision of safe, reliable and least-cost electricity supply to meet current energy needs in province and accommodate future growth. This portion of the Organization is regulated by the Newfoundland and Labrador Board of Commissioners of Public Utilities (“PUB”) and its electricity rates are set through periodic general rate applications. Its primary activities include the generation, transmission and distribution of electrical power and energy to utility, residential and commercial customers, as well as island industrial customers.<sup>9</sup>

The non-regulated portion of the business is responsible for the operations and development of other provincial energy resources. This includes the Muskrat Falls Project assets,<sup>10</sup> Churchill Falls (Labrador) Corporation,<sup>11</sup> the Menihek Generating Station and the Maritime Link.<sup>12</sup> The non-regulated portion of the business is also responsible for Nalcor’s interest in the province’s oil and gas developments<sup>13</sup> and the energy trading activities undertaken by Nalcor Energy Marketing (“NEM”).

The Organization is supported by a common set of corporate services. Costs associated with these services are shared between the regulated and non-regulated components of the business. This includes services such as finance and accounting, corporate planning and reporting, corporate communications, public affairs and shareholder relations, information management,

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<sup>9</sup> Energy sales to industrial customers in Labrador are non-regulated. Such rates are set in accordance with the Labrador Industrial Rates Policy.

<sup>10</sup> Includes 824 MW hydroelectric generating facility, Labrador Transmission Assets and Labrador-Island Link.

<sup>11</sup> Churchill Falls is one of the largest underground hydroelectric powerhouses in the world, with a rated capacity of 5,428 MW. The majority of electricity produced by the Churchill Falls Generating Station is sold to Hydro-Québec under long-term contract; however, Churchill Falls sells 225 MW to Hydro for use in Labrador West and 300 MW of energy for use in the province. Any surplus Recapture energy (energy that is surplus to Newfoundland and Labrador’s needs) which is not used by Hydro is made available to Nalcor Energy Marketing (“NEM”) for export.

<sup>12</sup> The Maritime Link is owned by NSP Maritime Link Inc., a wholly-owned subsidiary of Emera Newfoundland & Labrador Holdings Inc. and an affiliate of Nova Scotia Power.

<sup>13</sup> Nalcor Oil and Gas is an equity partner in three offshore fields: White Rose, Hibernia Southern Extension and Hebron. A new Oil and Gas Corporation (“OilCo”) was created by legislation and manages these interests on behalf of Nalcor Oil and Gas. Exploration of new oil and gas and any new ownership interests in Newfoundland and Labrador’s offshore will be undertaken by OilCo.



human resources, safety, environment, and business development.

Further information on Nalcor’s business segments and Hydro’s line of business are provided in Appendix A.

#### 1.4 Number of Employees and Physical Location

The Organization’s headquarters is located in St. John’s, Newfoundland and Labrador. Appendix B provides an overview of the Organization’s energy portfolio, which has assets located throughout the province.

In November 2021, the Organization announced a new, streamlined executive structure that reduced the executive leadership team from 18 positions down to 11, including the CEO. The revisions to the executive leadership team were made in support of the Province’s June 23, 2021 announcement to move Nalcor operations under Hydro. Further work will continue through 2022 to ensure the organization is structured appropriately to be an efficient utility that best serves the people of the province.

In 2021, the Organization had 1,508 employees, almost 70 per cent of whom are located in rural parts of the island and Labrador. In 2021, the gender composition of the Organization’s employee group was 72 per cent male and 28 per cent female. Table 2 provides an overview of the composition of the Organization’s employees as of December 31, 2021.

**Table 2: 2021 Overview of the Organization’s Employees**

<b>Gender</b>	<b>Rural</b>	<b>Urban</b>	<b>Total</b>	<b>Per cent</b>
Female	194	234	428	28%
Male	813	267	1,080	72%
<b>Total</b>	1,007	501	1,508	
<b>Per cent</b>	67%	33%		

Of the 1,508 employees of the Organization, approximately 60% (911) were employed by Hydro. Table 3 provides an overview of the composition of Hydro’s employees<sup>14</sup> as of December 31, 2021.

<sup>14</sup> Includes regulated and non-regulated employees.

**Table 3: 2021 Overview of Hydro Employees**

Gender	Rural	Urban	Total	Per cent
Female	73	130	203	22%
Male	524	184	708	78%
<b>Total</b>	597	314	911	
<b>Per cent</b>	66%	34%		

The Organization is executing a multi-year action plan to support diversity and inclusion. In addition to target setting, the Organization is committed to implementing diversity and inclusion strategies to attract, recruit, develop and retain members of designated groups including Indigenous peoples, persons with disabilities and members of visible minorities. The Organization has also reviewed recruitment and talent management processes through a diversity and inclusion lens. Such efforts have contributed to an increase in the Organization's percentage of female employees from 22% in 2011 to 28% in 2021.

## 1.5 Board of Directors

As Nalcor and Hydro remain separate legal entities, each entity maintains a separate Board of Directors. The composition of the Boards of Directors as of December 31, 2021 was as follows.

### **Hydro**

John Green, Q.C., Chair  
Donna Brewer  
Chris Loomis  
Jennifer Williams  
Brendan Paddick (on leave)  
David Oake  
Fraser Edison  
John Mallam  
Brian Walsh  
Trina Troke

### **Nalcor**

Brendan Paddick, Chair (on leave)<sup>15</sup>  
John Green, Q.C., Chair (Acting)  
Geoff Goodyear  
Jack Hillyard  
Mark MacLeod  
Jennifer Williams  
Debbie Molloy  
David Oake  
Derek Purchase  
Dr. Edna Turpin, ICD.D

<sup>15</sup> On leave of absence as of September 4, 2020 and resigned in 2022.

## 1.6 2021 Consolidated Revenues and Expenses

### 1.6.1 Nalcor Energy

In 2021, Nalcor had revenues of \$1.013 billion. The majority of Nalcor's revenues are currently generated from electricity sales from Hydro and petroleum sales in oil and gas. The majority of Nalcor's expenses relate to operating costs (24%), fuels and power purchases (22%), and depreciation, depletion, amortization and impairment (21%). Table 4 summarizes the consolidated revenue and expenses of Nalcor for the year ended December 31, 2021. The 2021 consolidated financial statements for Nalcor are provided as Appendix C to this report.

**Table 4: Nalcor Energy Consolidated Revenue and Expenses 2021**

<i>For the year ended December 31 (millions of dollars)</i>	\$	%
Energy sales	976	96
Other revenue	37	4
<b>Revenue</b>	<b>1,013</b>	
Fuels	122	13
Power purchased	80	9
Operating costs	230	24
Production, marketing and transportation costs	31	3
Transmission rental	24	3
Depreciation, depletion, amortization and impairment	202	21
Net finance expense	127	13
Other expense	157	17
Regulatory adjustments	(33)	(4)
Share of loss of joint arrangement	1	0
<b>Expenses</b>	<b>941</b>	
<b>Profit for the year</b>	<b>72</b>	

### 1.6.2 Newfoundland and Labrador Hydro

In 2021, Hydro had revenues of \$713 million. The majority of Hydro's revenues are from regulated energy sales to utility, rural and industrial customers with other revenues including preferred dividends from Hydro's subsidiary Churchill Falls. Consolidated energy sales also include Hydro's share of Churchill Falls sales to Hydro Québec as well as sales of recall power. In 2021, Hydro's total profit for the year was \$91 million. This consisted of \$36 million from Hydro Regulated, \$52 million from Churchill Falls, and \$3 million from non-regulated activities.

Table 5 summarizes Hydro's 2021 consolidated revenue and expenses. The 2021 consolidated financial statements for Hydro are provided as Appendix D to this report.

**Table 5: Newfoundland and Labrador Hydro Consolidated Revenue and Expenses 2021**

<i>For the year ended December 31 (millions of dollars)</i>	(\$)	%
Energy sales	656	92
Other revenue	57	8
<b>Revenue</b>	<b>713</b>	
Fuels	122	19
Power purchased	138	21
Operating costs	169	26
Transmission rental	21	3
Depreciation and amortization	105	16
Net finance expense	90	14
Other expense	9	1
<b>Expenses</b>	<b>654</b>	
Share of loss of joint arrangement	1	
<b>Profit before regulatory adjustments</b>	<b>58</b>	
Regulatory adjustments	(33)	
<b>Profit for the year</b>	<b>91</b>	
Items related to employee future benefits	17	
Net fair value (loss) gain on financial instruments	(1)	
<b>Other comprehensive income for the year</b>	<b>16</b>	
<b>Total comprehensive income for the year</b>	<b>107</b>	

## **2.0 HIGHLIGHTS AND PARTNERSHIPS**

The Organization works with a variety of agencies, departments and commissions to execute its mandates. During 2021, the Organization worked closely with each of these organizations in support of the strategic directions of the Province related to the energy sector.

### **2.1 Department of Industry, Energy and Technology**

The Organization worked with the Department of Industry, Energy and Technology to support policy-related considerations for the energy sector, the Muskrat Falls Oversight Committee, as well as specific corporate strategic issues outlined in the Organization's strategic plan.

On February 10, 2020, the provincial and federal governments announced a plan to negotiate a financial restructuring of Lower Churchill Project ("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 is supported by resources from the Organization and the Province. On July 28, 2021, Prime Minister Justin Trudeau and the Premier of Newfoundland and Labrador, Andrew Furey, announced an agreement in principle for the financial restructuring of the LCP. The agreement in principle will contribute to a long-term, sustainable financial base for the Project and reduce the cost of financing, providing more certainty for people and businesses. It provided \$2 billion in federal financing, including a \$1 billion investment in the province's portion of the Projects' Labrador-Island Link and a federal loan guarantee of \$1 billion for the Projects' Muskrat Falls and Labrador Transmission Assets. In 2021, the Organization worked with the Department of Industry, Energy and Technology, the Office of the Executive Council and the Department of Finance to support rate mitigation efforts. This work continued into 2022.

The Prime Minister also announced that the Government of Canada is prepared to make annual transfers to the Province equivalent to Canada's yearly net revenue from the Hibernia offshore oil project Net Profit Interest ("NPI") and Incidental Net Profit Interest ("INPI"), which current estimates indicate will total \$3.2 billion by the end of the Hibernia project's life. As of December 31, 2021, work was ongoing to finalize this agreement.

In December 2021, the Province announced its Renewable Energy Plan. The Organization worked with the Province on its development and will continue to work with the Province with respect to a number of actions outlined throughout the plan, including: public education

regarding renewable resources; creation of an Independent Power Producer Policy for diesel-generated electricity systems in remote communities; encouraging renewable energy integration in remote communities; increasing electrification of vehicles and oil-fueled space heating; establishing renewable energy working groups to meet with interested Indigenous Governments and Organizations; financial evaluation of new renewable energy projects; and exploring federal investment opportunities to enhance the provincial electrical system. Hydro will partner with IET in a number of areas, including: expanding the province's electric vehicle charging infrastructure; identifying opportunities to increase the efficiency of the province's electricity system, to maximize the use and benefit of developed renewable energy; and pursuing opportunities to address 'minimum load variation' challenges in isolated diesel-systems, and to encourage renewable energy integration in these systems.

On behalf of the Department, the Organization also delivered rebates to residential customers in isolated diesel systems in Labrador through a monthly credit on their electricity bills. Hydro had frequent discussions with the Department for the provision of information related to electricity rates, updates on the implementation of the Network Additions Policy, and the Department was provided all applications filed with the PUB.

## **2.2 Department of Finance and Treasury Board**

The Organization worked with the Department of Finance to address requirements related to financial structure, financial forecasts, as well as on lending financing for the Organization's debt financing activities. The Organization's financing forecasts and equity requirements are examples of interactions between the department and the Organization in 2021. In addition, the Organization presented its annual budget and long-term financial plan to Treasury Board.

The Organization also worked with the Department of Finance to address requirements related to financial policy including capital structure, dividend policy and legislative debt caps as well as the corporation's debt financing activities. In April 2021, the Province issued \$300 million of long-term debt specifically on Hydro's behalf and lent the proceeds to Hydro on identical terms and conditions.<sup>16</sup> The proceeds have been disbursed primarily to retire outstanding short-term debt and repay the accrued interest on the Series 2A Debenture. The balance of the proceeds is to be used to fund items such as debt service, supply costs, ongoing capital, and operation and maintenance costs.

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<sup>16</sup> Hydro received PUB approval for the borrowings in Board Order No. P.U. 40(2020).

## 2.3 Newfoundland and Labrador Board of Commissioners of Public Utilities

The PUB is responsible for regulatory oversight of Hydro's regulated utility activities. This responsibility covers a wide range of activities including approval of: revenue requirements and the allocation of the revenue requirements among customer classes; rates; open access transmission tariffs and policies; rate structures; collection policies; policies on customer contribution requirements for the provision of service; long-term debt financing; system planning criteria; capital expenditures and capital budget application guidelines. The role of the PUB is detailed in the **Public Utilities Act** and the **Electrical Power Control Act, 1994**.

In addition to a substantial volume of regular, ongoing reporting, the Organization advanced regulatory proceedings impacting cost recovery, reliability and resource adequacy, capital investment, and electrification during 2021.

From a cost recovery perspective, in 2021, the Organization continued activities to support the continued preparation for the integration of the Muskrat Falls Project assets, including the proposal and approval for new deferral accounts to capture costs associated with Muskrat Falls Project costs.<sup>17</sup> The Organization also applied for and received approval for recovery of approximately \$55 million in deferred 2020 supply costs.<sup>18</sup>

From a supply adequacy perspective, the Organization continued to advance the regulatory proceeding related to supply adequacy for the provincial electricity system, helping to inform future decisions related to system reliability, long-term supply and back-up requirements.<sup>19</sup> Additionally, in March 2021, the Labrador Network Additions Policy was approved.<sup>20</sup> This policy guides the process for allocating costs associated with future transmission investments on the Labrador Interconnected System.<sup>21</sup>

From a capital investment perspective, in 2021, the Organization applied to the PUB for approval of its 2022 Capital Budget Application and received approval to proceed with \$84.2 million of capital work in 2022.<sup>22</sup> It also applied to construct the first phase of a three-phase plan for long-term supply in southern Labrador. The proceeding to review the \$49.9 million proposal remains ongoing in 2022. Additionally, in December 2021, the PUB provided

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<sup>17</sup> Approved in Board Order No. P.U. 33(2021).

<sup>18</sup> Approved in Board Order No. P.U. 15(2021).

<sup>19</sup> This regulatory proceeding, the Reliability and Resource Adequacy Review, will continue through 2022.

<sup>20</sup> Approved in Board Order No. P.U. 7(2021).

<sup>21</sup> Implementation of the Labrador Network Additions Policy will continue through 2022.

<sup>22</sup> Approved in Board Order No. P.U. 37(2021).

provisionary Capital Budget Guidelines which outline changes in regulatory requirements for the Organization's future capital applications. Implementation of the new guidelines is expected to take place over several years.

Activities to advance electrification initiatives in the province continued in 2021. The Organization applied for, and received approval of, capital investment to expand the fast-charging network for electric vehicles across the province<sup>23</sup> as part of its application for approvals required to execute the programming identified in the Five-Year Plan for Electrification and Conservation and Demand Management. The proceeding for approval of the Organization's application remains ongoing as of the time of publishing this report.

## **2.4 Other Departments/Public Bodies**

The Organization also shared commitments with the Department of Environment and Climate Change, Department of Fisheries, Forestry and Agriculture, Digital Government and Service NL, Office of Indigenous Affairs and Reconciliation, as well as the federal Departments of Fisheries and Oceans and Environment and Climate Change Canada in relation to the environmental aspects of the corporation's activities.

In 2021, the Organization continued to engage with the Department of Environment and Climate Change to demonstrate compliance with the requirements of the Environmental Assessment releases for the Muskrat Falls hydroelectric generating project and the Labrador Island Transmission Link. Provincial and federal departments were also engaged to ensure all necessary approvals and permits are in place for new assets and for the Organization's ongoing operations. The Organization also engaged with the Climate Change Division of the Department of Environment and Climate Change to support the Province's commitment to a low-carbon economy. The Organization was also a participant in many federal level working groups with Water Power Canada and Electricity Canada that engaged with the Federal Government on regulatory requirements.

Working with the Department of Environment and Climate Change and the Department of Finance, the Organization also administered three electrification, conservation and demand management programs on behalf of the Province, including: the Low Carbon Economy Leadership Fund Program which delivered insulation and thermostat rebates to oil-heated customers; the Electric Vehicle Rebate Program which offered rebates towards the purchase of electric vehicles; and the Oil to Electric Rebate Program which offered rebates towards the cost of transitioning oil-heated homes to electricity-based heat.

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<sup>23</sup> Approved in Board Order No. P.U. 30(2021).



The LCP Impact and Benefits Agreement (IBA) with Innu Nation was signed in 2011 and will remain in effect for the duration of power generation at the Muskrat Falls and Gull Island sites. In 2017, Nalcor entered into a six-year Community Development Agreement (CDA) with the NunatuKavut Community Council (NCC). Implementation of these agreements is ongoing and is a key consideration in how Nalcor conducts its business.

### **3.0 ISSUES**

The strategic issues outlined in this section will be addressed by the Organization to realize its legislative mandates. Consistent with the underlying philosophy of the multi-year performance-based planning required under the provisions of the **Transparency and Accountability Act**, these issues are at a governance level and reflect the priorities of the Organization and support the Provincial Government's strategic directions as outlined below:

- A better economy;
- Healthier people;
- Better living;
- A bright future; and
- A more efficient public sector.

#### **3.1 Nalcor Energy**

In its 2020-2022 Strategic Plan, the following issues were identified as strategic priorities for Nalcor:

- Issue 1: Electricity Supply and Reliability
- Issue 2: Value from Electricity and Rate Mitigation
- Issue 3: Oil & Gas Interests, Oversight

#### **3.2 Newfoundland and Labrador Hydro**

In its 2020-2022 Strategic Plan, the following issues were identified as strategic priorities for Hydro:

- Issue 1: Electricity Rate Mitigation
- Issue 2: Reliability and Supply Adequacy
- Issue 3: Safety, Health and Environment

## 4.0 OUTCOMES

### 4.1 Nalcor Energy

The 2020-2022 Strategic Plan for Nalcor highlighted three strategic issues around which goals and objectives were established. These issues encompass the activities of Nalcor and its subsidiaries. The outcomes related to Hydro's 2020-2022 Strategic Plan are provided in Section 4.2.

For each strategic issue, the information provided below is reflective of work completed in 2021, the second year of the three-year planning period in relation to these issues.

#### ISSUE 1: ELECTRICITY SUPPLY AND RELIABILITY

Nalcor's mandate, as established in legislation under the **Energy Corporation Act**, is to invest in, engage in, and carry out activities in all areas of the energy sector in the province and elsewhere. In carrying out this mandate, Nalcor is responsible for developing the province's natural resources to provide Newfoundlanders and Labradorians with a secure and reliable source of electricity to meet their ongoing needs. Through Hydro and Churchill Falls (Labrador) Corporation, Nalcor also undertakes a robust asset management program to support the ongoing capital investment in and maintenance of existing electricity assets to ensure long-term reliable operation of these assets.

In advancing the Muskrat Falls Project, including integration of Muskrat Falls generation and transmission assets into the provincial electricity system and interconnection with the North American grid, and continuing to invest in Churchill Falls (Labrador) Corporation assets, Nalcor is ensuring a secure and reliable source of electricity and supports the strategic direction of Government related to Energy Security and Reliability.

#### Muskrat Falls Project

Throughout 2021, commissioning of the generation and transmission components of the Muskrat Falls Project continued. The Muskrat Falls Hydroelectric Generating Station was successfully and safely completed in 2021. While progress was made on commissioning of the LIL in 2021, GE Canada's delivery of the final Full Function Bipole ("FFB") software which controls the operation of the LIL is essential to the completion of the project. In 2021, a version of the FFB software was used to complete a material amount of dynamic commissioning tests and facilitated the transfer of power to the island and on to Nova Scotia. Work to complete the commissioning of the LIL is ongoing in 2022.

## **Churchill Falls (Labrador) Corporation - Asset Management**

The Churchill Falls hydroelectric generating station is one of the largest underground hydroelectric power facilities in the world, with a rated capacity of 5,428 MW.

As of 2021, Churchill Falls has been in operation for 50 years. With the plant and related infrastructure aging, asset management is critical to keeping the facility in an operating condition which will enable it to provide reliable service to customers for the long term and to ensure assets are fully functional well beyond the expiry of current contractual commitments in 2041. From 2005-2021, Churchill Falls (Labrador) Corporation invested \$690 million to upgrade or replace Churchill Falls assets, with capital expenditures of \$73.1 million in 2021. The key drivers for the level of investment relate to required rehabilitation of aging assets to ensure reliable delivery of power and energy to customers up to and beyond the end of the Renewed Power Contract in 2041. In particular, this would include Generating Assets (41%), Transmission Assets (36%) and Supporting Infrastructure (23%), with approximate percentages of investment as noted since 2005.

Taking steps to ensure the continued performance of the Churchill Falls facilities through planning and strategic investment is driving the corporation's strategy for the 2020-2022 planning period and beyond. A long-term asset management plan has been developed that reflects the level of service required of the plant combined with key asset information, including condition assessments and operating and maintenance experience.

Issue 1: Electricity Supply and Reliability	
<p><b>Goal</b> By December 31, 2022, Nalcor will have increased the province’s supply of clean renewable energy and strengthened its long-term security and reliability.</p>	
INDICATORS	<ul style="list-style-type: none"> <li>• Completed the Muskrat Falls Project and fully integrated into the provincial electricity system</li> <li>• Utilization of the transmission lines connecting the province to the North American grid</li> <li>• Continued to invest in Churchill Falls assets</li> </ul>
<p><b>Objective</b> By December 31, 2021, Nalcor will have progressed capital projects for enhancement of the long-term security and reliability of the province’s electricity supply.</p>	
INDICATORS	2021 ACCOMPLISHMENTS
Commissioned all Muskrat Falls generating units and transitioned to operations	<p>In 2021, commissioning of the Muskrat Falls Generation Station was complete. Unit 1 was released for service in December 2020. Units 2 and 3 were released for service in June and August 2021, respectively. With the commissioning of the fourth unit in November 2021, all four units became available for operation as part of the provincial electricity system.</p>
Completed integration of all generation and transmission assets into Nalcor Operations	<p>As previously noted, the Muskrat Falls Generating Station was successfully and safely completed. Together with the Labrador Transmission Assets<sup>24</sup> and the October 2021 commissioning of all three Synchronous Condensers at Soldiers Pond, the completion of these assets brought the corporation closer to completing the LCP and integrating it into Nalcor operations.</p> <p>The LIL was not fully integrated into Nalcor operations in 2021. The delivery of the final FFB software which controls the operation of the LIL is essential to the completion of the project. In 2021, a version of the FFB software which was used by GE Canada to complete regression and Factory Acceptance Testing (“FAT”) was received. Although a number of outstanding items remained, a material amount of dynamic commissioning tests were successfully completed on this version in December 2021. With this version, the LIL transferred up to 424 MW of power to the island and on to Nova Scotia.</p> <p>The overall schedule for LIL software dynamic commissioning was negatively impacted by delays in GE’s delivery of the final</p>

<sup>24</sup> Energized in April 2018.

Issue 1: Electricity Supply and Reliability	
	FFB software, the COVID-19 pandemic, and damage to the LIL following ice storms in early 2021. Work to complete the commissioning of the LIL is ongoing in 2022.
Established Operating and Maintenance requirements for operation of the transmission and generation facilities	Assumed operating control of all four generating units at Muskrat Falls. Continued to advance operator training, Operating and Maintenance support contracts, development of emergency response plans, and development of operating procedures.
Reviewed and updated five-year capital plan	<p>An Asset Management Framework is in place that drives the investment decision process based on asset performance, cost and risk.</p> <p>The first 5 years of the Long-Term Asset Management Plan (“LTAMP”) for Churchill Falls contains an increased level of detail and certainty in scope and cost estimate when compared with that for 10 and 20 years out. This is because, generally, the first 5 years of the plan consist of on-going, multi-year projects with predictable costs, carry-over projects from previous years and new projects that have estimates and scopes that have been substantiated by evidence based reports and by consultants. The scope of the 5-year plan is based on current asset condition information and company requirements, which have a higher level of definition as more engineering effort and investigation has been completed.</p> <p>In 2021, the annual review and update of the 5-year portion of the LTAMP was completed to ensure alignment of the investment program with the ongoing maintenance and reliability needs of Churchill Falls assets. The update included refinement of scope and schedules within the plan based on inputs from field operations and engineering staff, findings and results for annual inspections and testing, and engineering reports from third-party experts.</p>
Completed planned 2021 capital investment in CF(L)Co assets	The capital investment program for Churchill Falls in 2021 included the execution of 57 projects, of which 93% were completed, for a total investment of \$73.1 million, all while managing ongoing COVID-19 restrictions in the community and workplace. Full execution of the capital program was impacted by the availability of supply of materials for project execution

<b>Issue 1: Electricity Supply and Reliability</b>	
	<p>as a result of COVID-19 impacts. Examples of completed investments in 2021 include:</p> <ul style="list-style-type: none"> <li>• A9 Unit Overhaul and Runner Replacement (\$17.6 million)</li> <li>• 735 kV Transmission Line Rehabilitation (\$9.0 million)</li> <li>• Municipal Services Building in Churchill Falls (\$7.4 million)</li> <li>• Switchyard Upgrade Program (\$3.2 million)</li> <li>• Unit Modernization Program (\$3.1 million)</li> <li>• Churchill Falls Transformer Life Extension Program (\$2.8 million)</li> </ul>
<p><b>Objective</b> By December 31, 2022, Nalcor will have made continued advancements toward increasing the province’s supply of clean, renewable energy and its long-term security and reliability.</p>	
INDICATORS	<ul style="list-style-type: none"> <li>• Completed planned 2022 activities to fully integrate the Muskrat Falls Project into the provincial electricity system.</li> <li>• Completed planned integration activities on transmission lines and utilizing them to connect the province to the North American grid.</li> <li>• Completed planned 2022 investments in CF(L)Co assets.</li> </ul>

## ISSUE 2: VALUE FROM ELECTRICITY AND RATE MITIGATION

As Nalcor carries out its work to safely and responsibly develop Newfoundland and Labrador's energy resources for the maximum benefit for the people of the province, it is cognizant of the impact its operations have on electricity costs. Capital and financing costs are guaranteed by the Province and passed on to customers through electricity rates. Nalcor's mandate supports the strategic directions of the Province for a better economy and a bright future for the people of the province.

Nalcor continues to consider the opportunities for minimizing costs of its operation while also increasing revenue from its operations. These opportunities aid in managing and mitigating electricity rates for customers after the in-service of the Muskrat Falls Project. Nalcor has completed construction on the Muskrat Falls Project, has commissioned some assets, and is focused on commissioning the remaining assets and integrating them into the existing electricity grid. At the same time, Nalcor continues to explore and assess opportunities in domestic and export markets that could bring value to the province from the sale of surplus energy. Nalcor is investigating all reasonable measures to minimize the impact of the project on customer electricity rates.

In 2021, an Annual Energy Base settlement agreement was signed between CFLCo and Hydro Quebec which establishes the Continuous Energy volume for the term of the Renewed Power Contract. CFLCo also executed a short-term excess energy agreement as well as a 5-year excess energy sales agreement in 2021 based on the non-firm characteristic of the energy available.

To extract maximum value from its excess electricity portfolio, NEM actively trades and sells surplus power to customers in external energy markets in Canada and the United States. The energy trading portfolio includes 300 MW of surplus energy from Churchill Falls Recapture, as well as excess energy from Muskrat Falls, long-term transmission rights, and agreements with Hydro for the provision of external electricity marketing services.

To access export markets, Nalcor, through Hydro, signed a Transmission Service Agreement with Hydro-Québec TransÉnergie ("HQT") under HQT's Open Access Transmission Tariff in 2009 and Nalcor renewed that agreement in 2013 for an additional 10 years. The agreement is for long-term power transmission capacity from Labrador through Quebec to the New York border with the ability to transmit electricity to other markets. In 2022, to ensure the Organization continues to have access to export markets, a planning assessment will be completed with the



intent to extend the agreement to renew and maintain future transmission rights.

In 2021, NEM marketed and facilitated the export of pre-commissioning and commissioned energy from Muskrat Falls via the LIL and the Maritime Link between Newfoundland and Nova Scotia. In 2021, NEM exported 79 gigawatt hours (“GWh”) of Muskrat Falls residual energy over the Maritime Link between the island and Nova Scotia with power flowing to Atlantic Canada and beyond.

In August 2021, as part of its commitments under the Energy & Capacity Agreement (ECA), energy delivery of the Nova Scotia Block commenced. This is a 35-year commitment to Emera.

In 2021, 98 per cent of available Recapture energy from the Churchill Falls Generating Station was delivered to market. This provided 1.4 terawatt hours (TWh) of energy to customers in New York, New England, Ontario and the Maritimes and, in addition to other energy trading activity.

Nalcor’s activities to extract maximum value from its electricity portfolio and to investigate options for reducing project costs all serve to support the strategic direction of Government of maximized value.

Issue 2: Value from Electricity and Rate Mitigation	
<b>Goal</b>	
By December 31, 2022, Nalcor will have advanced efforts to maximize the overall value from the electricity resources for the people of the province.	
INDICATORS	Identified and advanced the commercial, legal, financial and regulatory processes required to implement rate mitigation outcomes
<b>Objective</b>	
By December 31, 2021, Nalcor will have advanced opportunities to extract maximum value from the province’s electricity resources.	
INDICATORS	2021 ACCOMPLISHMENTS
Monitored and assessed market opportunities for expansion of the province’s electricity portfolio	NEM continued to work with industry counterparts and Hydro to make cost-saving energy purchases over the Maritime Link for the benefit of Newfoundland and Labrador’s electricity customers. NEM monitored and assessed the market and imported approximately 26 GWh of lower-cost energy last year from various regions across Eastern Canada and the Northeastern United States to help displace fuel consumption at Hydro’s thermal generating facilities.
Supported opportunities to maximize overall value from electricity resources	In 2021, NEM marketed and facilitated the export of energy from Muskrat Falls via the LIL and the Maritime Link. As a result of commissioning of the generating units at Muskrat Falls, NEM exported Muskrat Falls power that was surplus to Hydro’s needs and, beginning in August 2021, power which was required to meet its contractual obligations with Emera for the delivery of the Nova Scotia Block.
Continued to implement measures to maximize portfolio value such as targeting higher priced markets and times to exceed the energy price benchmark	If energy is not required domestically, NEM exports it to external markets with the purpose of achieving the best possible value for the energy. One of the key measures of NEM’s trading performance is a comparison against the New York Benchmark as NEM’s firm transmission reservation through Quebec terminates at the New York interface. In 2021, NEM met its performance metric target of meeting or exceeding, through its optimization activities, the net revenues achievable through New York market sales (i.e., the New York benchmark) by at least 25%. In 2021, NEM exceeded the New York benchmark by 25%. As the first point of interface beyond Quebec, the New York market offers the baseline potential to maximize portfolio value.

Issue 2: Value from Electricity and Rate Mitigation	
Assessed and engaged potential customers on identified export market and industrial customer opportunities	Nalcor continued in 2021, to have ongoing discussions and work closely with all Atlantic Canadian utilities to identify electrification and transmission interconnection opportunities in the Atlantic region. Through the Atlantic Clean Power Planning Committee, a report was issued, Clean Power Roadmap for Atlantic Canada, which outlined these opportunities.
<p><b>Objective</b> By December 31, 2022, Nalcor will have further advanced efforts and opportunities to extract maximum value from the province’s electricity resources in support of rate mitigation.</p>	
INDICATORS	<ul style="list-style-type: none"> <li>• Monitored and assessed market opportunities for expansion of the province’s electricity portfolio.</li> <li>• Supported opportunities to maximize overall value from electricity resources.</li> <li>• Continued to implement measures to maximize portfolio value such as targeting higher-priced markets and times to exceed the energy price benchmark.</li> </ul>

### ISSUE 3: OIL AND GAS INTERESTS, OVERSIGHT

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

Nalcor Oil and Gas currently holds a 5% working interest in the White Rose Extension project. This project includes the North Amethyst field, West White Rose and South White Rose Extension. As of March 1, 2021, the corporation also has a working interest of 8.73% in the Hibernia Southern Extension ("HSE") and is a co-venturer in the Hebron oil field, holding a 4.9 per cent working interest in the province's fourth offshore oil project.

Issue 3: Oil and Gas Interests, Oversight	
<b>Goal</b>	
By December 31, 2022, Nalcor will have supported the new oil and gas corporation in its role as manager of Nalcor Oil and Gas assets.	
Indicators	<ul style="list-style-type: none"> <li>Supported the establishment of OilCo as a stand-alone entity</li> <li>Supported OilCo in its role as manager of Nalcor Oil and Gas assets, as per the terms of the MSA</li> <li>Ensured the appropriate administration of the MSA</li> </ul>
<b>Objective</b>	
By December 31, 2021, Nalcor will have continued to support efforts to further advance the establishment of the new oil and gas corporation.	
INDICATORS	2021 ACCOMPLISHMENTS
Approved the 2021 annual work plan and annual budget for Nalcor Oil & Gas assets submitted by OilCo as required under the MSA.	The 2021 annual work plan and annual budget for Nalcor Oil & Gas assets submitted by OilCo was approved at the November 26, 2020 Nalcor Oil & Gas Board meeting.
Evaluated the performance of OilCo under the terms of the MSA.	Oversight is provided by Nalcor management and by the Nalcor Oil and Gas Board of Directors through the discussion and regular review of operational and financial updates.
Provided oversight of management of existing assets by reviewing financial and operational updates of Existing Assets provided by OilCo.	Management has provided oversight of existing assets through reviewing financial and operational updates received quarterly from OilCo and provided to Executive and the Nalcor Oil and Gas Board. Regular meetings occur with OilCo to discuss variances in financial and operational data. This information is included within Nalcor's Management Discussion & Analysis report.
<b>Objective</b>	
By December 31, 2022, Nalcor will have supported the new oil and gas corporation in its role as manager of Nalcor Oil and Gas assets.	
Indicators	<ul style="list-style-type: none"> <li>Approved the 2022 annual work plan and annual budget for Nalcor Oil &amp; Gas assets submitted by OilCo as required under the MSA.</li> <li>Evaluated the performance of OilCo under the terms of the MSA.</li> <li>Provided continued oversight of management of existing assets by reviewing financial and operational updates of Existing Assets provided by OilCo.</li> </ul>

## 4.2 Newfoundland and Labrador Hydro

Hydro's 2020-2022 Strategic Plan was finalized in September 2020. This timing allowed Hydro to outline goals, objectives and indicators in the plan that reflected the priority placed on the pandemic response and the significant allocation of Hydro resources to maintain essential service delivery during the COVID-19 pandemic.

### ISSUE 1: ELECTRICITY RATE MITIGATION

As the primary generator of electricity in the province, Hydro has a significant impact on social well-being and economic prosperity in the province. This section outlines Hydro achievements during 2021 related to the affordability of electricity rates.

Hydro recognizes that electricity rates are a concern for customers and is committed to helping ensure the right balance between reliability and cost for customers. Electricity rates are impacted by a number of factors, including capital investments in the electricity system, power purchases, fuel costs, and the overall cost of operations. During 2021, Hydro continued its efforts to balance electricity rates and customer reliability. This commitment is reflected in Hydro's prudent approach to capital investment and completing the required maintenance of assets while managing costs. The PUB holds full authority to regulate electric utilities in the province, including approval of capital expenditures, long-term borrowings, and rates paid by customers.

A key driver of future electricity rates is the cost of the Muskrat Falls Project. While the timing and nature of rate mitigation directions is still being determined, Hydro has worked collaboratively with the Province regarding rate mitigation during 2021.

As part of the PUB reference questions process,<sup>25</sup> Hydro identified areas of strategic focus through which cost savings and efficiency improvements would be pursued. During 2021, Hydro worked to advance its efforts to achieve operational cost savings targets totaling \$9.0 million by 2024 relative to the 2019 Test Year.<sup>26</sup>

In 2021, Hydro continued its efforts towards electrification within the province to support increased domestic consumption of Muskrat Falls energy. Hydro also sold performance credits related to greenhouse gas reductions, the revenue from which will be applied to rate mitigation efforts.

<sup>25</sup> On September 5, 2018, the Government of Newfoundland and Labrador released the terms of reference for Rate Mitigation Options and Impacts Related to the Muskrat Falls Project Costs and requested the PUB consider a series of questions. The final report was submitted to the Government on February 7, 2020.

<sup>26</sup> The test year is the fiscal year for which a utility estimates its expenses and revenues for the purpose of setting rates through the regulatory process.

Issue 1: Electricity Rate Mitigation	
<p><b>Goal</b></p> <p>By December 31, 2022, Hydro will have progressed efficiency and effectiveness commitments to achieve savings and advanced the processes required to implement rate mitigation outcomes.</p>	
<p><b>Indicators</b></p>	<ul style="list-style-type: none"> <li>• Progressed efficiency and effectiveness commitments necessary to achieve cost savings.</li> <li>• Supported assessment of measures to mitigate the impact of the Muskrat Falls costs on rates and progressed Hydro implementation activities as required.</li> <li>• Identified and advanced the commercial, legal, financial, and regulatory processes required to implement rate mitigation outcomes.</li> </ul>
<p><b>Objective</b></p> <p>By December 31, 2021, Hydro will have further progressed efficiency and effectiveness initiatives and updated processes to implement rate mitigation.</p>	
Indicators	2021 Accomplishments
<p>Advanced efficiency and effectiveness activities to deliver planned cost savings.</p>	<p>Activities advanced in the targeted areas of work management and execution, operational technology, efficiency of Exploits operations, contracting and procurement and capital planning. These efforts, together with other cost management efforts, contributed to an overall reduction in operating and maintenance budgeted costs from the 2019 Test Year of \$136.1 million to \$134.0 million in 2021. An example of an area that is contributing to this reduction is joint procurement. Opportunities are being explored, tracked and rolled out in a strategic manner for stakeholders, including the Public Procurement Agency and Canadian Collaborative Procurement Initiative. Internally, Hydro has already collaborated on a selection of snow clearing contracts, non-destructive testing and waste management procurement opportunities. Provincially, Hydro has collaborated with other government-funded bodies on a new Corporate Procurement Card Program and, federally, on office supplies and other commodity contracts like paper. These initiatives have enabled Hydro to become more streamlined and cost effective in its processes.</p>

Issue 1: Electricity Rate Mitigation	
	In addition, through a focused approach to capital planning that demonstrated a balance between required capital investment with cost management and reliability, Hydro was able to decrease funds requested in its Capital Budget Application from \$107.5 million in 2021 to a request of \$84.7 million in 2022.
Supported efforts of the Government of Newfoundland and Labrador as required, to assess and implement measures to mitigate the impact of Muskrat Falls costs on rates.	<p>In 2021, Hydro worked collaboratively with the Province and Nalcor related to rate mitigation by participating on committees to advance implementation of the rate mitigation plan, including a costing committee, regulatory committee and a steering committee.</p> <p>Other 2021 accomplishments supporting rate mitigation include advancement of electrification planning, adding value to surplus energy, and sale of performance credits for greenhouse gas reductions. These activities are outlined in indicators below.</p>
Continued to progress the monetization of provincial greenhouse gas performance credits.	In 2021, Hydro sold 125,106 performance credits for a total revenue of \$3.1 million. Hydro is carrying forward 281,082 performance credits to apply to future compliance requirements or to be sold in future years. Credits expire seven years after creation.
Advanced electrification initiatives as outlined in the Electrification, Conservation and Demand Management Plan, once approved.	The regulatory proceeding to approve the test to evaluate the economic justification of electrification programs identified within the five-year plan for electrification, conservation and demand management advanced through 2021 and continues in 2022. Hydro awaits approval of the proposal before execution of the planned electrification programming. The plan shifts the focus of programs from energy savings to managing peak demand while promoting customer electrification programs for the first time.
Supported any Government of Newfoundland and Labrador electrification initiatives.	Hydro administered two new electrification programs on behalf of the Province in 2021. The Electric Vehicle Rebate Program provides a rebate of \$2,500 towards the purchase of any new or used electric vehicle by a resident of the province. The Oil to Electric Rebate Program provides a \$2,500 rebate towards the cost of transitioning oil-heated homes to electricity-based heat. In 2021, the Electric Vehicle Rebate Program provided 55 rebates and the Oil to Electric Program approved 40 rebates. The Province is paying all costs



Issue 1: Electricity Rate Mitigation	
	<p>associated with the programs, including Hydro’s administrative costs.</p>
<p>Advanced commercial, legal, financial and regulatory processes to implement rate mitigation outcomes, including filing a general rate application that will incorporate Muskrat Falls cost in rates.</p>	<p>Hydro participated in Rate Mitigation Committee activity and provided substantial support to the Province throughout 2021. Hydro did not file its general rate application incorporating Muskrat Falls costs in rates during 2021 as further details regarding rate mitigation and LIL commissioning are required to inform the costs which will need to be recovered through customer rates.</p> <p>Hydro was required to commence payments under the Muskrat Falls Power Purchase Agreement upon commissioning of the Muskrat Falls Hydroelectric Generating Facility in November 2021. To address the cost impact of these contractual requirements, Hydro sought approval in 2021 to revise its supply cost deferral accounts to allow for the transfer of costs associated with the commissioning of the Muskrat Falls Project assets.</p> <p>Hydro continues to provide quarterly updates to the PUB regarding the timing of its next general rate application.</p>
<p><b>Objective</b></p> <p>By December 31, 2022, Hydro will have advanced efficiency and effectiveness measures to manage costs and completed required updates to processes to implement rate mitigation.</p>	
<p>Indicators</p>	<ul style="list-style-type: none"> <li>• Continued advancement of efficiency and effectiveness activities to further advance culture of cost management.</li> <li>• Continued efforts to support the Government of Newfoundland and Labrador as required, to assess and implement measures to mitigate the impact of Muskrat Falls costs on rates.</li> <li>• Supported Government of Newfoundland and Labrador electrification initiatives.</li> <li>• Advanced commercial, legal, financial and regulatory processes to support rate mitigation activity and implement rate mitigation outcomes, as applicable, including beginning recovery of Muskrat Falls Project costs through customer rates.</li> </ul>

## ISSUE 2: RELIABILITY AND SUPPLY ADEQUACY

Hydro ensures there is a safe, reliable and least-cost electricity supply available to meet the needs of customers now and in the future. During 2021, Hydro maintained and renewed existing assets, reviewed the requirement to add new resources, and worked with Nalcor to integrate Muskrat Falls assets to reliably meet customers' electricity requirements.

The provision of a safe, reliable, least-cost supply of electricity requires that Hydro maintain, refurbish, renew and expand its generation, transmission and distribution assets and the other infrastructure that supports those assets. Hydro must also address changing environmental and regulatory requirements and challenges that may require the development and integration of new assets or improvements to existing.

The majority of Hydro's electricity system assets, including the hydroelectric installation in Bay d'Espoir, the Holyrood Thermal Generating Station, the Stephenville Gas Turbine, the Hardwoods Gas Turbine, and much of Hydro's transmission and distribution systems, are more than 40-50 years old. Maintaining the electricity system in reliable operating condition requires a combination of planned maintenance, rehabilitation of existing assets, and replacement of assets that have reached the end of their useful lives. Replacement of assets may also occur to lower lifecycle costs, improve operational characteristics, or increase capacity for load growth.

From 2005-2019, Hydro invested approximately \$1.6 billion in capital expenditures to upgrade or replace its assets, contributing to the provision of safe, reliable, least-cost electricity to customers. During 2021, Hydro invested \$113.5 million for the execution of capital projects.

Hydro's capital investment philosophy is founded in its obligation to responsibly steward the management of its electrical system and investments therein on behalf of customers. Hydro is committed to investing in capital in a manner which meets its obligation to provide reliable service at the lowest possible cost. To balance the provision of reliable service with cost management, Hydro focuses on sound utility asset management practices, progressing to condition-based investments (versus age based) where appropriate, and the use of operational and system requirements to inform the necessary level of capital investment required.

The provincial electricity system is changing significantly with the commissioning of the Muskrat Falls generation project and associated transmission facilities including interconnection to Labrador through the Labrador-Island Link and to the North American electricity grid through

the Maritime link. During 2021, Hydro continued to work with Nalcor to complete the activities required for the integration of Muskrat Falls assets.

In addition to meeting current needs, Hydro has a responsibility to assess future electricity requirements in the province and identify options to address these requirements. In 2018, Hydro completed a Reliability and Resource Adequacy Study and filed it with the PUB. A component of the Study includes assessing system risks and mitigating measures to ensure that Hydro can reliably meet the needs of customers through the system transition to the fully integrated system offering reliable service from Muskrat Falls. In 2021, Hydro continued to participate in PUB proceedings to review the Study with a focus on near-term adequacy and reliability of the Labrador-Island Link. This regulatory review is ongoing with 2022 activity to focus on the reliability of the Labrador-Island Link, near-term adequacy for winters 2022-2025 and assessment of the long-term viability of the Holyrood Thermal Generating Station.

With respect to near-term reliability, system reliability in advance of reliable deliveries from the Muskrat Falls Generation Station is a key priority. Hydro filed a near-term reliability assessment with the regulator in November 2021 and will continue to do so semi-annually. Such assessments provide a structured assessment of system reliability and identification of actions that can be taken to mitigate identified system deficiencies to help ensure the continued reliable operation of the power system.

Hydro also monitored and responded to the power requirements in isolated diesel communities and the needs of potential new industrial customers, including mining developments and data centre growth in Labrador. As outlined below, in March 2021, Hydro received PUB approval of the Network Additions Policy that will guide the process for allocating costs associated with transmission investments on the Labrador Interconnected System, enabling Hydro to advance through the necessary stages to address a material volume of new customer requests on the Labrador Interconnected System.

## Issue 2: Reliability and Supply Adequacy

### Goal

By December 31, 2022, Hydro will have advanced initiatives to support electricity system reliability and adequate supply.

### Indicators

- Developed reliability improvement plans for key generating and transmission assets and supporting infrastructure.
- Completed required maintenance work and capital investments to support reliability.
- Advanced preparations for interconnection of electricity systems and integration of Muskrat Falls power and assets.
- Assessed electricity supply requirements and identified options to address needs.

### Objective

By December 31, 2021, Hydro will have progressed electricity system investments and developed and executed plans to reliably meet customers' electricity requirements.

Indicators	2021 Accomplishments
<p>Completed 2021 priority maintenance work and capital projects.</p>	<p>Hydro has an Integrated Annual Work Plan (“IAWP”) consisting of capital and maintenance work for its generation, transmission and distribution and other associated assets. In 2021, Hydro completed 98% of planned activities, which compares to the target of 90%.</p> <p>Hydro’s total 2021 approved capital budget was \$136.3 million, which included its \$107.5 million Capital Budget Application, \$21.3 million carried forward from its 2020 capital program, and 2021 supplemental capital of \$7.5 million.</p> <p>Actual expenditures in Hydro’s overall capital program for 2021 were below budget by \$22.8 million. The primary driver of 2021 under-expenditure was carryover of work to future years which is driven by Hydro’s strategic deferral of work and the impacts of the COVID-19 pandemic on supply chain.</p>

<b>Issue 2: Reliability and Supply Adequacy</b>	
<p>Finalized Hydro’s 2022 plan for capital investments balancing reliability and cost of investments for customers.</p>	<p>Hydro’s 2022 Capital Budget Application was submitted to the PUB in August 2021 and requested approval for \$84.7 million of capital investment.<sup>27</sup> Approximately 51 per cent of the proposed 2022 investment related to continuation of projects that were previously approved to commence prior to 2022 and approximately 49 per cent related to new projects.</p> <p>The 2022 Capital Budget Application is primarily driven by the following:</p> <ul style="list-style-type: none"> <li>• Refurbishment required to support the reliable operation of aging assets;</li> <li>• Accommodation of load growth in Labrador West;</li> <li>• Extension of the service life of the Holyrood Thermal Generating Station; and,</li> <li>• Legislative compliance (i.e., safety and environmental).</li> </ul> <p>Additional planned capital expenditures include the 2022 portion of multi-year projects for long-term supply in southern Labrador<sup>28</sup> and refurbishment of the Bay d’Espoir Penstocks.<sup>29</sup></p> <p>The proposed plan reflects Hydro’s commitment to reducing capital investment to the extent which is prudent so as to not compromise reliability, safety, or the environment.</p>
<p>Continued participation in PUB proceedings to review the conclusions and recommendations of Reliability and Resource Adequacy Study and advanced required actions based on the direction received.</p>	<p>The review of the 2018 Reliability and Resource Adequacy Study filed with the PUB (originally filed in 2018) continued through 2021. Throughout 2021, Hydro filed operational studies, investigation reports, and technical analyses related to the reliability of the LIL. The regulatory process for this file will continue through 2022.</p> <p>With respect to the near-term, Hydro recognizes that system reliability is top of mind for stakeholders in advance of reliable deliveries from the Muskrat Falls Generation Station. Hydro provides monthly updates to the regulator regarding the schedule and status of the LCP assets, progress in integrating these assets into the island electricity system, and Hydro’s preparations for</p>

<sup>27</sup> On December 20, 2021, the PUB approved \$84.2 million of Hydro’s total \$84.7 million 2022 Capital Budget Application. This represents approval of all but one project which Hydro requested the PUB defer approving until a decision has been made regarding Hydro’s Long-Term Supply for Southern Labrador application (filed in July 2021, proceeding ongoing).

<sup>28</sup> The regulatory proceeding associated with this \$49.9 million multi-year project is ongoing in 2022.

<sup>29</sup> The application for this multi-year project is expected to be filed with the PUB in 2022.

## Issue 2: Reliability and Supply Adequacy

	<p>winter. Near-term reliability reports are filed semi-annually with the most recent filed with the PUB on November 15, 2021.</p>
<p>Advanced planned initiatives to reliably meet growing customer needs in Labrador.</p>	<p>In 2021, Hydro received PUB approval of its Network Additions Policy for the Labrador Interconnected System.<sup>30</sup> Following approval of the Network Additions Policy, Hydro formalized customer requests for incremental firm load in Labrador which resulted in applications for 8,000 MW of new load. Hydro completed high-level impact analysis for several scenarios of new load additions and communicated the results to applicants, including potential costs associated with transmission upgrades. Hydro then requested deposits from those who wish to proceed to more detailed system impact studies. A significant number of initial requests declined to progress to the next steps. Completion of next steps to integrate new customer loads in accordance with the Network Additions Policy will continue through 2022.</p> <p>In June 2021, Hydro filed a report with the PUB regarding the feasibility of adding a non-firm rate option for Labrador Interconnected customers. The report outlined Hydro’s assessment of the capacity which could potentially be made available on a non-firm basis, as well as considerations regarding the required attributes of such service. In the fall of 2021, Hydro solicited applications from interested customers and received 17 requests for total capacity which exceeded available non-firm capacity for all seasons. Hydro communicated with applicants and those who were still interested were allocated non-firm capacity on an equal basis for each season. Studies associated with non-firm service are expected to be complete in 2022. Hydro will require PUB approval for a non-firm rate offering, as well as approval for capital projects and customer contributions which may be associated with interconnection of firm and non-firm customers.</p> <p>In 2021, Hydro continued capital upgrades at the Wabush Terminal Station and Wabush Substation which are required to address load growth and reliability in Labrador West and are expected to cost \$22.1 million from 2020-2022.</p> <p>In July 2021, Hydro filed a \$49.9 million application for the construction of a regional electricity supply in Port Hope Simpson and interconnection of Charlottetown and Pinsent’s Arm. Future</p>

<sup>30</sup> Approved in Board Order No. P.U. 17(2021).

<b>Issue 2: Reliability and Supply Adequacy</b>	
	<p>phases are planned to interconnect Mary’s Harbour (in 2030) and St. Lewis (in 2045). The regulatory proceeding in relation to this application is ongoing in 2022.</p>
<p>Completed priority Hydro activities to integrate Muskrat Falls power and assets.</p>	<p>In 2021, Hydro completed critical activities related to integrate Muskrat Falls power and assets. These activities included:</p> <ul style="list-style-type: none"> <li>• Requirements of the Newfoundland and Labrador System Operator with respect to Muskrat Falls Units 2, 3 and 4 were met and the units were released for service. The Muskrat Falls Hydroelectric Generating Station was therefore deemed commissioned in 2021.</li> <li>• Received PUB approval to extend the Pilot Agreement for the Optimization of Hydraulic Resources<sup>31</sup> which enables Hydro and NEM to realize incremental value as a result of markets accessible via the Maritime Link.</li> <li>• Received PUB approval (on an interim basis) for a revised set of documents and transmission service rates<sup>32</sup> which better reflect system capabilities as well as relevant PUB orders received since the initial filing.</li> </ul>
<p><b>Objective</b></p> <p>By December 31, 2022, Hydro will have further advanced electricity system investments, a nd updated and executed plans to reliably meet customers’ electricity requirements.</p>	
<p>Indicators</p>	<ul style="list-style-type: none"> <li>• Completed 2022 priority maintenance work and capital projects.</li> <li>• Finalized Hydro’s 2023 plan for capital investments balancing reliability and cost of investments for customers.</li> <li>• Continued participation in PUB proceedings to review the conclusions and recommendations of Reliability and Resource Adequacy Study and advanced required actions based on the direction received.</li> <li>• Further advanced planned initiatives to reliably meet growing customer needs in Labrador.</li> <li>• Completed priority Hydro activities to integrate Muskrat Falls power and assets.</li> </ul>

<sup>31</sup> Approved in Board Order No. P.U. 31(2021).

<sup>32</sup> Approved in Board Order No. P.U. 3(2021).

## ISSUE 3: SAFETY, HEALTH AND ENVIRONMENT

The safety of employees, customers and the public and being environmentally responsible are key commitments of Hydro. Achieving strong performance in safety and health is Hydro's first priority. As a result, Hydro has developed and continues to foster a safety culture that promotes a zero harm mindset. Hydro's framework for safety performance includes a balanced focus on culture, people, and process as it evolves its safety management program.

Achieving and maintaining strong safety performance in all areas of the corporation is an ongoing priority. During 2021, the COVID-19 pandemic, together with the significant organizational change, are believed to be the main contributing factors challenging Hydro's safety performance. The pandemic required additional measures to support the safety and well-being of employees while delivering reliable electricity to customers. Hydro was engaged in the Corporate Pandemic Plan and business continuity planning process coordinated by Nalcor. The plan focused on ensuring the safety of Hydro's staff, contractors, and the general public while also continuing to execute critical field work.

During 2021, Hydro continued to implement initiatives to progress the company's safety performance. Consistent with its multi-year safety and health plans, major strategic initiatives included safety and health monitoring, contractor safety management, mental health promotion and safety culture and prevention awareness.

Customer safety and public safety around electrical equipment and water management structures are also key elements of Hydro's safety commitment. In 2021, power line safety, power outage safety and winter preparedness along with safety around hydroelectric dams and other electrical equipment were key themes for Hydro's safety communications to customers and the public.

Despite its robust safety management program, Hydro experienced an increase in its recordable injuries<sup>33</sup> in 2021 when compared to recent years with 8 recordable injuries<sup>34</sup> compared to an average of 6 lost-time injuries in the five years prior. The majority of injuries experienced in 2021 were musculoskeletal in nature. The continuing pandemic, which has brought a factor of fatigue throughout the workplace (similar to many workplaces), as well as the material organizational change Hydro is undergoing are believed to be contributing factors to Hydro's 2021 safety performance. Hydro is addressing organizational change as a risk to workers through its multi-year Mental Health Strategy, and also through its Change Management program. Initiatives within these programs are aimed at mitigating worker

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<sup>33</sup> Recordable injuries include lost-time and medical treatment injuries.

<sup>34</sup> The 8 total lost-time injuries include 6 lost-time and 2 medical treatment injuries.



distraction through careful planning and by providing tools and services to address stress related to change.

Hydro is also focused on managing risk and minimizing the impact of operations on the environment. The corporation maintains a high level of environmental responsibility and compliance through the ISO 14001:2015 registered Environmental Management System.<sup>35</sup> In 2021, this system supported Hydro's focus on continuous improvement with the completion of all planned environmental targets throughout the organization ranging from advancing Hydro's waste management plan, improving fuel monitoring, and continuing the corporation's strategy to identify and manage polychlorinated biphenyls (PCBs).

In 2018, the Organization achieved the Sustainable Electricity Company™ brand designation from Electricity Canada. Under this designation, a commitment is made to achieving the principles of Environmental Stewardship as defined by ISO 14001, and Social Responsibility under ISO 26000. The Organization has set sustainability priority areas which reflect this responsibility and revolve around the pillars of safety, environment, business excellence, people and community.

Hydro also promoted conservation and demand management by residential, commercial and industrial customers and supported the Province's environmental initiatives related to electric vehicle infrastructure, electrification opportunities, and the integration of renewables in communities that rely on diesel for electricity generation.

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<sup>35</sup> ISO 14001 sets out the criteria for an environmental management system. It maps out a framework that an organization can follow to set up an effective environmental management system.

### Issue 3: Safety, Health and Environment

#### Goal

By December 31, 2022, Hydro will have continued progress towards sustained safety excellence, enhanced employee health and wellness and environmental stewardship and sustainability.

#### Indicators

- Completed employee electrical safety training and communications.
- Planned and delivered employee mental health and wellness initiatives.
- Delivered safety-related communications initiatives to customers and the general public.
- Advanced initiatives to support environmental sustainability and electrification.

#### Objective

By December 31, 2021, Hydro will have further advanced its commitment to safety and environmental excellence, sustainability and employee well-being through completion of planned training, communications and related initiatives.

Indicators	2021 Accomplishments
<p>Safety training for new employees, employees taking on new roles and refresher training for existing employees completed as required.</p>	<p>During 2021, Hydro delivered safety training for employees taking on new roles and refresher training for other employees. This training included technical training (e.g., work protection code refresher training for individuals working around electrical equipment), training required to meet legislative requirements (e.g., confined space entry) as well as safety coaching and safety incident investigation training.</p> <p>Safety training was impacted by the ongoing COVID-19 pandemic; however, with appropriate COVID-19 protocols, training was delivered with priority placed on training required by legislation (e.g. confined space, fall protection).</p> <p>Hydro also continued its participation in the Nalcor-wide pandemic planning and response. The response included developing and implementing safety guidelines, procedures and toolkits to support employees working safely during the COVID-19 pandemic.</p>

### Issue 3: Safety, Health and Environment

#### **Work protection code, confined space entry, and working at heights training**

During 2021, required training for new Hydro employees, employees taking on new roles and responsibilities and employees needing refresher training was completed. In total, 480 employees completed training in these areas.

#### **Workplace Hazardous Materials**

The Workplace Hazardous Materials Information System (“WHMIS”) is a workplace hazard communication standard. WHMIS requires recertification every three years. In 2021, 182 Hydro employees were recertified or initially trained.

#### **Electrical Safety**

Key training in grounding and bonding and arc flash awareness continued. In 2021, 67 Hydro employees were trained in grounding and bonding protocols and arc flash awareness.

#### **Safety coaching training**

Safety coaching training helps build the skills required to take action relating to at-risk behaviours by outlining a consistent approach to safety interactions and providing an opportunity to practice the approach. The majority of Hydro’s employees have completed safety coaching training but the training is offered periodically to new employees and others who have not completed the training. Safe work observation program (“SWOP”) training is also offered annually to new employees and employees taking on new roles. During 2021, 91 Hydro employees completed safety coaching and SWOP training.

#### **Alcohol and Drug Program**

Hydro’s alcohol and drug training course teaches employees about the corporation’s policies and programs. In 2021, 111 employees completed this training.

### Issue 3: Safety, Health and Environment

<p>Completed planned employee, customer and public safety communications.</p>	<p>During 2021, employee safety communications activities continued around key injury prevention initiatives and pandemic measures as part of the Corporate Pandemic Plan. Key items in 2021 included the roll out of rapid testing guidelines and implementation of the mandatory vaccine policy.</p> <p>Communications which were indirectly related to the pandemic, such as ergonomics for an at-home work station and resiliency in times of change, were also shared with employees.</p> <p>Additionally, in 2021, Hydro completed customer and public safety communication activities related to power line safety, safety around hydroelectric dams and reservoirs, and power outage safety.</p> <p>Public safety activities in 2021 continued to focus around digital content promoting safety. Hydro's Twitter and Facebook channels were used regularly to share public safety information. For example, around harsh weather events, Hydro circulated timely informational content promoting preparedness and safety (e.g., how to stay safe and prepare for power outages and keeping away from downed power lines.). During Snowmobile Safety Week and throughout the winter season, Hydro shared tips related to snowmobiling safety, including staying clear of power lines, stations and hydroelectric reservoirs. Hydro also continued to promote safety around hydroelectric dams and reservoirs.</p>
<p>Advanced conservation initiatives outlined in the approved Electrification, Conservation and Demand Management multi-year plan.</p>	<p>In 2021, Hydro delivered energy conservation programs for its customers and advanced planning for future conservation and demand management programs.</p> <p>Hydro and Newfoundland Power partner to deliver the takeCHARGE Program, offering rebate programs to assist residential and commercial customers in reducing their electricity usage. The takeCHARGE program combines the expertise and customer reach of utilities while delivering energy efficiency awareness and rebate programs to customers. Hydro also delivers an Isolated Systems Energy Efficiency Program to customers living in communities reliant on diesel generation.</p>

### Issue 3: Safety, Health and Environment

#### Residential Customers

Hydro’s residential portfolio included four rebate programs and one bulb giveaway program offered jointly by Hydro and Newfoundland Power.

<u>Program</u>	<u>2021 Energy Savings (MWh)</u>
Insulation	129
Thermostats	52
Heat Recovery	0
Ventilators	
Instant Rebates	120
Total	302

Hydro customers achieved energy savings of 302 MWh in 2021 through these joint conservation programs.

In addition, Hydro delivers the Isolated Systems Energy Efficiency Program to its customers in remote diesel-system communities throughout Newfoundland and Labrador. This program provides outreach, education and energy efficient products to home and business owners free of charge. In 2021, energy savings of 998 MWh resulted from the direct install of small energy efficient technologies.

#### Commercial Customers

Hydro’s commercial portfolio includes the Business Efficiency Program and the Isolated System Business Efficiency Program (“ISBEP”) which are available to business customers in Hydro’s interconnected system and isolated diesel service areas. These programs offer rebates on many energy efficient lighting technologies and heating and lighting controls. The custom component of the programs provides technical support to help commercial customers identify economical energy efficiency opportunities and provide financial support for capital upgrades. In 2021, the Business Efficiency Program resulted in energy savings of 61 MWh and ISBEP totaled 103 MWh.

<b>Issue 3: Safety, Health and Environment</b>	
	<p><b>Industrial Customers</b></p> <p>Hydro works one-on-one with its industrial customers to determine opportunities for energy savings within their establishments. In 2021, one industrial energy efficiency project was completed that resulted in annual electricity savings of 165 MWh.</p> <p><b>Electrification, Conservation and Demand Management Plan</b></p> <p>The regulatory proceeding to approve the test to evaluate the economic justification of electrification programs identified within the five-year plan for electrification, conservation and demand management advanced through 2021 and continues in 2022. The plan shifts the focus of programs from energy savings to managing peak demand while promoting customer electrification programs for the first time.</p>
<p>Purchased two Hydro fleet electric vehicles and installed supporting Level 2 charging infrastructure at Hydro-owned sites as approved in the 2021 capital budget application.</p>	<p>In accordance with the PUB-approved 2021 Capital Budget Application,<sup>36</sup> Hydro purchased and installed three electric vehicle corporate site chargers in 2021. The remaining electric vehicle corporate site chargers will be installed in 2022 and beyond.</p> <p>In August 2021, Hydro filed its 2022 Capital Budget Application that included the purchase of an additional two fleet electric vehicles in 2022.<sup>37</sup></p>
<p>Delivered Street Light Modernization Program to replace existing lights with more energy efficient LED lights.</p>	<p>Hydro executed the 2021 requirements under the Street Light Modernization Program in accordance with its 2021 Capital Budget Application. The program involves the replacement of mercury vapor and high pressure sodium street lights with light emitting diode (LED) lights. In addition to providing long-term cost savings and reliability benefits for customers, LED lights are more energy efficient.</p>
<p>Supported stakeholder-led initiatives to integrate renewable generation in rural, off-grid communities.</p>	<p>In 2019, the Province, in partnership with Newfoundland and Labrador Hydro, issued an Expression of Interest (EOI) for renewable energy solutions in the province’s regulated isolated diesel-powered electricity systems.</p>

<sup>36</sup> Approved in Board Order Nos. P.U. 2(2021) and P.U. 11(2021).

<sup>37</sup> Approved in Board Order No. P.U. 37(2021).

### Issue 3: Safety, Health and Environment

In December 2021, the Province announced its Renewable Energy Plan. Hydro worked with the Province in the development of the Plan and will continue to work with the Province with respect to a number of actions outlined throughout the plan.

In 2021, Hydro continued to support the Province's efforts to advance renewable generation in rural, off-grid communities. As most of these communities are located in southern Labrador, Hydro has been committed to working with Indigenous partners to collaboratively advance renewable generation opportunities.

In 2021, the NunatuKavut Community Council confirmed that Nunacor would take ownership of the selection of proponents responding to the EOI. Hydro developed supporting documents defining technical requirements and the interconnection process and will provide technical support, as required, for the integration of renewable generation. In northern Labrador, Hydro continued to support the Nunatsiavut Government's Energy Security Plan as well as the Nain Wind Micro Grid project and proposed new solar generation installations.

Hydro has been actively engaged with Indigenous groups and stakeholders to foster development of cost-effective renewables. The standard model for such developments involve a third party developing and operating the renewables, with Hydro purchasing the output at a cost below that which would be incurred to generate equivalent energy in Hydro's diesel generating stations. To date, there are three communities where such developments have been completed (Makkovik, Mary's Harbour, and Ramea) but discussions were ongoing through 2021 with other areas in relation to specific projects.

Hydro also advanced several other initiatives related to renewables in rural, off-grid communities in 2021. Hydro-led initiatives included advancing the Mary's Harbour project photovoltaic ("PV") and battery energy storage facility, which began operations in November 2021. Together with the mini-hydro facility, it generated approximately 725 MWh in 2021.

<b>Issue 3: Safety, Health and Environment</b>	
	<p>Hydro also undertook analysis and negotiations related to the purchase of wind-turbines in Ramea.</p> <p><b>Net Metering</b></p> <p>Net metering initiatives are undertaken by customers, not by Hydro directly; however, there is an impact on Hydro’s system as a result of net metering activity. Hydro currently has one net metering customer in an isolated diesel community under Hydro’s net metering service option. In 2021, this customer’s net metering resulted in the displacement of approximately 29 MWh of diesel generation.</p>
<p><b>Objective</b></p> <p>By December 31, 2022, Hydro will have progressed its commitment to safety and environmental excellence, sustainability, and employee health and well-being through the completion of planned training, communications, and related initiatives.</p>	
<p><b>Indicators</b></p>	<ul style="list-style-type: none"> <li>• Safety and mental health training for new employees, employees taking on new roles and refresher training for existing employees completed as required.</li> <li>• Completed planned employee, customer and public safety communications.</li> <li>• Advanced conservation and demand management initiatives outlined in the 2021-2025 Electrification, Conservation and Demand Management Plan.</li> <li>• Purchased two Hydro fleet electric vehicles and installed supporting Level 2 charging infrastructure at Hydro-owned sites as approved by the PUB.</li> <li>• Continued delivery of the Street Light Modernization Program to replace existing street lights with energy-efficient LED lights.</li> <li>• Advanced support through stakeholder-led initiatives to integrate renewable generation in rural, off-grid communities.</li> </ul>



## 5.0 OPPORTUNITIES AND CHALLENGES

Implementing priorities, as set out in the 2020-2022 Strategic Plans of both Nalcor and Hydro, will require the Organization to continue to build on its accomplishments and address future challenges and opportunities. The key opportunities and challenges that will be addressed reflect the next phase of the Organization's strategy in support of the Province's energy sector strategic directions.

### 5.1 Affordable Electricity Rates

During 2022, the Organization will continue to collaborate with the Province to evaluate and implement measures to mitigate the impact of Muskrat Falls on electricity rates. The Organization will also continue to fulfill its commitments to enhance efficiency and effectiveness in its operations and investments while remaining cognizant that the Organization's cost of operations has an impact on customer rates.

### 5.2 Electricity Supply and Reliability

#### Muskrat Falls Project

During 2021, the Organization concluded commissioning work on the generation components of the Muskrat Falls Project. In 2022, the Organization will continue to work toward commissioning of the LIL, including dynamic commissioning of the interim software for the LIL (final software expected in 2022).

#### Reliability and Resource Adequacy

In 2022, the Organization will sustain its focus on completing required maintenance and identifying and completing required capital projects. The Organization will continue to consult with customers and will strive to strike a balance between cost and reliability when making significant decisions. The Organization will ensure new assets are in service and reliable before making permanent decisions with respect to the future of the Holyrood Thermal Generating Station and other key assets in the electricity system.

#### Network Additions Policy – Labrador Interconnected System

In 2021, Hydro received PUB approval of its Network Additions Policy for the Labrador Interconnected System.<sup>38</sup> Implementation of the Network Additions Policy will continue through 2022. This will include determining the true level of new firm load expected to materialize on the Labrador Interconnected System and the next steps required to integrate those new loads into the Labrador Interconnected System. Additionally, Hydro continues to

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<sup>38</sup> Approved in Board Order No. P.U. 17(2021).

assess the potential for a non-firm rate offering for Labrador Interconnected customers. This assessment is expected to be complete in 2022. Hydro will require PUB approval for a non-firm rate offering, as well as approval for capital projects and customer contributions which may be associated with interconnection of firm and non-firm customers.

### **5.3 Value from Electricity**

The Organization's energy marketing portfolio continues to grow. Throughout 2022, the Organization will advance its plan for energy marketing operations and continue to pursue opportunities to increase the value of its portfolio. The Organization will continue to explore and assess opportunities in export markets that could bring value to the province from the sale of surplus energy and investigate all reasonable measures to minimize the impact of the Muskrat Falls Project on electricity rates for customers.

As sustainability and environmental stewardship become increasingly important priorities in the province, as well as at the national and global level, the Organization is experiencing substantial interest in its renewable resource potential. This interest is coming from entities wishing to: partner in the development of renewable resources; power their organizations using sustainable, renewable resources; and participate in the further development of energy resources. If this materializes, it will provide additional opportunities for decarbonization of the energy sector. For example, the Organization has been engaged by numerous entities that have expressed interest in availing of Newfoundland and Labrador's renewable energy to support the creation of hydrogen for export to global markets. Due to its wealth of renewable energy resources, the Organization has also received interest from companies in energy-intensive industries, such as aluminum smelting.

Newfoundland and Labrador is uniquely positioned due to its renewable energy resources as well as its geographic location, which provides access to North American and European markets. For both the Organization and the Province, this presents opportunity to extract maximum value from its resources and fuel economic growth; however, there are challenges with respect to the current availability of resources to meet this potential demand. The Organization is currently evaluating this interest in conjunction with the Province to ensure its resources are developed and managed in a manner that will ultimately benefit the people of Newfoundland and Labrador.

## 5.4 Safety, Health and Environment

Achieving and maintaining strong safety, health and environmental performance will continue to be a priority; however, the Organization recognizes that this is challenged by the pandemic and ongoing organizational changes. The 2022 safety and health plan will focus on strategic initiatives that align with its sustainability strategy and includes priority areas such as: safety and health monitoring; occupational health, hygiene and wellness; contractor safety management; health promotion and injury prevention; emergency preparedness and response, and public safety; as well as other safety management system targets/ initiatives as identified (e.g., new leading indicators, lifting and rigging, etc.).

Customer safety and public safety around electrical equipment are also key elements of the Organization's safety commitment. Throughout 2022, power line safety, power outage safety, winter preparedness along with safety around hydroelectric dams and other electrical equipment will continue to be key themes for the Organization's safety communications to customers and the public.

The Organization will also focus on managing risk and minimizing the impact of operations on the environment. Over the planning period, the Organization's ISO 14001:2015 registered Environmental Management System will be used to support its focus on continuous improvement. As well, the Organization will continue to promote demand management by residential, commercial and industrial customers. The Organization will also support the Province's environmental initiatives related to electric vehicle infrastructure, electrification opportunities, and the integration of renewables in communities that rely on diesel for electricity generation.

**Appendix A**  
**Overview of Business Segments**

## **Newfoundland and Labrador Hydro - Line of Business**

Hydro delivers power to utility, industrial, residential and commercial customers in more than 200 communities in the province at the lowest possible cost consistent with reliable service.

Hydro activities can be grouped as follows:

- Electricity production – Hydro has an installed generating capacity of 1,763 megawatts (MW) which includes the operations of nine hydroelectric generating stations, one oil-fired plant, four gas turbines, and 24 diesel plants, including 19 isolated diesel generating and distribution systems.
- Transmission and distribution – Hydro operates and maintains over 4,400 kilometres of transmission lines and 69 terminal stations which connect to generation and delivery points for Newfoundland Power on the island, industrial customers, and Hydro’s rural distribution systems province-wide. Hydro also operates and maintains approximately 2,700 kilometres of distribution lines throughout the province.
- The Newfoundland and Labrador System Operator (NLSO) acts as the independent operator to manage the provincial electricity system in real-time. It also provides Open Access to the provincial transmission network, which means providing transmission service to users like Hydro and other utilities, in an open, non-discriminatory and non-preferential manner.
- Customer service activities address the electricity requirements of Newfoundland Power, industrial customers and over 38,800 direct residential and commercial customers in rural Newfoundland and Labrador.
- Electricity system planning involves forecasting electricity requirements in the province and advancing options to ensure adequate supply of generation resources and transmission and distribution infrastructure to reliably meet forecasted demand.

## **Nalcor Energy – Business Segments**

The activities of Nalcor’s five business segments support the fulfillment of the strategic directions of the Government for the energy sector. A description of each business segment is presented below with additional information pertaining to each of Nalcor’s strategic issues for the 2020-22 planning period included in the issues section.

### Newfoundland and Labrador Hydro

Hydro, a subsidiary of Nalcor, is focused on providing a safe, reliable and least-cost electricity supply to meet current energy needs and accommodate future growth. Through its regulated and non-regulated activities, Hydro is the primary generator of electricity for use in Newfoundland and Labrador.

The majority of Hydro’s business is regulated by the PUB and its electricity rates are set through periodic general rate applications. The regulated portion of the company includes the generation, transmission and distribution of electrical power and energy to utility, residential and commercial customers, as well as island industrial customers. The non-regulated activities of Hydro include electricity sales to industrial customers in Labrador West.

### Power Development

The development of the 824 megawatts (MW) Muskrat Falls hydroelectric generating facility on the lower Churchill River in Labrador is a key component of the province’s energy resources. The clean, stable, renewable electricity provides an opportunity for the province to meet its own domestic and industrial needs in an environmentally-sustainable way, and also export excess electricity to other jurisdictions where the demand for clean, renewable energy continues to grow. Once construction is complete this asset will become part of Nalcor’s Power Supply segment.

### Power Supply

Power Supply includes CF(L)Co, the Labrador Transmission Assets (LTA), Labrador-Island Link (LIL), Energy Trading, the Menihek Generating Station and the Maritime Link. Nalcor’s operation in Churchill Falls is one of the largest underground hydroelectric powerhouses in the world, with a rated capacity of 5,428 MW. Safely operating and maintaining its electricity assets, as well as municipal and community services in support of these electricity assets, drives the Churchill Falls strategy.

The Churchill Falls hydroelectric generating station provides clean, renewable electricity to millions of consumers throughout North America. A significant portion of that electricity is sold to Hydro-Québec under a long-term contract. Churchill Falls sells to Hydro 225 MW for use in Labrador West and 300 MW of Recapture energy for use in the province. Any surplus Recapture not used by Hydro is made available to NEM for export.

The LTA and LIL comprise the new transmission components of Power Supply, and include 1,600 km of transmission lines and associated electrical infrastructure. The LTA is a high voltage alternating current (HVac) transmission line between Churchill Falls and Muskrat Falls. LIL is a 1,100 km high voltage direct current (HVdc) transmission line between Muskrat Falls and Soldiers Pond on the island's Avalon Peninsula. LIL includes a 30 km subsea transmission link connecting Labrador to the island.

### Offshore Development

Nalcor is an equity partner in three offshore fields, White Rose, Hibernia Southern Extension and Hebron. A new oil and gas corporation has been created by legislation and will manage these three interests on behalf of Nalcor Oil and Gas. The exploration of new oil and gas, and any new ownership interests in Newfoundland, will be undertaken by the new oil and gas corporation.

### Corporate

This business segment includes finance and accounting operations, corporate planning and reporting, corporate communications, shareholder relations, information management, human resources, safety, environment, community investment, business development and all other shared service functions.

**Appendix B**  
**Energy Portfolio**



# ENERGY PORTFOLIO

## LEGEND

- Hydroelectric Generation Station

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- Thermal Plant/Combustion Turbine

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- ▲ Diesel Plant

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- ⚡ Wind Generation

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- ⚓ Offshore Oil Projects

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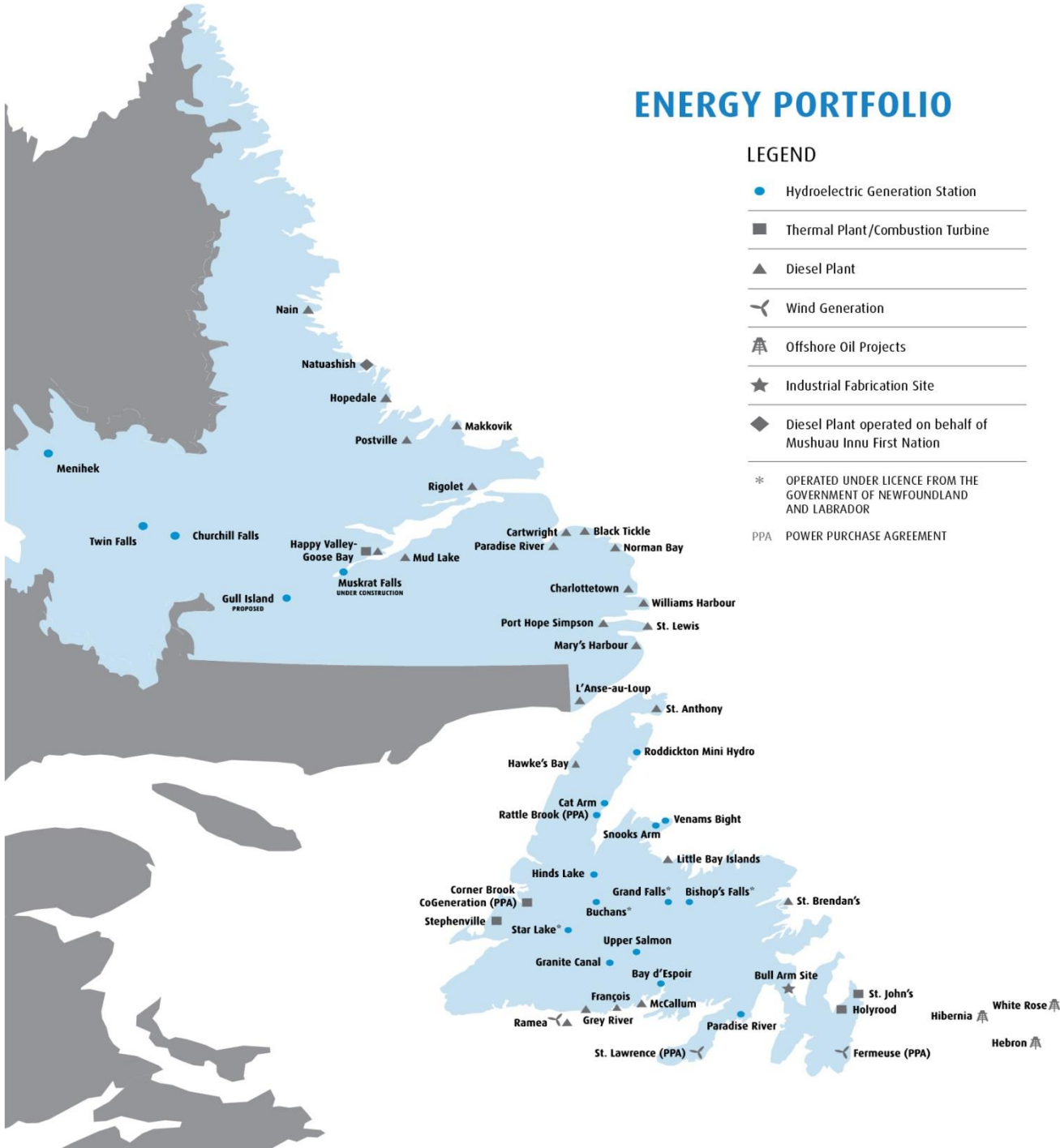
- ★ Industrial Fabrication Site

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- ◆ Diesel Plant operated on behalf of Mushuau Innu First Nation

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- \* OPERATED UNDER LICENCE FROM THE GOVERNMENT OF NEWFOUNDLAND AND LABRADOR
- PPA POWER PURCHASE AGREEMENT



**Appendix C**  
**Nalcor Energy Consolidated Financial Statements**

**NALCOR ENERGY**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2021**

## 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, 2021, and the consolidated statements of profit and comprehensive income, 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, 2021, 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 21, 2022

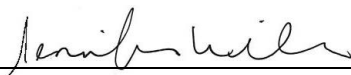
**NALCOR ENERGY**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

<i>As at December 31 (millions of Canadian dollars)</i>	Notes	2021	2020
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	5	407	329
Restricted cash		813	860
Short-term investments	11	8	105
Trade and other receivables	6	177	163
Inventories	7	115	122
Other current assets	8	24	30
<b>Total current assets</b>		<b>1,544</b>	<b>1,609</b>
Non-current assets			
Property, plant and equipment	9	17,739	17,228
Intangible assets	10	38	38
Investments	11	262	253
Other long-term assets		7	7
<b>Total assets</b>		<b>19,590</b>	<b>19,135</b>
Regulatory deferrals	12	184	172
<b>Total assets and regulatory deferrals</b>		<b>19,774</b>	<b>19,307</b>
<b>LIABILITIES AND EQUITY</b>			
Current liabilities			
Short-term borrowings	15	55	262
Trade and other payables	13	384	401
Current portion of long-term debt	15	68	68
Other current liabilities	14	74	19
<b>Total current liabilities</b>		<b>581</b>	<b>750</b>
Non-current liabilities			
Long-term debt	15	9,792	9,577
Class B limited partnership units	16	681	628
Deferred credits	17	1,809	1,819
Decommissioning liabilities	18	126	124
Employee future benefits	19	139	153
Other long-term liabilities	20	111	70
<b>Total liabilities</b>		<b>13,239</b>	<b>13,121</b>
Shareholder's equity			
Share capital	22	123	123
Shareholder contributions		4,859	4,609
Reserves		(81)	(98)
Retained earnings		1,607	1,535
<b>Total equity</b>		<b>6,508</b>	<b>6,169</b>
<b>Total liabilities and equity</b>		<b>19,747</b>	<b>19,290</b>
Regulatory deferrals	12	27	17
<b>Total liabilities, equity and regulatory deferrals</b>		<b>19,774</b>	<b>19,307</b>

Commitments and contingencies (Note 31) and Subsequent event (Note 34)

See accompanying notes

On behalf of the Board:

  
 DIRECTOR

  
 DIRECTOR

## NALCOR ENERGY

### CONSOLIDATED STATEMENT OF PROFIT (LOSS) AND COMPREHENSIVE INCOME (LOSS)

<i>For the year ended December 31 (millions of Canadian dollars)</i>	Notes	2021	2020
Energy sales	24	976	913
Other revenue	30	37	17
Revenue		1,013	930
Fuels		122	158
Power purchased		80	91
Operating costs	25	230	211
Production, marketing and transportation costs	26	31	39
Transmission rental		24	26
Depreciation, depletion, amortization and impairment		202	437
Net finance expense	27	127	109
Other expense (income)	28	157	(37)
Expenses		973	1,034
Share of loss of joint arrangement		1	-
Profit (loss) for the year before regulatory adjustments		39	(104)
Regulatory adjustments	12	(33)	(14)
Profit (loss) for the year		72	(90)
Other comprehensive income			
Total items that may or have been reclassified to profit or loss:			
Actuarial gain (loss) on employee future benefits	19	21	(2)
Net fair value (loss) gain on reserve fund	11	(1)	1
Net fair value (loss) gain on cash flow hedges		(61)	46
Reclassification adjustments related to:			
Cash flow hedges recognized in profit or loss		58	(42)
Other comprehensive income for the year		17	3
Total comprehensive income (loss) for the year		89	(87)

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
<b>Balance at January 1, 2021</b>		123	4,609	(65)	(33)	1,535	6,169
<b>Profit for the year</b>		-	-	-	-	72	72
<b>Other comprehensive income</b>		-	-	(4)	21	-	17
<b>Total comprehensive income for the year</b>		-	-	(4)	21	72	89
<b>Shareholder contributions</b>	30	-	250	-	-	-	250
<b>Balance at December 31, 2021</b>		123	4,859	(69)	(12)	1,607	6,508
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
<b>Total comprehensive loss for the year</b>		-	-	5	(2)	(90)	(87)
<b>Shareholder contributions</b>		-	1	-	-	-	1
<b>Balance at December 31, 2020</b>		123	4,609	(65)	(33)	1,535	6,169

See accompanying note



**NALCOR ENERGY**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**

<i>For the year ended December 31 (millions of Canadian dollars)</i>	Notes	2021	2020
<b>Operating activities</b>			
Profit (loss) for the year		72	(90)
Adjustments to reconcile profit (loss) to cash provided from operating activities:			
Depreciation, depletion, amortization and impairment		202	437
Hibernia South Extension Redetermination re-balancing adjustment	28	89	-
(Gain) loss on disposal of property, plant and equipment and intangible assets	28	(24)	6
Amortization of rate stabilization plan fuel credit		33	24
Regulatory adjustments	12	(33)	(14)
Finance income	27	(27)	(32)
Finance expense	27	154	141
Other		15	23
		<b>481</b>	<b>495</b>
Changes in non-cash working capital balances	32	(11)	32
Interest received		12	24
Interest paid		(387)	(387)
<b>Net cash provided from operating activities</b>		<b>95</b>	<b>164</b>
<b>Investing activities</b>			
Additions to property, plant and equipment and intangible assets	33	(452)	(551)
Proceeds on disposal of property plant and equipment and intangible assets		40	2
Decrease (increase) in investments		76	(31)
Other		2	2
Changes in non-cash working capital balances	32	(4)	29
<b>Net cash used in investing activities</b>		<b>(338)</b>	<b>(549)</b>
<b>Financing activities</b>			
Proceeds from long-term debt	15	287	-
Repayment of long-term debt		(61)	(30)
Decrease in restricted cash		47	600
(Decrease) increase in short-term borrowings		(207)	29
Shareholder contributions	30	250	-
Rate stabilization plan fuel credit		(3)	(55)
Other		8	(4)
<b>Net cash provided from financing activities</b>		<b>321</b>	<b>540</b>
<b>Net increase in cash and cash equivalents</b>		<b>78</b>	<b>155</b>
<b>Cash and cash equivalents, beginning of the year</b>		<b>329</b>	<b>174</b>
<b>Cash and cash equivalents, end of the year</b>		<b>407</b>	<b>329</b>

See accompanying notes

# NALCOR ENERGY

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 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).

# NALCOR ENERGY

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 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 4, 2022.

### 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, operating, maintenance and sustaining 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.

# NALCOR ENERGY

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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 12. 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 75 years
Terminal stations	7 to 70 years
Distribution system	20 to 60 years
Service facilities and other assets	3 to 100 years

Hydroelectric generation plant includes the powerhouse, turbines and generators, governors and exciters, and auxiliary systems, as well as water conveying and control structures, including dams, dikes, tailraces, surge chambers, spillways, penstocks, draft tube 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 and terminal stations include the support structures, foundations, conductors and insulators associated with lines at voltages of 735, 350, 315 and 230, 138 and 69 kilovolt. Terminal station assets which are used to step up voltages of electricity for transmission and to step down voltages for distribution, provide switching and protection functions, and include HVDC Converters to convert between AC and DC voltages, synchronous condensers and auxiliary systems. Distribution system assets include poles, transformers, insulators, conductors, subsea cables, and electrode equipment.

Service facilities and other assets include roads, telecontrol, buildings, airport, aircraft, vehicles, heavy equipment, furniture, tools and equipment, and the town site, including municipal water and sanitary sewer systems.

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 expense (income). Pursuant to Board Order P.U. 30 (2019), Hydro's gains and losses are deferred on retirement of property, plant and equipment. The deferral will be recovered through future depreciation 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.

# NALCOR ENERGY

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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

# NALCOR ENERGY

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 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 Profit (Loss) and Comprehensive Income (Loss) 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 Profit (Loss) and Comprehensive Income (Loss).

### 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 Profit (Loss) and Comprehensive Income (Loss) reflects the share of the profit or loss of the joint venture.

### 2.11 Employee Future Benefits

#### Pension Plan

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.

# NALCOR ENERGY

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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 Profit (Loss) and Comprehensive Income (Loss) 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 Profit (Loss) and Comprehensive Income (Loss) 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 will continue to recognize revenue as customers are invoiced on a monthly basis using practical expedient IFRS 15.B16. Nalcor recognizes some 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.

# NALCOR ENERGY

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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.



# NALCOR ENERGY

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 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 Profit (Loss) and Comprehensive Income (Loss) as other expense (income).

### 2.17 Income Taxes

Nalcor is exempt from paying income taxes under Section 149(1)(d) 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 amortized cost, FVTPL 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 accumulated in the fair value reserve. When these assets are derecognized, the cumulative gains or losses previously recognized in other comprehensive income 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.

# NALCOR ENERGY

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 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.

### Financial Liabilities at FVTPL

Financial liabilities that do not meet the criteria for being measured at amortized cost or FVTOCI are measured at FVTPL. Financial liabilities 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 liabilities measured at FVTPL include derivative instruments not part of a designated hedging relationship.

### 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, long-term investments, sinking funds and the reserve fund.

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

# NALCOR ENERGY

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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, while any ineffective portion is recognized immediately in the Consolidated Statement of Profit (Loss) and Comprehensive Income (Loss) for the period in other expense (income). Amounts recognized in other comprehensive income are transferred to the Consolidated Statement of Profit (Loss) and Comprehensive Income (Loss) 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 Profit (Loss) and Comprehensive Income (Loss) 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 Profit (Loss) and Comprehensive Income (Loss) 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 on rate base based upon Board Order No. P.U. 30 (2019) is 5.4% in 2021 and 5.4% in 2020. Hydro applies various regulator approved 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 12.

## 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.

In 2020, the outbreak of the Coronavirus disease (COVID-19) has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. For the year ended December 31, 2021, COVID-19 did not have a significant financial impact on the Company's results of operations, financial position or cash flow. There continues to be uncertainty around the duration and magnitude of the pandemic and therefore the extent of any future effect on the Company is unknown at this time. Management will continue to assess the impact of COVID-19 on the Company's operations and financial results.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 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.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### (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) 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 Profit (Loss) and Comprehensive Income (Loss) 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.

### (iv) Employee Future Benefits

Nalcor provides group life insurance and health care benefits on a cost-shared basis to retired employees, in addition to a

# NALCOR ENERGY

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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.

(v) 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, 2021, as specified.

- *IFRS 16 – Leases – COVID-19 Related Rent Concessions beyond June 30, 2021 (Amendment to IFRS 16)*<sup>1</sup>
- *IAS 37 – Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Costs of Fulfilling a Contract (Amendments to IAS 37)*<sup>2</sup>
- *IAS 1 – Presentation of Financial Statements – Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)*<sup>3</sup>
- *IAS 1 – Presentation of Financial Statements – Disclosure of Accounting Policies (Amendments to IAS 1)*<sup>3</sup>
- *IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Accounting Estimates (Amendments to IAS 8)*<sup>3</sup>

<sup>1</sup> Effective for annual periods beginning on or after April 1, 2021.

<sup>2</sup> Effective for annual periods beginning on or after January 1, 2022, with earlier application permitted.

<sup>3</sup> Effective for annual periods beginning on or after January 1, 2023, with earlier application permitted.

##### 4.1 IFRS 16 – Leases – COVID-19 Related Rent Concessions beyond June 30, 2021 (Amendment to IFRS 16)

The IASB issued an extension to the practical expedient available to lessees that permits a lessee to elect not to assess whether a COVID-19 related rent concession is a lease modification. The extension allows the application of the practical expedient to reductions in lease payments originally due on or before June 30, 2022. Since Nalcor does not have any COVID-19 related rent concessions, the application of this amendment does not have an impact on Nalcor's financial statements.

##### 4.2 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.

##### 4.3 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. Management is currently assessing the amendments and any potential impact on Nalcor's financial statements.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 4.4 IAS 1 – Presentation of Financial Statements– Disclosure of Accounting Policies (Amendments to IAS 1)

The IASB issued amendments to IAS 1, which change the requirements with regard to the disclosure of accounting policies. The amendments replace all instances of the term ‘significant accounting policies’ with ‘material accounting policy information’. Accounting policy information is material if, when considered together with other information included in an entity’s financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The application of these amendments is not expected to have an impact on Nalcor’s financial statements.

### 4.5 IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Accounting Estimates (Amendments to IAS 8)

The IASB issued amendments to IAS 8 to clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. The amendments are intended to improve the understanding of the existing requirements and therefore are not expected to have an impact on Nalcor’s financial statements.

## 5. CASH AND CASH EQUIVALENTS

As at December 31, 2021 and 2020, cash and cash equivalents consisted entirely of cash.

## 6. TRADE AND OTHER RECEIVABLES

<i>As at December 31 (millions of Canadian dollars)</i>	2021	2020
Trade receivables	176	157
Other receivables (a)	24	23
Loss allowance	(23)	(17)
	177	163

a) Other receivables are comprised primarily of harmonized sales tax as well as bank interest and advances.

<i>As at December 31 (millions of Canadian dollars)</i>	2021	2020
0-60 days	168	149
60+ days	9	14
	177	163

<i>As at December 31 (millions of Canadian dollars)</i>	2021	2020
Loss allowance, beginning of the year	(17)	(14)
Change in balance during the year	(6)	(3)
Loss allowance, end of the year	(23)	(17)

## 7. INVENTORIES

<i>As at December 31 (millions of Canadian dollars)</i>	2021	2020
Materials and other	65	65
Fuel	46	54
Crude oil	4	3
	115	122

The amount of inventory recognized as an expense during the year was \$126.1 million (2020 - \$162.1 million) and is included in operating costs and fuels.

# NALCOR ENERGY

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 8. OTHER CURRENT ASSETS

<i>As at December 31 (millions of Canadian dollars)</i>	2021	2020
Prepayments	21	27
Derivative assets	3	3
	<b>24</b>	<b>30</b>

### 9. PROPERTY, PLANT AND EQUIPMENT

<i>(millions of Canadian dollars)</i>	Generation Plant	Transmission and Distribution	Petroleum and Natural Gas Properties	Other	Assets Under Development	Total
<b>Cost</b>						
Balance as at January 1, 2020	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)
<b>Balance as at December 31, 2020</b>	<b>2,051</b>	<b>1,436</b>	<b>1,628</b>	<b>532</b>	<b>13,531</b>	<b>19,178</b>
<b>Additions</b>	<b>1</b>	<b>-</b>	<b>24</b>	<b>12</b>	<b>690</b>	<b>727</b>
<b>Disposals</b>	<b>(13)</b>	<b>(2)</b>	<b>(46)</b>	<b>(2)</b>	<b>-</b>	<b>(63)</b>
<b>Transfers</b>	<b>96</b>	<b>1,836</b>	<b>-</b>	<b>27</b>	<b>(1,959)</b>	<b>-</b>
<b>Decommissioning liabilities and revisions</b>	<b>-</b>	<b>-</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>1</b>
<b>Other adjustments</b>	<b>-</b>	<b>(4)</b>	<b>-</b>	<b>2</b>	<b>-</b>	<b>(2)</b>
<b>Balance as at December 31, 2021</b>	<b>2,135</b>	<b>3,266</b>	<b>1,607</b>	<b>571</b>	<b>12,262</b>	<b>19,841</b>
<b>Depreciation, depletion and impairment</b>						
Balance as at January 1, 2020	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
<b>Balance as at December 31, 2020</b>	<b>659</b>	<b>272</b>	<b>758</b>	<b>206</b>	<b>55</b>	<b>1,950</b>
<b>Depreciation and depletion</b>	<b>57</b>	<b>46</b>	<b>81</b>	<b>15</b>	<b>-</b>	<b>199</b>
<b>Disposals</b>	<b>(7)</b>	<b>(1)</b>	<b>(37)</b>	<b>(2)</b>	<b>-</b>	<b>(47)</b>
<b>Balance as at December 31, 2021</b>	<b>709</b>	<b>317</b>	<b>802</b>	<b>219</b>	<b>55</b>	<b>2,102</b>
<b>Carrying value</b>						
Balance as at January 1, 2020	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
<b>Balance as at December 31, 2021</b>	<b>1,426</b>	<b>2,949</b>	<b>805</b>	<b>352</b>	<b>12,207</b>	<b>17,739</b>

Capitalized interest for the year ended December 31, 2021 was \$292.2 million (2020 - \$297.3 million) related to assets under development.



# NALCOR ENERGY

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

On a quarterly basis, the Company assesses its cash generating units (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 for the Company's Oil and Gas CGU's. The impairment assessments of these 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. As at December 31, 2021, 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 (CAD/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	
	1%	1%	5%	5%
<i>(millions of Canadian dollars)</i>	Decrease	Increase	Decrease	Increase
Total impairment - (Decrease) Increase	(10.7)	9.9	19.4	(23.4)

# NALCOR ENERGY

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 10. INTANGIBLE ASSETS

<i>(millions of Canadian dollars)</i>	Computer Software	Feasibility Studies	Assets Under Development	Total
<b>Cost</b>				
Balance as at January 1, 2020	45	2	10	57
Additions	2	-	3	5
Disposals	(5)	(1)	-	(6)
Transfers	4	-	(4)	-
Other adjustments	-	-	4	4
<b>Balance as at December 31, 2020</b>	<b>46</b>	<b>1</b>	<b>13</b>	<b>60</b>
<b>Additions</b>	<b>1</b>	<b>-</b>	<b>4</b>	<b>5</b>
<b>Transfers</b>	<b>6</b>	<b>-</b>	<b>(6)</b>	<b>-</b>
<b>Balance as at December 31, 2021</b>	<b>53</b>	<b>1</b>	<b>11</b>	<b>65</b>
<b>Amortization</b>				
Balance as at January 1, 2020	20	1	-	21
Amortization	4	1	-	5
Disposals	(3)	(1)	-	(4)
<b>Balance as at December 31, 2020</b>	<b>21</b>	<b>1</b>	<b>-</b>	<b>22</b>
<b>Amortization</b>	<b>5</b>	<b>-</b>	<b>-</b>	<b>5</b>
<b>Balance as at December 31, 2021</b>	<b>26</b>	<b>1</b>	<b>-</b>	<b>27</b>
<b>Carrying value</b>				
Balance as at January 1, 2020	25	1	10	36
Balance as at December 31, 2020	25	-	13	38
<b>Balance as at December 31, 2021</b>	<b>27</b>	<b>-</b>	<b>11</b>	<b>38</b>

### 11. INVESTMENTS

<i>As at December 31 (millions of Canadian dollars)</i>	2021	2020
Sinking funds	(a) 227	219
Reserve fund	(b) 43	39
Investments	(c) -	100
<b>Total investments</b>	<b>270</b>	<b>358</b>
<b>Less: amounts classified as short-term</b>	<b>(8)</b>	<b>(105)</b>
	<b>262</b>	<b>253</b>

- a) As at December 31, 2021, sinking funds include \$191.7 million (2020 - \$182.6 million) related to repayment of Hydro's long-term debt and \$35.6 million (2020 - \$36.1 million) related to funding of Nalcor's long-term payable under the Upper Churchill Redress Agreement (UCRA). Sinking fund investments consist of bonds, debentures, promissory notes and coupons issued by, or guaranteed by, the Government of Canada, provincial governments or Schedule 1 banks, and have maturity dates ranging from 2022 to 2041.

Hydro debentures, which are intended to be held to maturity, are deducted from debt while all other sinking fund investments are shown separately on the Consolidated 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 1.42% to 6.82% (2020 - 1.52% to 6.82%).

LIL LP, Muskrat Falls and Labrador Transco are required to contribute to sinking funds as part of the federal loan guarantee on

# NALCOR ENERGY

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Tranche A, B and C debentures.

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

The movements in sinking funds for the year are as follows:

<i>As at December 31 (millions of Canadian dollars)</i>	2021	2020
Sinking funds, beginning of the year	219	211
Contributions	7	7
Earnings	14	13
Disposals and maturities	(2)	(2)
Change in sinking fund investments in own debentures	(11)	(10)
Sinking funds, end of the year	227	219
Less: amounts classified as short-term	(2)	(2)
	225	217

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

<i>(millions of Canadian dollars)</i>	2022	2023	2024	2025	2026
Sinking fund instalments	151	151	151	151	151

- 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. Any amounts removed to fund capital expenditures must be replaced. Reserve fund holdings consist of securities issued by the Government of Canada, various provinces of Canada and Schedule 1 and 2 Canadian Chartered Banks.

The movement in Nalcor's proportionate share of the reserve fund for the year is as follows:

<i>As at December 31 (millions of Canadian dollars)</i>	2021	2020
Reserve fund, beginning of the year	39	25
Principal contributions	5	13
Mark-to-market adjustment	(1)	1
Reserve fund, end of the year	43	39
Less: amounts classified as short-term	(6)	(3)
	37	36

- c) Nalcor's Redeemable Guaranteed Investment Certificate matured in December 2021 and was not reinvested.

# NALCOR ENERGY

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 12. REGULATORY DEFERRALS

<i>(millions of Canadian dollars)</i>		January 1 2021	Reclass and Disposition	Regulatory Activity	December 31 2021	Remaining Recovery Settlement Period (years)
<b>Regulatory asset deferrals</b>						
Rate stabilization plan (RSP)	(a)	40	24	(8)	56	n/a
Foreign exchange losses	(b)	46	-	(2)	44	20.0
Retirement asset pool	(c)	13	-	6	19	n/a
Supply cost variance deferral account	(d)	-	-	18	18	n/a
Power purchase expense recognition	(e)	-	-	18	18	n/a
Supply deferrals	(f)	59	(55)	8	12	n/a
Deferred energy conservation costs	(g)	8	-	-	8	n/a
Business system transformation program	(h)	4	-	1	5	n/a
Other	(k-t)	2	-	2	4	n/a
		172	(31)	43	184	
<b>Regulatory liability deferrals</b>						
Removal provision	(i)	(12)	-	(5)	(17)	n/a
Insurance amortization and proceeds	(j)	(3)	-	(4)	(7)	n/a
Other	(k-t)	(2)	-	(1)	(3)	n/a
		(17)	-	(10)	(27)	

### Regulatory Adjustments Recorded in the Consolidated Statement of Profit (Loss) and Comprehensive Income (Loss)

<i>For the year ended December 31 (millions of Canadian dollars)</i>	2021	2020
RSP amortization	(24)	(32)
Rural rate adjustment	2	2
RSP fuel deferral	33	57
RSP interest	(3)	(2)
<b>Total RSP activity</b>	<b>8</b>	<b>25</b>
Supply deferral recovery	4	11
Supply deferrals	(12)	(55)
<b>Total supply deferral activity</b>	<b>(8)</b>	<b>(44)</b>
Supply cost variance deferrals	(18)	-
Power purchase expense recognition	(18)	-
Removal provision	5	4
Other	(2)	1
	(b,c,q,h,j-t)	(14)
	<b>(33)</b>	<b>(14)</b>

The following section describes Nalcor's regulatory assets and liabilities which will be, or are expected to be, reflected in customer rates in future periods and 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 profit for 2021 would have decreased by \$32.7 million (2020 - \$14.2 million).

#### (a) 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.

During 2021, Hydro recorded a net increase in the RSP balance of \$16.6 million (2020 - \$23.7 million) resulting in a balance from customers of \$56.5 million (2020 - \$39.9 million). The increase in the RSP asset is primarily due to the recovery of the

# NALCOR ENERGY

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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2020 energy supply deferrals as per Board Order No. P.U. 15 (2021) resulting in a net increase to the RSP of \$54.9 million (2020 - \$19.8 million); and Board Order No. P.U. 6 (2021) which approved a transfer of the remaining balance in the 2017 GRA Cost Recovery Rider to the Island Industrial Customer RSP Current Plan resulting in a net increase to the RSP of \$0.3 million; partially offset by adjustments related to the one-time fuel price bill credits for utility, rural and industrial customers as per Board Order No.'s P.U. 16 (2020) and P.U. 6 (2021) resulting in a net decrease of \$30.9 million (2020 - net increase of \$30.8 million) and normal operation of the RSP resulting in a net decrease of \$7.7 million (2020 - \$25.4 million).

Per Board Order No. P.U. 33 (2021) and Hydro's compliance filing, the RSP was discontinued for purposes of deferring variations in hydraulic production, No. 6 fuel, and load as at October 31, 2021. The Board ordered that the RSP will be maintained to provide timely recovery of the remaining balance resulting in the continuation of amortization and interest charges.

### **(b) 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 2021, amortization expense of \$2.2 million (2020 - \$2.2 million) was recorded.

### **(c) 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. In 2021, Hydro deferred \$6.1 million (2020 - \$2.1 million) of retirement asset activity resulting in a total balance of \$19.3 million.

### **(d) Supply Cost Variance Deferral Account**

In Board Order No. P.U. 33 (2021), the PUB approved Hydro's proposal to establish an account to defer payments under the Muskrat Falls Project agreements, rate mitigation funding, project cost recovery from customers and supply cost variances. The deferral commenced activity on November 1, 2021. As at December 31, 2021, \$18.3 million was deferred for future recovery from customers.

### **(e) Power Purchase Expense Recognition**

In Board Order No. P.U. 9 (2021) and Board Order No. P.U. 33 (2021), the PUB approved Hydro's proposal to deviate from IFRS to allow recognition of expenses related to the purchase of energy in accordance with the commercial terms of the Muskrat Falls Power Purchase Agreement. As at December 31, 2021, IFRS power purchase expenses were \$14.8 million higher during Muskrat Falls pre-commissioning and \$2.8 million higher during post-commissioning than commercial payments which resulted in the deferral of a regulatory asset of \$17.6 million.

### **(f) Supply Deferrals**

Pursuant to Board Order No. P.U. 22 (2017), the Board approved Supply deferral costs using three specific deferral accounts: the Energy Supply, Holyrood Conversion and Isolated Systems Supply cost deferrals. During 2021, Hydro recorded a net decrease to the supply deferrals of \$47.4 million (2020 - net increase \$24.3 million) resulting in a balance from customers of \$12.3 million (2020 - \$59.7 million). The decrease in the supply deferral asset is primarily due to the recovery of the 2020 supply cost deferral of \$54.9 million from the RSP as per Board Order No. P.U. 15 (2021); Board Order No. P.U. 21 (2019) approved the recovery from customers of \$18.4 million over a 20 month period; of which, in 2021 Hydro recovered \$4.5 million (2020 - \$10.9 million); Board Order No. P.U. 6 (2021) which approved a transfer of the remaining balance in the 2017 GRA cost recovery Rider to the Island Industrial Customer, which resulted in a net decrease to the supply deferral of \$0.3 million (2020 - \$nil); and normal operation of the supply deferral, resulting in a net increase of \$12.3 million (2020 - \$54.9 million), with recovery of the period's activity to be determined through an annual application process.

Per Board Order No. P.U. 33 (2021) and Hydro's compliance application, the Energy Supply and Holyrood Conversion Deferrals were discontinued as at October 31, 2021 with the account maintained to provide for a timely recovery of the remaining balance.

# NALCOR ENERGY

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**(g) Deferred Energy Conservation Costs**

In 2021, Hydro deferred \$1.1 million (2020 - \$0.6 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 (2020 - \$1.5 million) of the balance through a rate rider.

**(h) 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. The recovery of the deferral is subject to a future Board order. During the year, Hydro deferred \$1.0 million (2020 - \$1.1 million).

**(i) 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. Hydro recorded a net increase to the provision relating to 2021 activity of \$4.9 million (2020 - \$4.1 million) resulting in a total balance of \$16.9 million (2020 - \$12.0 million). The increase was driven by removal depreciation of \$5.2 million (2020 - \$5.1 million) which was partially offset by removal costs of \$0.3 million (2020 - \$1.0 million).

**(j) 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 2021, Hydro recorded a net increase of \$4.2 million (2020 - \$nil) to the regulatory liability. The increase was driven by insurance proceeds of \$4.5 million (2020 - \$nil) which was partially offset by insurance amortization of \$0.3 million (2020 - \$nil).

**(k) 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 2021, Hydro recorded amortization of \$0.1 million (2020 - \$0.3 million) of the deferred lease costs.

**(l) Deferred Foreign Exchange on Fuel**

Hydro purchases fuel for HTGS in USD. There are regulatory mechanisms that allow Hydro to defer variances in fuel prices (including foreign exchange fluctuations). During 2021, Hydro recognized an increase to regulatory assets due to foreign exchange losses on fuel purchases of \$0.6 million (2020 - \$0.2 million gains).

**(m) 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. In 2019, Phase Two of the Board's investigation was concluded with recovery to be addressed in a future Board Order. There were no additions in 2021 or 2020. The total deferred balance is \$1.4 million (2020 - \$1.4 million).

**(n) 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.

**(o) Hydraulic Resources Optimization Deferral Account**

In Board Order No. 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, 2021, the balance of hydraulic optimization activities

# NALCOR ENERGY

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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is a net gain of \$1.3 million (2020 - \$1.0 million) recorded as a deferred liability.

**(p) 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 (2020 - \$0.2 million) are deferred as a regulatory liability.

**(q) 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 non-customer related parties in profit or loss. During 2021, Hydro recorded \$1.2 million (2020 - \$0.9 million) in non-customer related party CIAC amortization as a regulatory adjustment. In the absence of rate regulation, IFRS requires these non-customer related party CIACs to be recorded as contributed capital with no corresponding amortization. As a result, during 2021 Hydro also recorded an increase of \$1.2 million (2020 - \$0.9 million) to contributed capital to recognize the amount that was reclassified to profit or loss.

**(r) 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 2021 Hydro recorded \$0.2 million (2020 - \$0.1 million) 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 2021 Hydro also recorded a decrease of \$0.2 million (2020 - \$0.1 million) to other comprehensive income to recognize the amount that was reclassified to profit or loss.

**(s) 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 \$1.3 million in 2021 (2020 - \$0.6 million) resulting in a regulatory asset of \$2.1 million (2020 - \$0.8 million). The recovery of the balance is to be determined in a future Board Order.

**(t) Frequency Converter Revenue Deferral Account**

In Board Order No. 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 2021, Hydro deferred \$0.2 million as a regulatory liability (2020 - \$0.2 million).

### 13. TRADE AND OTHER PAYABLES

<i>As at December 31 (millions of Canadian dollars)</i>	<b>2021</b>	<b>2020</b>
Trade payables and accruals	<b>269</b>	307
Accrued interest payable	<b>56</b>	56
Other payables	<b>59</b>	38
	<b>384</b>	401

# NALCOR ENERGY

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 14. OTHER CURRENT LIABILITIES

<i>As at December 31 (millions of Canadian dollars)</i>	Notes	2021	2020
Current portion of long-term payable	20	38	8
Derivative liabilities	(a)	31	9
Current portion of decommissioning liabilities		2	-
Current portion of deferred credits		2	1
Current portion of deferred contributions		1	1
		<b>74</b>	<b>19</b>

- a) Included in derivative liabilities as at December 31, 2021 is \$18.4 million (2020 - \$nil) related to an embedded derivative associated with the HSE Redetermination re-balancing liability which is recorded in long-term payables, as disclosed in Note 20. The embedded derivative represents the change in fair value of the liability based on current forward oil prices. The offsetting unrealized loss is recorded in other expense (income). Also included in derivative liabilities is the change in fair value of commodity price swap and foreign exchange forward contracts, as disclosed in Note 29.

### 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, the maturity date was extended during the year from January 31, 2022 to July 31, 2022. There were no amounts drawn on this facility as at December 31, 2021 (2020 - \$nil), however \$5.9 million of the borrowing limit has been used to issue 8 irrevocable letters of credit (2020 - \$7.8 million to issue 10 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 utilized its \$300.0 million government guaranteed promissory note program to fulfil its short-term funding requirements. As at December 31, 2021, there were two promissory notes outstanding for a total of \$55.0 million with a maturity date of January 10, 2022 bearing an average interest rate of 0.20% (2020 - \$262.0 million bearing an average interest rate of 0.17%). Upon maturity, the promissory notes were reissued.

Hydro's \$200.0 million CAD or USD equivalent committed revolving term facility with a maturity date of July 27, 2021 was increased to \$500.0 million on April 16, 2021, and extended to reflect a new maturity date of July 31, 2022. As at December 31, 2021, there were no amounts drawn on the facility (2020 - \$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 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. Hydro's committed credit facility with its banker of \$300.0 million matured during the year and was not renewed.

Churchill Falls maintains a \$10.0 million CAD or USD equivalent unsecured demand operating credit facility with its banker. Advances may take the form of a Prime Rate Advance, or the issuance of a BA with interest calculated at the Prime Rate or prevailing Government BA Fee. The facility provides coverage for overdrafts on Churchill Falls' bank accounts, with interest calculated at the Prime Rate. There were no amounts drawn on this facility as at December 31, 2021 (2020 - \$nil).

Churchill Falls has issued three irrevocable letters of credit totaling \$2.0 million (2020 - \$2.0 million to issue three irrevocable letters of credit), \$1.0 million of which does not impact the borrowing limit of the operating credit facility (2020 - \$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.



# NALCOR ENERGY

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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Oil and Gas maintains a \$30.0 million CAD or USD equivalent unsecured demand operating facility with its banker and as at December 31, 2021, there were no amounts drawn on this facility (2020 - \$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. \$20.9 million of the borrowing limit has been used to issue two irrevocable letters of credit (2020 - \$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, 2021, there were no amounts drawn on this facility (2020 - \$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, LIBOR Advances and letters of credit. \$6.4 million of the borrowing limit has been used to issue six irrevocable letters of credit (2020 - \$3.0 million to issue four 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, 2021, Nalcor, on behalf of Energy Marketing, has issued unconditional guarantees and sales contracts in the amount of \$20.7 million (2020 - \$15.0 million) in order to guarantee amounts under power purchase and sale contracts with bilateral counterparties.

# NALCOR ENERGY

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 15.2 Long-term Debt

<i>As at December 31 (millions of Canadian dollars)</i>	Face Value	Coupon Rate %	Year of Issue	Year of Maturity	2021	2020
<b>Hydro</b>						
Y*	300	8.40	1996	2026	297	297
AB**	300	6.65	2001	2031	304	304
AD**	125	5.70	2003	2033	124	124
AF	500	3.60	2014/2017	2045	482	481
1A	600	3.70	2017/2018	2048	638	639
2A	300	1.75	2021	2030	287	-
<b>LIL LP</b>						
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 4-10	74	1.36-1.75	2017	2022-2025	74	95
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
<b>Labrador Transco/Musktrat Falls</b>						
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 4-10	145	1.36-1.75	2017	2022-2025	145	185
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
<b>Total</b>	<b>9,934</b>				<b>9,944</b>	<b>9,718</b>
<b>Less: sinking fund investments in own debentures</b>					<b>(84)</b>	<b>(73)</b>
					<b>9,860</b>	<b>9,645</b>
<b>Less: repayment of debt due within one year</b>					<b>(68)</b>	<b>(68)</b>
					<b>9,792</b>	<b>9,577</b>

\*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 and Series 2A, which are borrowed directly from the Province. The Province charges Hydro a guarantee fee of 25 basis points annually on the total debt (net of sinking funds) with a remaining term to maturity of less than or equal to 10 years and 50 basis points annually on total debt (net of sinking funds) with a remaining term to maturity greater than 10 years for debt outstanding as of December 31, 2010. For debt issued subsequent to December 31, 2010, the guarantee rate is 25 basis points annually on the total debt (net of sinking funds) with an original term to maturity of less than or equal to 10 years and 50 basis points annually on total debt (net of sinking funds) with an original term to maturity greater than 10 years. The guarantee fee recorded for the year ended December 31, 2021 was \$8.6 million (2020 - \$8.6 million).

# NALCOR ENERGY

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

On April 13, 2021, the Province issued long-term debt with a face value of \$300.0 million, specifically on Hydro's behalf. The debt matures on June 2, 2030 with a coupon rate of 1.75% paid semi-annually.

The LIL LP, Labrador Transco/Muskat Falls funding benefits from a direct, absolute, unconditional and irrevocable guarantee from the Government of Canada, and thereby carries its full faith and credit (AAA rating or equivalent).

### 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.

<i>As at December 31 (millions of Canadian dollars)</i>	Units	2021	Units	2020
Class B limited partnership units, beginning of the year	25	628	25	578
Accrued interest	-	53	-	50
Class B limited partnership units, end of the year	25	681	25	628

### 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.

<i>As at December 31, 2021 (millions of Canadian dollars)</i>	Deferred Energy Sales	Deferred Lease Revenue	Other	Total
Deferred credits, beginning of the year	1,782	37	1	1,820
Additions	(4)	4	2	2
Amortization	(9)	(1)	(1)	(11)
Deferred credits, end of the year	1,769	40	2	1,811
Less: current portion	-	-	(2)	(2)
	1,769	40	-	1,809

Nalcor has recorded deferred energy sales of \$1,769.0 million (2020 - \$1,782.2 million) which represents Nalcor's obligation to deliver the Nova Scotia Block to Emera in exchange for construction and operation and maintenance of the Maritime Link. Nalcor has determined that it controls the Maritime Link asset for financial reporting purposes, and as such, has recorded the costs of construction within property, plant and equipment.

### 18. DECOMMISSIONING LIABILITIES

Nalcor has recognized liabilities associated with the retirement of portions of the 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.

# NALCOR ENERGY

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The reconciliation of the beginning and ending carrying amounts of decommissioning liabilities as at December 31, 2021 and 2020 are as follows:

<i>As at December 31 (millions of Canadian dollars)</i>	2021	2020
Decommissioning liabilities, beginning of the year	124	102
Accretion	4	4
Revisions	-	18
Decommissioning liabilities, end of the year	128	124
Less: current portion	(2)	-
	126	124

The total estimated undiscounted cash flows required to settle the HTGS obligations at December 31, 2021 are \$15.2 million (2020 - \$15.2 million). Payments to settle the liability are expected to occur between 2022 and 2025. The fair value of the decommissioning liabilities was determined using the present value of future cash flows discounted at a rate of 1.3% (2020 - 0.5%).

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, 2021 are \$185.5 million (2020 - \$165.5 million). Payments to settle the liabilities are expected to occur between 2032 and 2040. The fair value of the decommissioning liabilities was determined using the present value of future cash flows discounted at rates ranging from 3.1% to 3.5% (2020 - 2.5% to 3.0%).

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, 2021 of \$13.1 million (2020 - \$13.0 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 2021, cash payments to beneficiaries for its unfunded other employee future benefits were \$4.3 million (2020 - \$4.4 million). An actuarial valuation was performed as at December 31, 2021.

<i>As at December 31 (millions of Canadian dollars)</i>	2021	2020
Accrued benefit obligation, beginning of the year	153	144
Current service cost	7	7
Interest cost	4	4
Benefits paid	(4)	(4)
Actuarial (gain) loss	(21)	2
Accrued benefit obligation, end of the year	139	153

# NALCOR ENERGY

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

<i>For the year ended December 31 (millions of Canadian dollars)</i>	2021	2020
Component of benefit cost		
Current service cost	7	7
Interest cost	4	4
Total benefit expense for the year	11	11

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

	2021	2020
Discount rate - benefit cost	2.70%	3.20%
Discount rate - accrued benefit obligation	3.35%	2.70%
Rate of compensation increase	3.50%	3.50%

Assumed healthcare trend rates:

	2021	2020
Initial health care expense trend rate	5.53%	5.64%
Cost trend decline to	3.60%	3.60%
Current rate 5.53%, reducing linearly to 3.6% in 2040 and thereafter.		

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

<i>Increase (millions of Canadian dollars)</i>	2021	2020
Current service and interest cost	2.6	2.5
Accrued benefit obligation	22.4	26.3
<i>Decrease (millions of Canadian dollars)</i>	2021	2020
Current service and interest cost	(1.9)	(1.8)
Accrued benefit obligation	(17.1)	(19.9)

## 20. OTHER LONG-TERM LIABILITIES

<i>As at December 31 (millions of Canadian dollars)</i>		2021	2020
Long-term payables	(a)	76	39
Deferred contributions	(b)	30	26
Non-current lease liabilities		5	5
		111	70

(a) Long-term payables:

<i>As at December 31 (millions of Canadian dollars)</i>	Note	2021	2020
Long-term payables, beginning of the year		47	49
Additions		100	6
Settlements		(37)	(10)
Accretion		3	2
Revisions		1	-
Long-term payables, end of the year		114	47
Less: current portion	14	(38)	(8)
		76	39

As at December 31, 2021, long-term payables consist of a payable to the Innu Nation under the UCRA, a payable to the NunatuKavut Community Council under the Community Development Agreement, and a payable as a result of First Redetermination under the

# NALCOR ENERGY

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Hibernia South Extension (HSE) Operating Agreement, which became effective on March 1, 2021. 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, 2021, \$2.6 million (2020 - \$2.5 million) of the amount is current and is recorded in other current liabilities. Nalcor has sinking funds in the amount of \$35.6 million (2020 - \$36.1 million) to fund these future obligations. The present value of the remaining payments using a discount rate of 3.1% (2020 - 2.4%) is \$37.7 million (2020 - \$37.8 million).

HSE First Redetermination resulted in a reduction in Oil and Gas' working interest in the HSE field from 10% to 8.7%. The change in working interest triggers the re-balancing of historic barrels of oil, which requires Oil and Gas to repay oil received above the revised working interest over an estimated 30-month period, commencing May 2021. The balance of the liability as at December 31, 2021 is \$71.9 million (2020 - \$nil) with \$33.4 million recorded as current and included in other current liabilities (2020 - \$nil).

(b) Deferred contributions:

<i>As at December 31 (millions of Canadian dollars)</i>	2021	2020
Deferred contributions, beginning of the year	27	26
Additions	5	3
Amortization	(1)	(2)
Deferred contributions, end of the year	31	27
Less: current portion	(1)	(1)
	30	26

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.

## 21. LEASES

### Amounts recognized in the Consolidated Statement of Profit (Loss) and Comprehensive Income (Loss)

<i>For the year ended December 31 (millions of Canadian dollars)</i>		2021	2020
Variable lease payments not included in the measurement of leases	(a)	29	28

(a) 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 Profit (Loss) and Comprehensive Income (Loss).

The total cash outflow for leases amount to \$28.9 million for the year ended December 31, 2021 (2020 - \$30.0 million).

## 22. SHAREHOLDER'S EQUITY

### 22.1 Share Capital

<i>As at December 31 (millions of Canadian dollars)</i>	2021	2020
Common shares of par value \$1 each		
Authorized - unlimited		
Issued and outstanding - 122,500,000	123	123

# NALCOR ENERGY

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 23. 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:

<i>As at December 31 (millions of Canadian dollars)</i>	2021		2020	
<b>Debt</b>				
Sinking funds (Hydro portion only)	(192)		(183)	
Short-term borrowings	55		262	
Current portion of long-term debt	68		68	
Long-term debt	9,792		9,577	
Class B limited partnership units	681		628	
Lease liabilities	5		5	
	<b>10,409</b>	<b>62%</b>	<b>10,357</b>	<b>63%</b>
<b>Equity</b>				
Share capital	123		123	
Shareholder contributions	4,859		4,609	
Reserves	(81)		(98)	
Retained earnings	1,607		1,535	
	<b>6,508</b>	<b>38%</b>	<b>6,169</b>	<b>37%</b>
<b>Total Debt and Equity</b>	<b>16,917</b>	<b>100%</b>	<b>16,526</b>	<b>100%</b>

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, 2021 and 2020, Nalcor was in compliance with these covenants.

#### 23.1 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, 2021 and 2020, Hydro was in compliance with this covenant.

# NALCOR ENERGY

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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 \$55.0 million is outstanding as at December 31, 2021 (2020 - \$262.0 million). The Act limits Hydro's total borrowings outstanding at any point in time, which includes both short-term borrowings and long-term debt. Hydro's total borrowing limit under the Act is \$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.

### 23.2 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. Subsequent to 2021, no further equity is anticipated as proceeds from energy sales will be sufficient to fund the operating, maintaining and sustaining costs of the MF Plant.

### 23.3 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 and ongoing sustaining capital requirements of the LIL while providing its partners a required return. 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 has provided guarantees to ensure partner contributions in relation to the construction of the LIL. These guarantees 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. Subsequent to 2021, no further equity is anticipated as proceeds received under the Generator Interconnection Agreement will be sufficient to fund the operating, maintaining and sustaining costs of the Labrador Transmission Assets.

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.

### 23.4 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.



# NALCOR ENERGY

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 23.5 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.

### 23.6 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.

## 24. ENERGY SALES

<i>For the year ended December 31 (millions of Canadian dollars)</i>	2021	2020
Electricity sales	716	697
Petroleum and natural gas sales	298	243
Royalty expense	(38)	(27)
<b>Total energy sales</b>	<b>976</b>	<b>913</b>

## 25. OPERATING COSTS

<i>For the year ended December 31 (millions of Canadian dollars)</i>	2021	2020
Salaries and benefits	140	142
Maintenance and materials	47	31
Professional services	23	19
Insurance	8	7
Travel and transportation	7	5
Other operating costs	5	7
	<b>230</b>	<b>211</b>

## 26. PRODUCTION, MARKETING AND TRANSPORTATION COSTS

Production, marketing and transportation costs include costs incurred related to the operating, processing and transportation of oil.

<i>For the year ended December 31 (millions of Canadian dollars)</i>	2021	2020
Project operating costs	21	26
Transportation and transshipment	7	7
Processing and marketing	3	6
	<b>31</b>	<b>39</b>

# NALCOR ENERGY

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 27. NET FINANCE EXPENSE

<i>For the year ended December 31 (millions of Canadian dollars)</i>	2021	2020
Finance income		
Interest on investments	18	17
Interest on restricted cash	4	12
Other interest income	5	3
	27	32
Finance expense		
Interest on long-term debt	361	357
Interest on Class B limited partnership units	53	50
Debt guarantee fee	23	23
Other	9	8
	446	438
Interest capitalized during construction	(292)	(297)
	154	141
Net finance expense	127	109

### 28. OTHER EXPENSE (INCOME)

<i>For the year ended December 31 (millions of Canadian dollars)</i>	2021	2020
HSE Redetermination re-balancing adjustment (a)	89	-
HSE Redetermination royalty adjustment (a)	31	-
Settlement of commodity price swap contracts	59	(49)
(Gain) loss on disposal of property, plant and equipment	(24)	3
Other	2	9
Other expense (income)	157	(37)

- (a) 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 included a historical true-up of production, capital costs and royalties.

### 29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

#### 29.1 Fair Value

The estimated fair values of financial instruments as at December 31, 2021 and December 31, 2020 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.

# NALCOR ENERGY

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 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 years ended December 31, 2021 and 2020.

	Level	Carrying Value December 31, 2021	Fair Value	Carrying Value December 31, 2020	Fair Value
<i>As at (millions of Canadian dollars)</i>					
Financial assets					
Derivative assets	2	3	3	3	3
Sinking funds - investments in Hydro debt issue	2	84	94	73	88
Sinking funds - other investments	2	227	271	219	279
Reserve fund	2	43	43	39	39
Financial liabilities					
Derivative liabilities	2	31	31	9	9
Long-term debt including amount due within one year (before sinking funds)	2	9,944	11,741	9,718	12,543
Class B limited partnership units	3	681	681	628	628
Long-term payables including amount due within one year	2	114	132	47	49

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.

# NALCOR ENERGY

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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% (2020 – 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:

<i>(millions of Canadian dollars)</i>	1% Increase	1% Decrease
Class B limited partnership units	(40.6)	38.5

### 29.2 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 had established flexible collection practices during the COVID-19 pandemic for its customers and has since returned to its normal customer collections practices. Nalcor is continuing to monitor the risk of non-performance by its customers and as at December 31, 2021 the impact on the Company's expected credit loss allowance is not considered material. As well, 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.

# NALCOR ENERGY

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 (%)
	2021		2020	
Provincial governments	AA-to AAA	17.44%	AA-to AAA	17.80%
Provincial governments	A -to A+	25.95%	A- to A+	26.75%
Provincially owned utilities	AA-to AAA	25.86%	AA-to AAA	26.45%
Provincially owned utilities	A- to A+	30.75%	A- to A+	29.00%
		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 (%)
	2021		2020	
Provincial governments	AA- to AAA	10.58%	AA- to AAA	0.00%
Provincially owned utilities	AA- to AAA	4.82%	AA- to AAA	8.26%
Provincial governments	A- to A+	38.14%	A- to A+	40.58%
Provincially owned utilities	A- to A+	5.30%	A- to A+	6.00%
Schedule 1 Canadian banks	AA- to AAA	15.59%	AA- to AAA	18.53%
Schedule 1 Canadian banks	A- to A+	25.57%	A- to A+	26.63%
		100.00%		100.00%

Credit exposure on Nalcor's long-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 (%)
	2021		2020	
Provincially owned utilities	A- to A+	100.00%	A- to A+	0.20%
Schedule 1 Canadian Banks	A- to A+	0.00%	A- to A+	99.80%
		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, 2021.

# NALCOR ENERGY

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 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 (2020 - \$250.0 million) committed revolving term credit facility, with a maturity date of July 31, 2022. There were no amounts drawn on this facility at December 31, 2021 (2020 - \$nil). In addition, Hydro has access to a \$300.0 million promissory note program and a \$500.0 million (2020 - \$200.0 million) committed revolving term credit facility. On April 16, 2021, Hydro increased its \$200.0 million CAD or USD equivalent committed revolving term credit facility to \$500.0 million with a new maturity date of July 31, 2022. These 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 (2020 - \$30.0 million), \$20.0 million (2020 - \$20.0 million) and \$10.0 million (2020 - \$10.0 million), respectively. In addition, Churchill Falls maintains a \$24.0 million minimum cash balance (2020 - \$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.

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 2030, 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, 2021:

<i>(millions of Canadian dollars)</i>	<1 Year	1-3 Years	3-5 Years	>5 Years	Total
Trade and other payables	384	-	-	-	384
Short-term borrowings	55	-	-	-	55
Long-term debt (including sinking funds, interest and guarantee fees)	596	1,191	1,474	14,145	17,406
Class B partnership units (including interest)	45	168	161	4,119	4,493
Long-term payables	36	40	2	36	114
	1,116	1,399	1,637	18,300	22,452

### 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

# NALCOR ENERGY

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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 regulatory mechanisms. 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.

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 2021, total energy sales denominated in USD were \$39.5 million (2020 - \$21.0 million). There were no hedges in place for the year ended December 31, 2021.

During 2021, total oil sales denominated in USD were \$238.2 million (2020 - \$182.3 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 March 29, 2021 Oil and Gas entered into a series of commodity price swap contracts with a notional value of \$47.8 million USD and an average price of \$60.97 USD per barrel. On June 29, 2021, Oil and Gas entered into a series of commodity price swap contracts with a notional value of \$43.3 million USD and an average price of \$70.46 USD per barrel. On September 28, 2021, Oil and Gas entered into a series of commodity price swap contracts with a notional value of \$36.8 million USD and an average price of \$74.60 USD per barrel. Additionally, on December 16, 2021 Oil and Gas entered into a series of commodity price swap contracts with a notional value of \$34.4 million USD and an average price of \$71.94 USD per barrel.

As at December 31, 2021, Oil and Gas has 58 commodity price swaps remaining, hedging 56.71% of anticipated January 2022 to December 2022 oil sales. The remaining contracts have a notional value of \$119.0 million USD, and an average fixed price of \$69.74 USD per barrel. As the contracts have been designated as hedging instruments, change in fair value has been recorded in other comprehensive income. During 2021, in \$59.0 million realized losses (2020 - \$48.6 million in realized gains) have been recorded in other expense (income) and \$12.4 million in unrealized losses (2020 - \$8.8 million in unrealized losses) remain in other comprehensive income.

On March 29, 2021 Oil and Gas entered into a series of foreign exchange forward contracts with a notional value of \$47.8 million USD and an average fixed exchange rate of \$1.26 CAD per USD. On June 29, 2021, Oil and Gas entered into a series of foreign exchange forward contracts with a notional value of \$43.3 million USD and an average fixed exchange rate of \$1.24 CAD per USD. On September 28, 2021, Oil and Gas entered into a series of foreign exchange forward contracts with a notional value of \$36.8 million USD and an average fixed exchange rate of \$1.27 CAD per USD. Additionally, on December 16, 2021 Oil and Gas entered into a series of foreign exchange forward contracts with a notional value of \$34.4 million USD and an average fixed exchange rate of \$1.28 CAD per USD.

As at December 31, 2021, Oil and Gas has 32 foreign exchange forward contracts remaining hedging foreign exchange risk on 51.64% of anticipated USD cash flows from oil sales from January 2022 to January 2023. The remaining contracts have a notional value of \$126.9 million USD, and an average fixed exchange rate of \$1.26 CAD per USD. As the contracts have been designated as hedging instruments, changes in fair value has been recorded in other comprehensive income. During 2021, \$4.3 million in realized gains (2020 - \$2.0 million in realized losses) have been recorded in other expense (income) and \$0.2 million in unrealized losses

# NALCOR ENERGY

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(2020 - \$2.6 million in unrealized gains) remain in other comprehensive income.

During 2021, additional financial transmission rights with notional values of \$0.5 million (2020 - \$1.6 million) were purchased to mitigate risk on congestion for the remainder of 2021, 2022 and a portion of 2023. As the rights have not been designated as hedging instruments, changes in fair value have been recorded in other expense (income).

### 30. 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
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. PUB	Limited Partner holding 25 Class B limited partnership units of LIL LP 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 2021, Hydro incurred \$1.3 million (2020 - \$1.1 million) in costs related to the PUB and has included \$0.5 million (2020 - \$0.1 million) in trade and other payables.
- (b) The Hydro debt guarantee fee paid to the Province for 2021 was \$8.6 million (2020 - \$8.6 million). Interest paid to the Province on series 1A long-term debt for 2021 was \$22.2 million (2020 - \$22.2 million).
- (c) During 2021, Hydro has purchased \$28.5 million (2020 - \$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 2021 of \$24.7 million (2020 - \$25.5 million).
- (d) Hydro recorded \$2.4 million (2020 - \$2.3 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, 2021, there is a balance of \$0.2 million (2020 - \$0.2 million) outstanding in trade and other receivables.
- (e) During 2021, Churchill Falls generated revenue from Hydro-Québec of \$125.1 million (2020 - \$95.0 million) and Nalcor has recognized its share of \$82.3 million (2020 - \$62.5 million). Included in other revenue in 2021 is a Settlement Agreement regarding the Declaratory Judgment case surrounding the interpretation of the Renewed Power Contract, which came into effect September 1, 2016, and alignment on a final Annual Energy Base, which establishes Hydro-Québec's annual energy entitlement for the term of the contract.



# NALCOR ENERGY

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

- (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. As at December 31, 2021, \$9.2 million (2020 - \$6.5 million) was payable to the Province. Nalcor has recognized its share of \$6.0 million (2020 - \$4.3 million).
- (g) During 2021, Nalcor's shareholder contributed capital in the amount of \$250 million (2020 - \$nil) in relation to capital expenditures.
- (h) During 2021, Oil and Gas expensed \$38.2 million (2020 - \$26.8 million) to the Province for royalties on its oil and gas operations.
- (i) As at December 31, 2021, Oil and Gas had a net receivable from Bull Arm Fabrication of \$nil (2020 - \$3.3 million). The net receivable of \$nil is due to the outstanding receivable being allowed for in its entirety during 2021.
- (j) As at December 31, 2021, Oil and Gas had a net receivable from the Oil and Gas Corporation of Newfoundland and Labrador of \$nil (2020 - \$2.5 million). The net receivable of \$nil is due to the outstanding receivable being allowed for in its entirety during 2021.
- (k) During 2021, Oil and Gas was charged \$4.2 million (2020 - \$4.2 million) by Oil and Gas Corporation of Newfoundland and Labrador for management services.
- (l) Under the terms of the Lower Churchill Water Lease Agreement, Muskrat Falls is required to pay the Province an annual rental fee based on megawatt hours of energy generated during the year. As at December 31, 2021, \$5.7 million (2020 - \$0.1 million) was payable to the Province.

### 30.1 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.

<i>For the year ended December 31 (millions of Canadian dollars)</i>	2021	2020
Salaries and employee benefits	6	8
Post-employment benefits	1	1
	<u>7</u>	<u>9</u>

### 31. 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 \$85.7 million as at December 31, 2021 (2020 - \$214.8 million).
- (c) Nalcor and its subsidiaries have issued 19 irrevocable letters of credit with a total value of \$35.2 million as per Note 15.1.

# NALCOR ENERGY

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

- (d) Oil and Gas has the following capital and operating commitments as a result of its joint venture partnerships:

<i>(millions of Canadian dollars)</i>	Total Commitments
2022	107.3
2023	73.9
2024	67.9
2025	67.7
2026	67.7
Thereafter	90.0

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

Type	Rating	Effective Date	Term
Hydroelectric	6.5 MW	2021	24 years
Hydroelectric	4 MW	1998	25 years
Hydroelectric	300 MW	1998	43 years
Hydroelectric	225 MW	2015	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
Hydroelectric	240 kW Hydro	2019. Amended in 2020.	15 years
Solar	189 kW Solar	2019. Amended in 2020.	15 years
Battery	334.5 kW Battery	2019. Amended in 2020.	15 years
Biomass	450 kW	2018	1 year post in-service of Muskrat Falls

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

<i>(millions of Canadian dollars)</i>	2022	2023	2024	2025	2026
Power purchases	80.9	70.2	70.4	71.3	72.5

- (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 May 2021, Hydro entered into a second revised agreement with CBPP that expires on April 30, 2023. In December 2021, Hydro entered into a revised agreement with Vale that expires in March of 2022. Payment for services will be dependent on the successful provision of capacity assistance for the winter period by Vale and CBPP.
- (g) Energy Marketing has commitments for third party transmission rights as well as operational commitments totaling \$8.0 million as at December 31, 2021 (2020 - \$10.6 million).
- (h) Hydro holds firm transmission rights with Hydro Québec TransÉnergie which concludes in 2024.

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

2022	\$19.7 million
2023	\$19.9 million
2024	\$5.0 million

# NALCOR ENERGY

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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- (i) As part of the LIL PFA, the Partnership has pledged its current and future assets as security to the Collateral Agent. Under the terms and conditions of the IT PFA, the Partnership 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.

### 32. SUPPLEMENTARY CASH FLOW INFORMATION

<i>For the year ended December 31 (millions of Canadian dollars)</i>	2021	2020
Trade and other receivables	(15)	77
Prepayments	6	-
Inventories	9	12
Trade and other payables	(15)	(28)
Changes in non-cash working capital balances	(15)	61
Related to:		
Operating activities	(11)	32
Investing activities	(4)	29
	(15)	61

# NALCOR ENERGY

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 33. SEGMENT INFORMATION

The operating structure as at December 31, 2021 is comprised of the following business segments. The designation of segments is based on a combination of regulatory status and management accountability. During Q4 2021, the Muskrat Falls assets were commissioned and therefore Muskrat Falls has been moved from the Power Development operating segment to Power Supply. Previously reported segmented information has been presented to conform to the current operating structure. The following summary provides a brief overview of the nature of the operations included in each of the Company's operating segments.

**NL Hydro** – is comprised of both regulated and non-regulated activities.

- **Hydro Regulated** activities encompass sales of electricity to customers within the Province and other activities 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** – includes costs associated with ongoing and potential future power development activities, such as costs and assets associated with Gull Island.

**Power Supply** – is comprised of the following:

- **Muskrat Falls** includes the 824MW hydroelectric generating facility in Labrador on the Lower Churchill River.
- **LCP Transmission** includes the construction and operation of the LIL and 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 the Nalcor's existing generation resources through the participation in export electricity markets.
- **Other** includes revenues and expenditures associated with the delivery of the Nova Scotia Block of energy to Emera, expenditures associated with the Maritime Link (which is owned by Emera, but consolidated by Nalcor), revenues and costs recovered from Hydro-Québec associated with the operation of the Menihek Generating Station, costs related to Power Supply management, administration and community development, and costs associated with the management of the 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.

# NALCOR ENERGY

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

<i>(millions of Canadian dollars)</i>	NL Hydro		Power Development		Power Supply			Other	Oil and Gas	Corporate	Inter-Segment	Total
	Regulated	Non-Regulated	Other	Muskat Falls	LCP Transmission	Churchill Falls	Energy Trading					
For the year ended December 31, 2021												
Energy sales	538	47	-	59	135	99	55	9	260	-	(226)	976
Other revenue	16	-	-	-	-	16	2	9	-	1	(7)	37
Revenue	554	47	-	59	135	115	57	18	260	1	(233)	1,013
Fuels	122	-	-	-	-	-	-	-	-	-	-	122
Power purchased	123	43	-	-	-	-	4	4	-	-	(94)	80
Operating costs	129	1	-	13	8	39	5	14	10	11	-	230
Production, marketing and transportation costs	-	-	-	-	-	-	-	-	31	-	-	31
Transmission rental	-	-	-	135	-	-	26	1	-	-	(138)	24
Depreciation, depletion and amortization	84	-	-	-	-	21	-	13	80	4	-	202
Net finance expense (income)	91	-	-	14	24	(1)	-	-	4	(4)	(1)	127
Other expense (income)	2	-	-	4	1	7	(4)	-	144	-	3	157
Preferred dividends	-	-	-	-	-	(4)	-	-	-	-	4	-
Expenses	551	44	-	166	33	62	31	32	269	11	(226)	973
Share of loss of joint arrangement	-	-	-	-	-	1	-	-	-	-	-	1
Profit (loss) for the year before regulatory adjustments	3	3	-	(107)	102	52	26	(14)	(9)	(10)	(7)	39
Regulatory adjustments	(33)	-	-	-	-	-	-	-	-	-	-	(33)
Profit (loss) for the year	36	3	-	(107)	102	52	26	(14)	(9)	(10)	(7)	72
Capital expenditures*	115	-	-	307	244	48	-	(7)	24	4	(3)	732
Total assets	2,910	7	140	6,856	6,454	718	82	1,821	869	353	(436)	19,774
Total debt**	1,914	-	-	3,664	4,831	-	-	-	-	-	-	10,409

\*Capital expenditures (inclusive of property, plant and equipment and intangible assets) include non-cash additions of (\$12.3) million related to the Maritime Link, \$53.4 million related to Class B Limited Partnership Unit accrued interest, and \$238.8 million of interest capitalized during construction.

\*\*Total debt includes short-term borrowings, long-term debt including current portion less Hydro's sinking funds of \$191.7 million, Class B Limited Partnership Units, and lease liabilities.

# NALCOR ENERGY

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

<i>(millions of Canadian dollars)</i>	NL Hydro		Power Development		Power Supply				Oil and Gas	Corporate	Inter-Segment	Total
	Regulated	Non-Regulated	Other	Muskrat Falls	LCP Transmission	Churchill Falls	Energy Trading	Other				
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	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	140	6,588	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 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.

# NALCOR ENERGY

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 34. SUBSEQUENT EVENT

On February 14, 2022, as part of the Province's Rate Mitigation Plan, the Company, the Province and the Government of Canada (Canada) signed term sheets for a \$1 billion federal loan guarantee and capital restructuring of Muskrat Falls and Labrador Transco, and for a \$1 billion investment by Canada in the LIL. The final agreements contemplated under the term sheets are substantively complete and will be signed in the coming months.

**Appendix D**

**Newfoundland and Labrador Hydro Consolidated Financial Statements**



**NEWFOUNDLAND AND LABRADOR HYDRO**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2021**

## Independent Auditor's Report

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

### Opinion

We have audited the consolidated financial statements of Newfoundland and Labrador Hydro (the "Company"), which comprise the consolidated statement of financial position as at December 31, 2021, and the consolidated statements of profit and comprehensive income, 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, 2021, 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 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 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 21, 2022

**NEWFOUNDLAND AND LABRADOR HYDRO  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

<i>As at December 31 (millions of Canadian dollars)</i>	Notes	2021	2020
<b>ASSETS</b>			
Current assets			
Cash		107	92
Trade and other receivables	5	137	108
Inventories	6	97	104
Current portion of other long-term assets	10	6	3
Prepayments		9	9
Deferred asset	7	56	23
Related party loan receivable	23	53	-
<b>Total current assets</b>		<b>465</b>	<b>339</b>
Non-current assets			
Property, plant and equipment	8	2,806	2,757
Intangible assets	9	7	8
Other long-term assets	10	232	222
<b>Total assets</b>		<b>3,510</b>	<b>3,326</b>
Regulatory deferrals	11	184	172
<b>Total assets and regulatory deferrals</b>		<b>3,694</b>	<b>3,498</b>
<b>LIABILITIES AND EQUITY</b>			
Current liabilities			
Short-term borrowings	13	55	262
Trade and other payables	12	135	154
Contract payable	23	18	-
Current portion of long-term debt	13	7	7
Derivative liability	22	56	23
Other current liabilities		6	3
<b>Total current liabilities</b>		<b>277</b>	<b>449</b>
Non-current liabilities			
Long-term debt	13	2,041	1,765
Deferred contributions	14	30	26
Decommissioning liabilities	15	13	16
Employee future benefits	17	120	130
Other long-term liabilities		4	4
<b>Total liabilities</b>		<b>2,485</b>	<b>2,390</b>
Shareholder's equity			
Share capital	18	23	23
Contributed capital	18	150	151
Reserves		(6)	(22)
Retained earnings		1,015	939
<b>Total equity</b>		<b>1,182</b>	<b>1,091</b>
<b>Total liabilities and equity</b>		<b>3,667</b>	<b>3,481</b>
Regulatory deferrals	11	27	17
<b>Total liabilities, equity and regulatory deferrals</b>		<b>3,694</b>	<b>3,498</b>

Commitments and contingencies (Note 24)

See accompanying notes

On behalf of the Board:

  
\_\_\_\_\_  
DIRECTOR

  
\_\_\_\_\_  
DIRECTOR

**NEWFOUNDLAND AND LABRADOR HYDRO**  
**CONSOLIDATED STATEMENT OF PROFIT AND COMPREHENSIVE INCOME**

<i>For the year ended December 31 (millions of Canadian dollars)</i>	Notes	<b>2021</b>	2020
Energy sales		<b>656</b>	673
Other revenue		<b>57</b>	29
<b>Revenue</b>		<b>713</b>	702
Fuels		<b>122</b>	158
Power purchased		<b>138</b>	90
Operating costs	19	<b>169</b>	175
Transmission rental		<b>21</b>	21
Depreciation and amortization		<b>105</b>	101
Net finance expense	20	<b>90</b>	88
Other expense	21	<b>9</b>	9
<b>Expenses</b>		<b>654</b>	642
Share of loss of joint arrangement		<b>1</b>	-
<b>Profit before regulatory adjustments</b>		<b>58</b>	60
Regulatory adjustments	11	<b>(33)</b>	(15)
<b>Profit for the year</b>		<b>91</b>	75
Other comprehensive income			
Items related to employee future benefits		<b>17</b>	(1)
Net fair value (loss) gain on financial instruments		<b>(1)</b>	1
<b>Other comprehensive income for the year</b>		<b>16</b>	-
<b>Total comprehensive income for the year</b>		<b>107</b>	75

*See accompanying notes*

**NEWFOUNDLAND AND LABRADOR HYDRO  
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

<i>(millions of Canadian dollars)</i>	Note	Share Capital	Contributed Capital	Reserves	Retained Earnings	Total
<b>Balance at January 1, 2021</b>		<b>23</b>	<b>151</b>	<b>(22)</b>	<b>939</b>	<b>1,091</b>
<b>Profit for the year</b>		-	-	-	<b>91</b>	<b>91</b>
<b>Other comprehensive income for the year</b>		-	-	<b>16</b>	-	<b>16</b>
<b>Total comprehensive income for the year</b>		-	-	<b>16</b>	<b>91</b>	<b>107</b>
<b>Regulatory adjustment</b>	<b>18</b>	-	<b>(1)</b>	-	-	<b>(1)</b>
<b>Dividends</b>	<b>18</b>	-	-	-	<b>(15)</b>	<b>(15)</b>
<b>Balance at December 31, 2021</b>		<b>23</b>	<b>150</b>	<b>(6)</b>	<b>1,015</b>	<b>1,182</b>

Balance at January 1, 2020		23	152	(22)	877	1,030
Profit for the year		-	-	-	75	75
Total comprehensive income for the year		-	-	-	75	75
Regulatory adjustment	18	-	(1)	-	-	(1)
Dividends	18	-	-	-	(13)	(13)
Balance at December 31, 2020		23	151	(22)	939	1,091

See accompanying notes

## NEWFOUNDLAND AND LABRADOR HYDRO CONSOLIDATED STATEMENT OF CASH FLOWS

<i>For the year ended December 31 (millions of Canadian dollars)</i>	Notes	<b>2021</b>	2020
<b>Operating activities</b>			
Profit for the year		<b>91</b>	75
Adjustments to reconcile profit to cash provided from operating activities:			
Depreciation and amortization		<b>105</b>	101
Regulatory adjustments	11	<b>(33)</b>	(15)
Amortization of rate stabilization plan fuel credit		<b>33</b>	24
Finance income	20	<b>(15)</b>	(14)
Finance expense	20	<b>105</b>	102
Other		<b>13</b>	7
		<b>299</b>	280
Changes in non-cash working capital balances	26	<b>(22)</b>	31
Interest received		<b>3</b>	3
Interest paid		<b>(107)</b>	(104)
<b>Net cash provided from operating activities</b>		<b>173</b>	210
<b>Investing activities</b>			
Additions to property, plant and equipment and intangibles		<b>(161)</b>	(131)
Contributions to sinking funds	10	<b>(7)</b>	(7)
Increase in related party loan receivable	23	<b>(53)</b>	-
Increase in reserve fund	10	<b>(5)</b>	(13)
Changes in non-cash working capital balances	26	<b>1</b>	2
<b>Net cash used in investing activities</b>		<b>(225)</b>	(149)
<b>Financing activities</b>			
Proceeds from long-term debt	13	<b>287</b>	-
Dividends paid	18	<b>(15)</b>	(13)
(Decrease) increase in short-term borrowings		<b>(207)</b>	29
Rate stabilization plan fuel credit		<b>(3)</b>	(55)
Other		<b>5</b>	4
<b>Net cash provided from (used in) financing activities</b>		<b>67</b>	(35)
Net increase in cash		<b>15</b>	26
Cash, beginning of the year		<b>92</b>	66
Cash, end of the year		<b>107</b>	92

See accompanying notes

# **NEWFOUNDLAND AND LABRADOR HYDRO**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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### **1. DESCRIPTION OF BUSINESS**

Newfoundland and Labrador Hydro (Hydro or the Company) is incorporated under a special act of the Legislature of the Province of Newfoundland and Labrador (the Province). The principal activity of Hydro is the generation, transmission and sale of electricity. Hydro's operations include both regulated and non-regulated activities. Hydro is a 100% owned subsidiary of Nalcor Energy (Nalcor). Hydro's head office is located at 500 Columbus Drive in St. John's, Newfoundland and Labrador, A1B 0C9, Canada.

Hydro holds interests in the following entities:

A 65.8% interest in Churchill Falls (Labrador) Corporation Limited (Churchill Falls). Churchill Falls is incorporated under the laws of Canada and owns and operates a hydroelectric generating plant and related transmission facilities situated in Labrador which has a rated capacity of 5,428 megawatts (MW).

A 51.0% interest in Lower Churchill Development Corporation (LCDC), an inactive subsidiary. LCDC is incorporated under the laws of Newfoundland and Labrador and was established with the objective of developing all or part of the hydroelectric potential of the Lower Churchill River.

### **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) 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 Hydro's Board of Directors (the Board) on March 4, 2022.

#### **2.2 Basis of Consolidation**

The financial statements include the financial statements of Hydro, its subsidiary companies, its proportionate share of investments in joint arrangements and its share of investments over which Hydro exercises significant influence using the equity method of accounting. In addition, the financial statements of all structured entities, for which Hydro 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 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. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

#### **2.5 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 Hydro's accounting policy outlined in Note 2.7. Costs capitalized with the related asset include all those costs directly attributable to bringing the asset into operation.



## NEWFOUNDLAND AND LABRADOR HYDRO

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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When significant parts of property, plant and equipment are required to be replaced at intervals, Hydro 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.

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. 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 11. The depreciation rates used are as follows:

Generation plant	
Hydroelectric	25 to 110 years
Thermal	20 to 70 years
Diesel	3 to 70 years
Transmission	
Lines	26 to 65 years
Terminal stations	20 to 60 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, penstocks and intake structures. Thermal generation plant is comprised of the powerhouse, turbines and generators, boilers, oil storage tanks, stacks, and auxiliary systems. Diesel generation plant includes the buildings, engines, generators, switchgear, fuel storage and transfer systems, dikes and liners and cooling systems.

Transmission lines include the support structures, foundations and insulators associated with lines at voltages of 230, 138 and 69 kilovolt (kV). 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 are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recorded in other expense. Pursuant to Board Order No. P.U. 30 (2019), the gains and losses are deferred on retirement of property, plant and equipment. The deferral will be recovered through future depreciation expense.

#### Churchill Falls

The depreciation rates used are as follows:

Hydroelectric generation plant	7 to 100 years
Transmission and terminal	7 to 70 years
Service facilities and other	3 to 55 years

Hydroelectric generation plant includes the powerhouse, turbines and generators, governors and exciters, and auxiliary systems, as well as water conveying and control structures, including dams, dikes, tailraces, surge chambers, penstocks and intake structures.

Transmission and terminal includes transmission lines, terminal stations and distribution systems. Transmission lines include support structures, foundations, conductors, and insulators associated with lines at voltages of 735, 230, and 69 kilovolt. Terminal station assets which are used to step up voltages of electricity for transmission and to step

## NEWFOUNDLAND AND LABRADOR HYDRO

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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down voltages for distribution, provide switching and protection functions, and include auxiliary systems. Distribution system assets include poles, transformers, insulators, and conductors.

Service facilities and other includes roads, telecontrol, buildings, airport, aircraft, vehicles, furniture, tools and equipment, and the town site, including municipal water and sanitary sewer systems.

#### 2.6 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 accumulated 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:

Feasibility studies	22 years
Computer software	7 to 10 years

#### 2.7 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 Profit and Comprehensive Income in the period in which they are incurred.

#### 2.8 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, Hydro estimates the recoverable amount of the cash generating unit (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 Profit and Comprehensive Income.

#### 2.9 Investment in Joint Arrangement

A joint arrangement is an arrangement in which two or more parties have joint control. Control exists when Hydro 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. Hydro's investment in Churchill Falls is classified as a joint operation.

Hydro 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.

## **NEWFOUNDLAND AND LABRADOR HYDRO**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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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 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 Profit and Comprehensive Income reflects the share of the profit or loss of the joint venture.

#### **2.10 Employee Future Benefits**

(i) Pension Plan

Employees participate in the Province's Public Service Pension Plan (Plan), a multi-employer defined benefit plan. Contributions by Hydro 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.

(ii) Other Benefits

Hydro 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 Hydro'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), Hydro recognizes the amortization of employee future benefit actuarial gains and losses in the Consolidated Statement of Profit and Comprehensive 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.

#### **2.11 Provisions**

A provision is a liability of uncertain timing or amount. A provision is recognized if Hydro 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.

#### **2.12 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 Profit and Comprehensive Income if the liability is short-term in nature.

#### **2.13 Revenue from Contracts with Customers**

Hydro 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. Churchill Falls also recognizes revenue from contracts with customers related to the sale of electricity.

## NEWFOUNDLAND AND LABRADOR HYDRO

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. Hydro recognizes revenue when they transfer control of a product or service to a customer.

Revenue from the sale of energy is recognized when Hydro 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 export sales and sales to other certain major industrial customers are either at rates under the terms of the applicable contracts, or at market rates. Hydro recognizes revenue at the amount to which they have the right to invoice, which corresponds directly to the value of Hydro's performance to date.

#### 2.14 Leasing

##### Lessee Accounting

Hydro assesses whether a contract is or contains a lease, at inception of a contract. Hydro 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, Hydro 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, Hydro 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 Hydro changes its assessment of whether purchase, renewal or termination options will be exercised. Hydro 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 accumulated impairment losses.

Whenever Hydro 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 Hydro 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.

## NEWFOUNDLAND AND LABRADOR HYDRO

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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. Hydro has elected to apply this practical expedient.

#### **2.15 Foreign Currencies**

Transactions in currencies other than Hydro'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 Profit and Comprehensive Income as other expense.

#### **2.16 Income Taxes**

Hydro is exempt from paying income taxes under Section 149(1) (d.2) of the Income Tax Act.

#### **2.17 Financial Instruments**

##### Classification and Initial Measurement

Financial assets and financial liabilities are recognized in the Consolidated Statement of Financial Position when Hydro becomes a party to the contractual provisions of the instrument and are initially measured at fair value.

Financial assets are classified at amortized cost, fair value through other comprehensive income (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.

Hydro's financial assets at amortized cost include cash, trade and other receivables, related party loan receivable and sinking 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 changes 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 accumulated in the fair value reserve. When these assets are derecognized, the cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss.

Hydro's financial assets measured at FVTOCI include reserve fund investments.

## **NEWFOUNDLAND AND LABRADOR HYDRO**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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#### 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. Currently, Hydro has no financial assets measured at FVTPL.

#### Financial Liabilities at Amortized Cost

Hydro subsequently measures all financial liabilities at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the liability is derecognized.

Hydro's financial liabilities at amortized cost include trade and other payables, short-term borrowings, contract payable and long-term debt.

#### Financial Liabilities at FVTPL

Financial liabilities that do not meet the criteria for being measured at amortized cost or FVTOCI are measured at FVTPL. Financial liabilities 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.

Hydro's financial liabilities measured at FVTPL include derivative instruments not part of a designated hedging relationship.

#### Derecognition of Financial Instruments

Hydro 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.

Hydro 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

Hydro 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.

Hydro always recognizes lifetime ECL for trade and other receivables. The ECL on these financial assets are estimated based on Hydro'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. Hydro 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, sinking funds and the reserve fund.

For all other financial instruments, Hydro 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, Hydro 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.

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**2.18 Government Grants**

Government grants are recognized when there is reasonable assurance that Hydro 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 Hydro recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that Hydro should purchase, construct or otherwise acquire non-current assets are recognized as deferred revenue in the Consolidated Statement of Financial Position and transferred to the Consolidated Statement of Profit and Comprehensive 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 Hydro with no future related costs are recognized in the Consolidated Statement of Profit and Comprehensive Income in the period in which they become receivable.

**2.19 Regulatory Deferrals**

Hydro's revenues from its electrical sales to most customers within the Province are subject to rate regulation by the PUB. Hydro's borrowing and capital expenditure programs are also subject to review and approval by the PUB. Rates are set through periodic general rate applications utilizing a cost of service methodology. Hydro's allowed rate of return on rate base based upon Board Order No. P.U. 30 (2019) is 5.4% in 2021 and 5.4% in 2020. Hydro applies various regulator approved 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 11.

**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.

In 2020, the outbreak of the Coronavirus disease (COVID-19) has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. For the year ended December 31, 2021, COVID-19 did not have a significant financial impact on the Company's results of operations, financial position or cash flow. There continues to be uncertainty around the duration and magnitude of the pandemic and therefore the extent of any future effect on the Company is unknown at this time. Management will continue to assess the impact of COVID-19 on the Company's operations and financial results.

**3.1 Use of Judgments**

(i) Property, Plant and Equipment

Hydro's accounting policy relating to property, plant and equipment is described in Note 2.5. 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 Hydro's property, plant and equipment.

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(ii) 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.

When recognizing deferrals and related amortization of costs or credits, 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's profit or loss in the year the order is received.

(iii) Determination of CGUs

Hydro's accounting policy relating to impairment of non-financial assets is described in Note 2.8. In applying this policy, Hydro groups assets into the smallest identifiable group 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.

(iv) Discount Rates

Certain of Hydro's financial liabilities are discounted using discount rates that are subject to Management's judgment.

(v) Consolidation of Joint Arrangements

Management exercises judgment when applying the criteria outlined in IFRS 11 to determine whether joint arrangements constitute joint ventures or joint operations. Management has determined that its interest in Churchill Falls is considered a joint operation and its interest in Twin Falls is considered a joint venture.

(vi) Leases

Definition of a lease

At inception of a contract, Hydro 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, Hydro assesses whether the contract involves the use of an identified asset, Hydro has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use and Hydro has the right to direct the use of the asset.

Lease extension and termination options

In determining the lease term, Hydro 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.

(vii) 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 Hydro's assets. The useful lives of property, plant and equipment are determined by independent specialists and reviewed annually by Hydro. 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) Decommissioning Liabilities

Hydro 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 Profit and Comprehensive 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.

(iii) Employee Future Benefits

Hydro provides group life insurance and health care benefits on a cost-shared basis to retired employees, in addition to a severance payment upon retirement. The expected cost of providing these other employee 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.

(iv) Leases incremental borrowing rate

Hydro 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.

(v) Deferred Assets and Derivative Liabilities

Effective October 1, 2015, Hydro entered into a power purchase agreement (PPA) with Nalcor Energy Marketing Corporation (Energy Marketing) which allows for the purchase of available Recapture energy from Hydro for resale by Energy Marketing in export markets or through agreements with counterparties. Additionally, the PPA allows for the use of Hydro's transmission service rights by Energy Marketing to deliver electricity, through rights which are provided to Hydro pursuant to a Transmission Service Agreement with Hydro-Québec dated April 1, 2009. The current terms of the PPA require a 60 day termination notice by either party. Management's assumption is that the term of the PPA at December 31, 2021, will continue for at least the next 12 months.

Fair values relating to Hydro's financial instruments and derivatives that have been classified as Level 3 have been determined using inputs for the assets or liabilities that are not readily observable. Certain of these fair values are classified as Level 3 as the transactions do not occur in an active market, or the terms extend beyond the period for which a quoted price is available.

Hydro's PPA with Energy Marketing is accounted for as a derivative instrument, where Hydro determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability, nor based on a valuation technique that uses only data from observable markets. These derivative transactions are initially measured at fair value and the expected difference is deferred. Subsequently, the deferred difference is recognized in other comprehensive income (loss) on an appropriate basis over the life of the related derivative instrument but not later than when the valuation is wholly supported by observable market data or the transaction has occurred.

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### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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Hydro has elected to defer the difference between the fair value of the power purchase derivative liability upon initial recognition and the transaction price of the power purchase derivative liability and to amortize the deferred asset on a straight-line basis over its effective term (Note 7). These methods, when compared with alternatives, were determined by Management to most accurately reflect the nature and substance of the transactions.

#### 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, 2021, as specified.

- *IFRS 16 – Leases – COVID-19 Related Rent Concessions beyond June 30, 2021 (Amendment to IFRS 16)*<sup>1</sup>
- *IAS 37 – Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Costs of Fulfilling a Contract (Amendments to IAS 37)*<sup>2</sup>
- *IAS 1 – Presentation of Financial Statements – Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)*<sup>3</sup>
- *IAS 1 – Presentation of Financial Statements – Disclosure of Accounting Policies (Amendments to IAS 1)*<sup>3</sup>
- *IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Accounting Estimates (Amendments to IAS 8)*<sup>3</sup>

<sup>1</sup> Effective for annual periods beginning on or after April 1, 2021

<sup>2</sup> Effective for annual periods beginning on or after January 1, 2022, with earlier application permitted.

<sup>3</sup> Effective for annual periods beginning on or after January 1, 2023, with earlier application permitted.

##### 4.1 IFRS 16 – Leases – COVID-19-Related Rent Concessions beyond June 30, 2021 (Amendment to IFRS 16)

The IASB issued an extension to the practical expedient available to lessees that permits a lessee to elect not to assess whether a COVID-19 related rent concession is a lease modification. The extension allows the application of the practical expedient to reductions in lease payments originally due on or before June 30, 2022. Since Hydro does not have any COVID-19 related rent concessions, the application of this amendment does not have an impact on Hydro's financial statements.

##### 4.2 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 Hydro, however, may apply to future transactions.

##### 4.3 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. Management is currently assessing the amendments and any potential impact on Hydro's financial statements.

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**4.4 IAS 1 – Presentation of Financial Statements– Disclosure of Accounting Policies (Amendments to IAS 1)**

The IASB issued amendments to IAS 1, which change the requirements with regard to the disclosure of accounting policies. The amendments replace all instances of the term ‘significant accounting policies’ with ‘material accounting policy information’. Accounting policy information is material if, when considered together with other information included in an entity’s financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The application of these amendments is not expected to have an impact on Hydro’s financial statements.

**4.5 IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Accounting Estimates (Amendments to IAS 8)**

The IASB issued amendments to IAS 8 to clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. The amendments are intended to improve the understanding of the existing requirements and therefore are not expected to have an impact on Hydro’s financial statements.

**5. TRADE AND OTHER RECEIVABLES**

<i>As at December 31 (millions of Canadian dollars)</i>	<b>2021</b>	2020
Trade receivables	<b>121</b>	97
Due from related parties	<b>17</b>	16
Other receivables	<b>16</b>	12
Loss allowance	<b>(17)</b>	(17)
	<b>137</b>	108

<i>As at December 31 (millions of Canadian dollars)</i>	<b>2021</b>	2020
0-60 days	<b>134</b>	106
60+ days	<b>3</b>	2
	<b>137</b>	108

<i>As at December 31 (millions of Canadian dollars)</i>	<b>2021</b>	2020
Loss allowance, beginning of the year	<b>(17)</b>	(14)
Change in balance during the year	-	(3)
Loss allowance, end of the year	<b>(17)</b>	(17)

**6. INVENTORIES**

<i>As at December 31 (millions of Canadian dollars)</i>	<b>2021</b>	2020
Fuel	<b>46</b>	54
Materials and other	<b>51</b>	50
	<b>97</b>	104

Fuel inventory includes No. 6 fuel in the amount of \$34.8 million (2020 - \$43.6 million). The cost of inventories recognized as an expense during the year is \$126.1 million (2020 - \$162.1) and is included in operating costs and fuels.

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**7. DEFERRED ASSET**

The deferred asset related to Hydro's PPA with Nalcor Energy Marketing (Energy Marketing) is amortized into income on a straight-line basis over the assumed nine month term of the contract, which commenced on January 1, 2021. Subsequently in March, August and December 2021, Management reassessed the anticipated contract term and determined that a new deferred asset and derivative liability was required resulting in a deferred asset addition of \$3.9 million, \$3.2 million, and \$55.7 million, respectively. The balances at March and August 2021 were fully amortized at December 31, 2021. The remaining \$55.7 million balance is to be amortized into income on a straight-line basis over the assumed twelve month term commencing on January 1, 2022 and expiring December 31, 2022. The components of change are as follows:

<i>As at December 31 (millions of Canadian dollars)</i>	<b>2021</b>	2020
Deferred asset, beginning of the year	<b>23</b>	9
Additions	<b>63</b>	38
Amortization	<b>(30)</b>	(24)
Deferred asset, end of the year	<b>56</b>	23

In February 2022, an amendment was made to suspend the existing terms of the PPA with Energy Marketing until April 30, 2022.

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**8. PROPERTY, PLANT AND EQUIPMENT**

<i>(millions of Canadian dollars)</i>	Generation Plant	Transmission and Distribution	Other	Assets Under Development	Total
<b>Cost</b>					
Balance at January 1, 2020	1,992	1,353	289	59	3,693
Additions	-	-	-	132	132
Disposals	(6)	(3)	(3)	-	(12)
Transfers	41	72	14	(127)	-
Other adjustments	-	(1)	-	(4)	(5)
Decommissioning liabilities and revisions	1	-	-	-	1
<b>Balance at December 31, 2020</b>	<b>2,028</b>	<b>1,421</b>	<b>300</b>	<b>60</b>	<b>3,809</b>
<b>Additions</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>161</b>	<b>162</b>
<b>Disposals</b>	<b>(13)</b>	<b>(2)</b>	<b>(2)</b>	<b>-</b>	<b>(17)</b>
<b>Transfers</b>	<b>93</b>	<b>64</b>	<b>26</b>	<b>(183)</b>	<b>-</b>
<b>Other adjustments</b>	<b>(1)</b>	<b>(2)</b>	<b>-</b>	<b>-</b>	<b>(3)</b>
<b>Balance at December 31, 2021</b>	<b>2,108</b>	<b>1,481</b>	<b>324</b>	<b>38</b>	<b>3,951</b>
<b>Depreciation</b>					
Balance at January 1, 2020	606	241	115	-	962
Depreciation	55	31	13	-	99
Disposals	(4)	(2)	(3)	-	(9)
<b>Balance at December 31, 2020</b>	<b>657</b>	<b>270</b>	<b>125</b>	<b>-</b>	<b>1,052</b>
<b>Depreciation</b>	<b>57</b>	<b>33</b>	<b>13</b>	<b>-</b>	<b>103</b>
<b>Disposals</b>	<b>(7)</b>	<b>(1)</b>	<b>(2)</b>	<b>-</b>	<b>(10)</b>
<b>Balance at December 31, 2021</b>	<b>707</b>	<b>302</b>	<b>136</b>	<b>-</b>	<b>1,145</b>
<b>Carrying value</b>					
Balance at January 1, 2020	1,386	1,112	174	59	2,731
Balance at December 31, 2020	1,371	1,151	175	60	2,757
<b>Balance at December 31, 2021</b>	<b>1,401</b>	<b>1,179</b>	<b>188</b>	<b>38</b>	<b>2,806</b>

Capitalized interest for the year ended December 31, 2021 was \$1.6 million (2020 - \$1.5 million) related to assets under development.

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**9. INTANGIBLE ASSETS**

<i>(millions of Canadian dollars)</i>	Computer Software	Feasibility Studies	Assets Under Development	Total
Cost				
Balance at January 1, 2020	15	2	-	17
Additions	-	-	1	1
Disposals	-	(1)	-	(1)
Transfers	4	-	(4)	-
Other adjustments	-	-	4	4
Balance at December 31, 2020	19	1	1	21
<b>Additions</b>	<b>-</b>	<b>-</b>	<b>1</b>	<b>1</b>
<b>Transfers</b>	<b>1</b>	<b>-</b>	<b>(1)</b>	<b>-</b>
<b>Balance at December 31, 2021</b>	<b>20</b>	<b>1</b>	<b>1</b>	<b>22</b>
Amortization				
Balance at January 1, 2020	11	1	-	12
Amortization	1	1	-	2
Disposals	-	(1)	-	(1)
Balance at December 31, 2020	12	1	-	13
<b>Amortization</b>	<b>2</b>	<b>-</b>	<b>-</b>	<b>2</b>
<b>Balance at December 31, 2021</b>	<b>14</b>	<b>1</b>	<b>-</b>	<b>15</b>
Carrying value				
Balance at January 1, 2020	4	1	-	5
Balance at December 31, 2020	7	-	1	8
<b>Balance at December 31, 2021</b>	<b>6</b>	<b>-</b>	<b>1</b>	<b>7</b>

**10. OTHER LONG-TERM ASSETS**

<i>As at December 31 (millions of Canadian dollars)</i>		2021	2020
Reserve fund	(a)	43	39
Sinking funds	(b)	192	183
Right-of-use assets		2	2
Investment in joint arrangement		1	1
		<b>238</b>	225
Less: current portion of reserve fund		<b>(6)</b>	(3)
		<b>232</b>	222

- (a) 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.

This fund must remain in place until the end of the Shareholders' Agreement in 2041. Any amounts removed to fund capital expenditures must be replaced. Reserve fund holdings consist of securities issued by the Government of Canada, various provinces of Canada and Schedule 1 and 2 Canadian Chartered Banks.

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The movement in Hydro's proportionate share of the reserve fund for the year is as follows:

<i>As at December 31 (millions of Canadian dollars)</i>	<b>2021</b>	2020
Reserve fund, beginning of the year	<b>39</b>	25
Principal contributions	<b>5</b>	13
Mark-to-market adjustment	<b>(1)</b>	1
Reserve fund, end of the year	<b>43</b>	39
Less: current portion	<b>(6)</b>	(3)
	<b>37</b>	36

- (b) As at December 31, 2021, sinking funds include \$191.7 million (2020 - \$182.6 million) related to repayment of Hydro's long-term debt. Sinking fund investments consist of bonds, debentures, short-term borrowings and coupons issued by, or guaranteed by, the Government of Canada, provincial governments or Schedule 1 banks, and have maturity dates ranging from 2022 to 2033.

Hydro debentures, which are intended to be held to maturity, are deducted from debt while all other sinking fund investments are shown separately on the Consolidated 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 1.42% to 6.82% (2020 – 1.52% to 6.82%).

The movement in sinking funds for the year is as follows:

<i>As at December 31 (millions of Canadian dollars)</i>	<b>2021</b>	2020
Sinking funds, beginning of the year	<b>183</b>	174
Contributions	<b>7</b>	7
Change in sinking fund investments in own debentures	<b>(11)</b>	(10)
Earnings	<b>13</b>	12
Sinking funds, end of the year	<b>192</b>	183

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

<i>(millions of Canadian dollars)</i>	2022	2023	2024	2025	2026
Sinking fund instalments	7	7	7	7	4

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**11. REGULATORY DEFERRALS**

		January 1	Reclass & Regulatory	December 31	Remaining	
		2021	Disposition	2021	Recovery	
					Settlement	
					Period	
					(years)	
<i>(millions of Canadian dollars)</i>						
<b>Regulatory asset deferrals</b>						
Rate stabilization plan (RSP)	(a)	40	24	(8)	56	n/a
Foreign exchange losses	(b)	46	-	(2)	44	20.0
Retirement asset pool	(c)	13	-	6	19	n/a
Supply cost variance deferral account	(d)	-	-	18	18	n/a
Power purchase expense recognition	(e)	-	-	18	18	n/a
Supply deferrals	(f)	59	(55)	8	12	n/a
Deferred energy conservation costs	(g)	8	-	-	8	n/a
Business system transformation program	(h)	4	-	1	5	n/a
Other	(k-t)	2	-	2	4	n/a
		172	(31)	43	184	
<b>Regulatory liability deferrals</b>						
Removal provision	(i)	(12)	-	(5)	(17)	n/a
Insurance amortization and proceeds	(j)	(3)	-	(4)	(7)	n/a
Other	(k-t)	(2)	-	(1)	(3)	n/a
		(17)	-	(10)	(27)	

**11.1 Regulatory Adjustments Recorded in the Consolidated Statement of Profit and Comprehensive Income**

		2021	2020
<i>For the year ended December 31 (millions of Canadian dollars)</i>			
RSP amortization		(24)	(32)
Rural rate adjustment		2	2
RSP fuel deferral		33	57
RSP interest		(3)	(2)
<b>Total RSP activity</b>	(a)	<b>8</b>	25
Supply deferral recovery		4	11
Supply deferrals		(12)	(55)
<b>Total supply deferral activity</b>	(f)	<b>(8)</b>	(44)
Supply cost variance deferrals	(d)	(18)	-
Power purchase expense recognition	(e)	(18)	-
Removal provision	(i)	5	4
Other	(b,c,g,h,j-t)	(2)	-
		<b>(33)</b>	(15)

The following section describes Hydro's regulatory assets and liabilities which will be, or are expected to be, reflected in customer rates in future periods and 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 profit for 2021 would have decreased by \$32.7 million (2020 – \$15.1 million).



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**11.(a) 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.

During 2021, Hydro recorded a net increase in the RSP balance of \$16.6 million (2020 - \$23.7 million) resulting in a balance from customers of \$56.5 million (2020 - \$39.9 million). The increase in the RSP asset is primarily due to the recovery of the 2020 energy supply deferrals as per Board Order No. P.U. 15 (2021) resulting in a net increase to the RSP of \$54.9 million (2020 - \$19.8 million); and Board Order No. P.U. 6 (2021) which approved a transfer of the remaining balance in the 2017 GRA Cost Recovery Rider to the Island Industrial Customer RSP Current Plan resulting in a net increase to the RSP of \$0.3 million; partially offset by adjustments related to the one-time fuel price bill credits for utility, rural and industrial customers as per Board Order No.'s P.U. 16 (2020) and P.U. 6 (2021) resulting in a net decrease of \$30.9 million (2020 - net increase of \$30.8 million) and normal operation of the RSP resulting in a net decrease of \$7.7 million (2020 - \$25.4 million).

Per Board Order No. P.U. 33 (2021) and Hydro's compliance filing, the RSP was discontinued for purposes of deferring variations in hydraulic production, No. 6 fuel, and load as at October 31, 2021. The Board ordered that the RSP will be maintained to provide timely recovery of the remaining balance resulting in the continuation of amortization and interest charges.

**11.(b) 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 2021, amortization expense of \$2.2 million (2020 - \$2.2 million) was recorded.

**11.(c) 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. In 2021, Hydro deferred \$6.1 million (2020 - \$2.1 million) of retirement asset activity resulting in a total balance of \$19.3 million.

**11.(d) Supply Cost Variance Deferral Account**

In Board Order No. P.U. 33 (2021), the PUB approved Hydro's proposal to establish an account to defer payments under the Muskrat Falls Project agreements, rate mitigation funding, project cost recovery from customers and supply cost variances. The deferral commenced activity on November 1, 2021. As at December 31, 2021, \$18.3 million was deferred for future recovery from customers.

**11.(e) Power Purchase Expense Recognition**

In Board Order No. P.U. 9 (2021) and Board Order No. P.U. 33 (2021), the PUB approved Hydro's proposal to deviate from IFRS to allow recognition of expenses related to the purchase of energy in accordance with the commercial terms of the Muskrat Falls Power Purchase Agreement. As at December 31, 2021, IFRS power purchase expenses were \$14.8 million higher during Muskrat Falls pre-commissioning and \$2.8 million higher during post-commissioning than commercial payments which resulted in the deferral of a regulatory asset of \$17.6 million.

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**11.(f) Supply Deferrals**

Pursuant to Board Order No. P.U. 22 (2017), the Board approved Supply deferral costs using three specific deferral accounts: the Energy Supply, Holyrood Conversion and Isolated Systems Supply cost deferrals. During 2021, Hydro recorded a net decrease to the supply deferrals of \$47.4 million (2020 – net increase \$24.3 million) resulting in a balance from customers of \$12.3 million (2020 - \$59.7 million). The decrease in the supply deferral asset is primarily due to the recovery of the 2020 supply cost deferral of \$54.9 million from the RSP as per Board Order No. P.U. 15 (2021); Board Order No. P.U. 21 (2019) approved the recovery from customers of \$18.4 million over a 20 month period; of which, in 2021 Hydro recovered \$4.5 million (2020 - \$10.9 million); Board Order No. P.U. 6 (2021) which approved a transfer of the remaining balance in the 2017 GRA cost recovery Rider to the Island Industrial Customer, which resulted in a net decrease to the supply deferral of \$0.3 million (2020 - \$nil); and normal operation of the supply deferral, resulting in a net increase of \$12.3 million (2020 - \$54.9 million), with recovery of the period's activity to be determined through an annual application process.

Per Board Order No. P.U. 33 (2021) and Hydro's compliance application, the Energy Supply and Holyrood Conversion Deferrals were discontinued as at October 31, 2021 with the account maintained to provide for a timely recovery of the remaining balance.

**11.(g) Deferred Energy Conservation Costs**

In 2021, Hydro deferred \$1.1 million (2020 - \$0.6 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 (2020 – \$1.5 million) of the balance through a rate rider.

**11.(h) 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. The recovery of the deferral is subject to a future Board order. During the year, Hydro deferred \$1.0 million (2020 – \$1.1 million).

**11.(i) 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. Hydro recorded a net increase to the provision relating to 2021 activity of \$4.9 million (2020 - \$4.1 million) resulting in a total balance of \$16.9 million (2020 - \$12.0 million). The increase was driven by removal depreciation of \$5.2 million (2020 - \$5.1 million) which was partially offset by removal costs of \$0.3 million (2020 - \$1.0 million).

**11.(j) 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 2021, Hydro recorded a net increase of \$4.2 million (2020 - \$nil) to the regulatory liability. The increase was driven by insurance proceeds of \$4.5 million (2020 - \$nil) which was partially offset by insurance amortization of \$0.3 million (2020 - \$nil).

**11.(k) 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 2021, Hydro recorded amortization of \$0.1 million (2020 - \$0.3 million) of the deferred lease costs.

**11.(l) Deferred Foreign Exchange on Fuel**

Hydro purchases fuel for HTGS in USD. There are regulatory mechanisms that allow Hydro to defer variances in fuel prices (including foreign exchange fluctuations). During 2021, Hydro recognized an increase to regulatory assets due to foreign exchange losses on fuel purchases of \$0.6 million (2020 - \$0.2 million gains).

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**11.(m) 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. In 2019, Phase Two of the Board's investigation was concluded with recovery to be addressed in a future Board Order. There were no additions in 2021 or 2020. The total deferred balance is \$1.4 million (2020 - \$1.4 million).

**11.(n) 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.

**11.(o) Hydraulic Resources Optimization Deferral Account**

In Board Order No. 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, 2021, the balance of hydraulic optimization activities is a net gain of \$1.3 million (2020 - \$1.0 million) recorded as a deferred liability.

**11.(p) 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 (2020 - \$0.2 million) are deferred as a regulatory liability.

**11.(q) 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 non-customer related parties in profit or loss. During 2021, Hydro recorded \$1.2 million (2020 - \$0.9 million) in non-customer related party CIAC amortization as a regulatory adjustment. In the absence of rate regulation, IFRS requires these non-customer related party CIACs to be recorded as contributed capital with no corresponding amortization. As a result, during 2021 Hydro also recorded an increase of \$1.2 million (2020 - \$0.9 million) to contributed capital to recognize the amount that was reclassified to profit or loss.

**11.(r) 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 2021 Hydro recorded \$0.2 million (2020 - \$0.1 million) 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 2021 Hydro also recorded a decrease of \$0.2 million (2020 - \$0.1 million) to other comprehensive income to recognize the amount that was reclassified to profit or loss.

**11.(s) 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 \$1.3 million in 2021 (2020 - \$0.6 million) resulting in a regulatory asset of \$2.1 million (2020 - \$0.8 million). The recovery of the balance is to be determined in a future Board Order.

**11.(t) Frequency Converter Revenue Deferral Account**

In Board Order No. 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 2021, Hydro deferred \$0.2 million as a regulatory liability (2020 - \$0.2 million).

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**12. TRADE AND OTHER PAYABLES**

<i>As at December 31 (millions of Canadian dollars)</i>	<b>2021</b>	2020
Trade payables	<b>73</b>	103
Accrued interest payable	<b>25</b>	25
Due to related parties	<b>5</b>	5
Other payables	<b>32</b>	21
	<b>135</b>	154

**13. DEBT**

**13.1 Short-term Borrowings**

Hydro utilized its \$300.0 million government guaranteed promissory note program to fulfil its short-term funding requirements. As at December 31, 2021, there were two promissory notes outstanding for a total of \$55.0 million with a maturity date of January 10, 2022 bearing an average interest rate of 0.20% (2020 - \$262.0 million bearing an average interest rate of 0.17%). Upon maturity, the promissory notes were reissued.

Hydro's \$200.0 million CAD or USD equivalent committed revolving term facility with a maturity date of July 27, 2021 was increased to \$500.0 million on April 16, 2021, and extended to reflect a new maturity date of July 31, 2022. As at December 31, 2021, there were no amounts drawn on the facility (2020 - \$nil). Borrowings in CAD may take the form of Prime Rate Advances, Bankers' Acceptances (BAs), and letters of credit, with interest calculated at the Prime Rate or 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. Hydro's committed credit facility with its banker of \$300.0 million matured during the year and was not renewed.

Churchill Falls maintains a \$10.0 million CAD or USD equivalent unsecured demand operating credit facility with its banker. Advances may take the form of a Prime Rate advance, or the issuance of a BA with interest calculated at the Prime Rate or prevailing Government BA fee. The facility also provides coverage for overdrafts on Churchill Falls bank accounts, with interest calculated at the Prime Rate. There were no amounts drawn on this facility as at December 31, 2021 (2020 - \$nil).

Churchill Falls has issued three irrevocable letters of credit totalling \$2.0 million (2020 - \$2.0 million), \$1.0 million of which does not impact the borrowing limit of the operating credit facility (2020 - \$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.

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**13.2 Long-term Debt**

The following table represents the value of long-term debt measured at amortized cost:

<i>As at December 31 (millions of Canadian dollars)</i>	Face Value	Coupon Rate %	Year of Issue	Year of Maturity	2021	2020
Hydro						
Y*	300	8.40	1996	2026	<b>297</b>	297
AB*	300	6.65	2001	2031	<b>304</b>	304
AD*	125	5.70	2003	2033	<b>124</b>	124
AF	500	3.60	2014/2017	2045	<b>482</b>	481
1A	600	3.70	2017/2018	2048	<b>638</b>	639
2A	300	1.75	2021	2030	<b>287</b>	-
Total	2,125				<b>2,132</b>	1,845
Less: Sinking fund investments in own debentures					<b>84</b>	73
					<b>2,048</b>	1,772
Less: Sinking fund payments due within one year					<b>7</b>	7
Total					<b>2,041</b>	1,765

\*Sinking funds have been 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 and Series 2A which are borrowed directly from the Province. The Province charges Hydro a guarantee fee of 25 basis points annually on the total debt (net of sinking funds) with a remaining term to maturity of less than or equal to 10 years and 50 basis points annually on total debt (net of sinking funds) with a remaining term to maturity greater than 10 years for debt outstanding as of December 31, 2010. For debt issued subsequent to December 31, 2010, the guarantee rate is 25 basis points annually on the total debt (net of sinking funds) with an original term to maturity of less than or equal to 10 years and 50 basis points annually on total debt (net of sinking funds) with an original term to maturity greater than 10 years. The guarantee fee recorded for the year ended December 31, 2021 was \$8.6 million (2020 - \$8.6 million).

On April 13, 2021, the Province of Newfoundland and Labrador issued long-term debt with a face value of \$300.0 million, specifically on Hydro's behalf. The debt matures on June 2, 2030 with a coupon rate of 1.75%, paid semi-annually.

**14. DEFERRED CONTRIBUTIONS**

Hydro 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.

<i>As at December 31 (millions of Canadian dollars)</i>	2021	2020
Deferred contributions, beginning of the year	<b>28</b>	27
Additions	<b>5</b>	3
Amortization	<b>(2)</b>	(2)
Deferred contributions, end of the year	<b>31</b>	28
Less: current portion	<b>(1)</b>	(2)
	<b>30</b>	26

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**15. DECOMMISSIONING LIABILITIES**

Hydro has recognized liabilities associated with the retirement of portions of the HTGS and the disposal of Polychlorinated Biphenyls (PCB).

The reconciliation of the beginning and ending carrying amounts of decommissioning liabilities for December 31, 2021 are as follows:

<i>As at December 31 (millions of Canadian dollars)</i>	<b>2021</b>	2020
Decommissioning liabilities, beginning of the year	<b>16</b>	15
Revisions	<b>(1)</b>	1
Decommissioning liabilities, end of the year	<b>15</b>	16
Less: current portion	<b>(2)</b>	-
	<b>13</b>	16

The total estimated undiscounted cash flows required to settle the HTGS obligations at December 31, 2021 are \$15.2 million (2020 - \$15.2 million). Payments to settle the liability are expected to occur between 2022 and 2025. The fair value of the decommissioning liabilities was determined using the present value of future cash flows discounted at Hydro's credit adjusted risk free rate of 1.3% (2020 - 0.5%). Hydro has recorded \$14.6 million (2020 - \$14.8 million) related to HTGS obligations.

The total estimated undiscounted cash flows required to settle the PCB obligations at December 31, 2021 are \$0.6 million (2020 - \$1.1 million). Payments to settle the liability are expected to occur between 2022 and 2025. The fair value of the decommissioning liabilities was determined using the present value of future cash flows discounted at Hydro's credit adjusted risk free rate of 1.3% (2020 - 0.5%). Hydro has recorded \$0.6 million (2020 - \$1.0 million) related to PCB obligations.

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

**16. LEASES**

**Amounts Recognized in the Consolidated Statement of Profit and Comprehensive Income**

<i>For the year ended December 31 (millions of Canadian dollars)</i>		<b>2021</b>	2020
Variable lease payments not included in the measurement of leases	(a)	<b>29</b>	28

(a) Variable lease payments not included in the measurement of leases include payments made to Nalcor 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 Profit and Comprehensive Income.

The total cash outflow for leases for the year ended December 31, 2021 amount to \$28.7 million (2020 - \$28.3 million).

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**17. EMPLOYEE FUTURE BENEFITS**

**17.1 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, 2021 of \$9.7 million (2020 - \$9.4 million) are expensed as incurred.

**17.2 Other Benefits**

Hydro provides group life insurance and health care benefits on a cost shared basis to retired employees, and in certain cases their surviving spouses, in addition to a retirement allowance. In 2021, cash payments to beneficiaries for its unfunded other employee future benefits were \$3.7 million (2020 - \$3.8 million). An actuarial valuation was performed as at December 31, 2021.

<i>As at December 31 (millions of Canadian dollars)</i>	<b>2021</b>	<b>2020</b>
Accrued benefit obligation, beginning of the year	<b>130</b>	123
Current service cost	<b>5</b>	5
Interest cost	<b>4</b>	4
Benefits paid	<b>(4)</b>	(4)
Actuarial (gain) loss	<b>(17)</b>	2
Transfers	<b>2</b>	-
Accrued benefit obligation, end of the year	<b>120</b>	130

<i>For the year ended December 31 (millions of Canadian dollars)</i>	<b>2021</b>	<b>2020</b>
Component of benefit cost		
Current service cost	<b>5</b>	5
Interest cost	<b>4</b>	4
Total benefit expense for the year	<b>9</b>	9

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

	<b>2021</b>	<b>2020</b>
Discount rate - benefit cost	<b>2.70%</b>	3.20%
Discount rate - accrued benefit obligation	<b>3.35%</b>	2.70%
Rate of compensation increase	<b>3.50%</b>	3.50%

Assumed healthcare trend rates:

	<b>2021</b>	<b>2020</b>
Initial health care expense trend rate	<b>5.53%</b>	5.64%
Cost trend decline to	<b>3.60%</b>	3.60%
Current rate 5.53%, reducing linearly to 3.6% in 2040 and thereafter.		

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

<i>Increase (millions of Canadian dollars)</i>	<b>2021</b>	<b>2020</b>
Current service and interest cost	<b>2</b>	2
Accrued benefit obligation	<b>19</b>	22
<i>Decrease (millions of Canadian dollars)</i>	<b>2021</b>	<b>2020</b>
Current service and interest cost	<b>(1)</b>	(1)
Accrued benefit obligation	<b>(14)</b>	(17)

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**18. SHAREHOLDER'S EQUITY**

**18.1 Share Capital**

<i>As at December 31 (millions of Canadian dollars)</i>	<b>2021</b>	2020
Common shares of par value of \$1 each		
Authorized - 25,000,000		
Issued, paid and outstanding - 22,503,942	<b>23</b>	23

**18.2 Contributed Capital**

<i>As at December 31 (millions of Canadian dollars)</i>	<b>2021</b>	2020
Contributed capital, beginning of the year	<b>151</b>	152
Amortization	<b>(1)</b>	(1)
Contributed capital, end of the year	<b>150</b>	151

During 2021, Lower Churchill Management Corporation (LCMC) contributed \$0.2 million (2020 - \$0.2 million) in additions to property, plant and equipment. Pursuant to Board Order No. P.U. 1 (2017), Hydro recognized \$1.2 million (2020 - \$0.9 million) in amortization as a regulatory adjustment.

**18.3 Dividends**

<i>For the year ended December 31 (millions of Canadian dollars)</i>	<b>2021</b>	2020
Declared during the year		
Final dividend for prior year: \$0.03 per share (2020 - \$0.03)	<b>1</b>	1
Interim dividend for current year: \$0.64 per share (2020 - \$0.54)	<b>14</b>	12
	<b>15</b>	13

**19. OPERATING COSTS**

<i>For the year ended December 31 (millions of Canadian dollars)</i>	<b>2021</b>	2020
Salaries and benefits	<b>109</b>	113
Maintenance and materials	<b>30</b>	27
Professional services	<b>10</b>	10
Insurance	<b>7</b>	6
Travel and transportation	<b>6</b>	4
Other operating costs	<b>7</b>	15
	<b>169</b>	175



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**20. NET FINANCE EXPENSE**

<i>For the year ended December 31 (millions of Canadian dollars)</i>	<b>2021</b>	2020
Finance income		
Interest on sinking fund	<b>13</b>	12
Interest on reserve fund	<b>1</b>	-
Other interest income	<b>1</b>	2
	<b>15</b>	14
Finance expense		
Long-term debt	<b>96</b>	92
Debt guarantee fee	<b>9</b>	9
Other	<b>2</b>	3
	<b>107</b>	104
Interest capitalized during construction	<b>(2)</b>	(2)
	<b>105</b>	102
Net finance expense	<b>90</b>	88

**21. OTHER EXPENSE**

<i>For the year ended December 31 (millions of Canadian dollars)</i>	<b>2021</b>	2020
Loss on disposal of property, plant and equipment	<b>7</b>	3
Insurance proceeds	<b>(5)</b>	-
Rent and royalties	<b>6</b>	4
Other	<b>1</b>	2
Other expense	<b>9</b>	9

**22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

**22.1 Fair Value**

The estimated fair values of financial instruments as at December 31, 2021 and 2020 are based on relevant market prices and information available at the time. Fair value estimates are based on valuation techniques which are significantly affected by the assumptions used including the amount and timing of future cash flows and discount rates reflecting various degrees of risk. As such, the fair value estimates below are not necessarily indicative of the amounts that Hydro might receive or incur in actual market transactions.

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

Establishing Fair Value

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

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

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

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

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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, Hydro 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 fair value measurement for the years ended December 31, 2021 and 2020.

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
		December 31, 2021		December 31, 2020	
<i>As at (millions of Canadian dollars)</i>					
Financial assets					
Sinking funds - investments in Hydro debt issue	2	84	94	73	88
Sinking funds - other investments	2	192	230	183	234
Reserve fund	2	43	43	39	39
Financial liabilities					
Derivative liability	3	56	56	23	23
Long-term debt (including amount due within one year before sinking funds)	2	2,132	2,508	1,845	2,394

The fair value of cash, trade and other receivables, related party loan receivable, 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 the derivative liability relating to the PPA with Energy Marketing and represents the future value provided to Energy Marketing through the contract.

The following table summarizes quantitative information about the valuation techniques and unobservable inputs used in the fair value measurement of Level 3 financial instruments as at December 31, 2021:

<i>(millions of Canadian dollars)</i>	Carrying Value	Valuation Techniques	Significant Unobservable Input(s)	Range
Derivative liability (PPA)	56	Modelled pricing	Volumes (MWh)	27-34% of available generation

The derivative liability arising under the PPA is designated as a Level 3 instrument as certain forward market prices and related volumes are not readily determinable to estimate a portion of the fair value of the derivative liability. Hence, fair value measurement of this instrument is based upon a combination of internal and external pricing and volume estimates. As at December 31, 2021, the effect of using reasonably possible alternative assumptions for volume inputs to valuation techniques may have resulted in a -\$0.1 million to +\$0.9 million change in the carrying value of the derivative liability.

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The components of the change impacting the carrying value of the derivative liability for the years ended December 31, 2021 and 2020 are as follows:

<i>(millions of Canadian dollars)</i>	<b>Level 3</b>
<b>Balance at January 1, 2021</b>	<b>(23)</b>
<b>Purchases</b>	<b>(63)</b>
<b>Changes in profit or loss</b>	
<b>Mark-to-market</b>	<b>(21)</b>
<b>Settlements</b>	<b>51</b>
<b>Total</b>	<b>30</b>
<b>Balance at December 31, 2021</b>	<b>(56)</b>

<i>(millions of Canadian dollars)</i>	<b>Level 3</b>
Balance at January 1, 2020	(9)
Purchases	(38)
Changes in profit or loss	
Mark-to-market	1
Settlements	23
<b>Total</b>	<b>24</b>
<b>Balance at December 31, 2020</b>	<b>(23)</b>

**22.2 Risk Management**

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

Credit Risk

Hydro's expected future cash flow is exposed to credit risk through its operating activities, primarily due to the potential for non-performance by its customers, and through its financing and investing activities, based on the risk of non-performance by counterparties to its financial instruments. The degree of exposure to credit risk on cash and 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. Hydro had established flexible collection practices during the COVID-19 pandemic for its customers and has since returned to its normal customer collections practices. Hydro is continuing to monitor the risk of non-performance by its customers and as at December 31, 2021 the impact on the Company's expected credit loss allowance is not considered material. As well, Hydro 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 is minimal, as Hydro's cash deposits are held by a Schedule 1 Canadian Chartered Bank with a rating of A+ (Standard and Poor's).

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Credit exposure on Hydro's sinking funds is limited by restricting the holdings to long-term debt instruments issued by the Government of Canada or any province of Canada, Crown corporations and 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 funds portfolio:

	<b>Issuer Credit Rating</b>	<b>Fair Value of Portfolio (%)</b>	<b>Issuer Credit Rating</b>	<b>Fair Value of Portfolio (%)</b>
	<b>2021</b>		<b>2020</b>	
Provincial Governments	<b>AA- to AAA</b>	<b>16.62%</b>	AA- to AAA	17.10%
Provincial Governments	<b>A- to A+</b>	<b>26.02%</b>	A- to A+	26.53%
Provincially owned utilities	<b>AA- to AAA</b>	<b>23.31%</b>	AA- to AAA	24.03%
Provincially owned utilities	<b>A- to A+</b>	<b>34.05%</b>	A- to A+	32.34%
		<b>100.00%</b>		<b>100.00%</b>

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

	<b>Issuer Credit Rating</b>	<b>Fair Value of Portfolio(%)</b>	<b>Issuer Credit Rating</b>	<b>Fair Value of Portfolio (%)</b>
	<b>2021</b>		<b>2020</b>	
Provincial Governments	<b>AA- to AAA</b>	<b>10.58%</b>	AA- to AAA	-
Provincial Governments	<b>A- to A+</b>	<b>38.14%</b>	A- to A+	40.58%
Provincially owned utilities	<b>AA- to AAA</b>	<b>4.82%</b>	AA- to AAA-	8.26%
Provincially owned utilities	<b>A- to A+</b>	<b>5.30%</b>	A- to A+	6.00%
Schedule 1 Canadian banks	<b>AA- to AAA</b>	<b>15.59%</b>	AA- to AAA	18.53%
Schedule 1 or 2 Canadian banks	<b>A- to A+</b>	<b>25.57%</b>	A- to A+	26.63%
		<b>100.0%</b>		<b>100.0%</b>

Hydro's exposure to credit risk on its energy sales and associated accounts receivable is determined by the credit quality of its customers. Hydro's three largest customers account for 82.8% (2020 - 81.3%) of total energy sales and 62.2% (2020 - 64.3%) of accounts receivable. Energy sales for the three largest customers include \$448.6 million (2020 - \$455.0 million) for Regulated Hydro, as well as \$39.3 million (2020 - \$41.4 million) for Non-Regulated Hydro. Churchill Falls' exposure to credit risk on energy sales is limited, as Churchill Falls' main customer, Hydro-Québec is an investment grade utility.

Liquidity Risk

Hydro is exposed to liquidity risk with respect to its contractual obligations and financial liabilities. Liquidity risk management is aimed at ensuring cash is available to meet those obligations as they become due.

Short-term liquidity is mainly provided through cash on hand, funds from operations, and a \$300.0 million promissory note program. In addition, Hydro maintains a \$500.0 million (2020 - \$200.0 million) committed revolving term credit facility with its primary banker. These credit facilities are held with its primary banker in order to meet any requirements beyond those forecasted for a given period. Churchill Falls also maintains a \$24.0 million (2020 - \$23.0 million) minimum cash balance, business interruption insurance, as well as a \$10.0 million (2020 - \$10.0 million) unsecured credit facility with its banker.

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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 2030, 2045 and 2048.

For 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 the contractual maturities of Hydro's financial liabilities, including principal and interest, as at December 31, 2021:

<i>(millions of Canadian dollars)</i>	<1 Year	1-3 Years	3-5 Years	> 5 Years	Total
Trade and other payables	135	-	-	-	135
Short-term borrowings	55	-	-	-	55
Contract payable	18	-	-	-	18
Derivative liability	56	-	-	-	56
Debt guarantee fee	9	17	17	126	169
Long-term debt including sinking funds	7	13	311	1,794	2,125
Interest	98	195	183	998	1,474
	378	225	511	2,918	4,032

**Market Risk**

In the course of carrying out its operating, financing and investing activities, Hydro is exposed to possible market price movements that could impact expected future cash flow and the carrying value of certain financial assets and liabilities. Market price movements to which Hydro has significant exposure include those relating to prevailing interest rates, foreign exchange rates, most notably the USD/CAD, and current commodity prices, most notably the spot prices for fuel and electricity. These exposures are addressed as part of the Financial Risk Management Policy.

**Interest Rates**

Changes in prevailing interest rates will impact the fair value of financial assets and liabilities which includes Hydro's cash and sinking funds. Expected future cash flows associated with those financial instruments can also be impacted. The impact of a 0.5% change in interest rates on net income and other comprehensive income associated with cash and short-term debt was negligible throughout 2021 due to the short time period to maturity. There was no impact on profit and other comprehensive income associated with long-term debt as all of Hydro's long-term debt has fixed interest rates.

Changes in prevailing interest rates will impact the fair value of financial assets classified as FVTOCI, which includes Churchill Falls' reserve fund. Expected cash flows from these assets are also impacted in certain circumstances, such as when reserve fund securities are sold prior to maturity. The impact to other comprehensive income for a 0.5% decrease or increase in interest rate would be +\$0.1 million and -\$0.1 million, respectively.

**Foreign Currency and Commodity Exposure**

Hydro's primary exposure to both USD foreign exchange and commodity price risk arises from its purchases of No. 6 fuel for consumption at the HTGS, and these risks are mitigated through the operation of the regulatory mechanisms.

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**23. RELATED PARTY TRANSACTIONS**

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

<u>Related Party</u>	<u>Relationship</u>
Nalcor	100% shareholder of Hydro
Churchill Falls	Joint arrangement of Hydro
The Province	100% shareholder of Nalcor
Twin Falls	Joint venture of Churchill Falls
Energy Marketing	Wholly-owned subsidiary of Nalcor
Hydro-Québec	34.2% shareholder of Churchill Falls
Labrador-Island Link Operating Corporation (LIL Opco)	Wholly-owned subsidiary of Nalcor
Lower Churchill Management Corporation	Wholly-owned subsidiary of Nalcor
Muskrat Falls Corporation (Muskrat Falls)	Wholly-owned subsidiary of Nalcor
Nalcor Energy – Oil and Gas Inc.	Wholly-owned subsidiary of Nalcor
Board of Commissioners of Public Utilities (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 settlement within 30 days, unless otherwise stated.

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<i>As at December 31 (millions of Canadian dollars)</i>	<b>2021</b>	2020
<i>Amounts owed by related parties:</i>		
<b>Trade and other receivables:</b>		
LCMC	-	3
Energy Marketing	4	4
Hydro-Québec	11	9
Nalcor	2	-
<b>Related party loan receivable:</b>		
Muskrat Falls (a)	53	-
<i>Amounts owed to related parties:</i>		
<b>Trade and other payables:</b>		
Churchill Falls	1	1
Nalcor	1	4
Energy Marketing	3	-
<b>Contract payable:</b>		
Muskrat Falls (b)	18	-
<b>Long-term debt:</b>		
The Province	925	639
<b>Other liabilities:</b>		
The Province	6	4
Various related parties	1	1
<i>For the year ended December 31 (millions of Canadian dollars)</i>		
	<b>2021</b>	2020
<i>Revenues:</i>		
<b>Energy and transmission sales:</b>		
LCMC	2	3
Energy Marketing	2	-
Hydro-Québec	66	62
<b>Rebate recoveries:</b>		
The Province	2	2
Nalcor	1	1
<b>Operating contract revenues:</b>		
Nalcor	25	26
<b>Other revenue:</b>		
Hydro-Québec (c)	16	-
<i>Expenses:</i>		
<b>Power purchased:</b>		
Churchill Falls	16	16
Muskrat Falls	57	-
Nalcor	29	28
<b>Net operating costs:</b>		
Various related parties	6	6
<b>Net finance expense:</b>		
The Province	31	31
<b>Rental and royalty:</b>		
The Province	6	4

(a) As at December 31, 2021, Hydro has a related party loan receivable from Muskrat Falls of \$53.2 million (2020 - \$nil) which includes interest charged on the balance outstanding at a rate of 5.43% as required under the Power Purchase Agreement. The balance is repayable by Muskrat Falls as cash is available while still meeting its debt servicing costs.

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- (b) Hydro entered into a Power Purchase Agreement with Muskrat Falls for the purchase of energy and capacity from the Muskrat Falls Plant. The contract payable balance represents the timing difference between the value of the energy and capacity delivered to Hydro and the contractual payments made under the Power Purchase Agreement in the reporting period.
- (c) In August 2021, Churchill Falls and Hydro-Québec reached a Settlement Agreement regarding the Declaratory Judgment case surrounding the interpretation of the Renewed Power Contract, which came into effect September 1, 2016, and alignment on a final Annual Energy Base, which establishes Hydro-Québec's annual energy entitlement for the term of the contract. This settlement has been included in other revenue.

**23.1 Key Management Personnel Compensation**

Compensation for key management personnel, which Hydro defines as its executives who have the primary authority and responsibility for 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 in the amount of \$0.2 million (2020 - \$0.2 million).

<i>For the year ended December 31 (millions of Canadian dollars)</i>	<b>2021</b>	2020
Salaries and employee benefits	<b>2</b>	2

**24. COMMITMENTS AND CONTINGENCIES**

- (a) Hydro is subject to legal claims with respect to 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 unfavorable outcome for Hydro, they may have a significant adverse impact on Hydro's financial position.
- (b) Outstanding commitments for capital projects total approximately \$34.3 million as at December 31, 2021 (2020 - \$16.7 million).
- (c) Hydro has entered into a number of long-term power purchase agreements as follows:

<b>Type</b>	<b>Rating</b>	<b>Effective Date</b>	<b>Term</b>
Hydroelectric	6.5 MW	2021	24 years
Hydroelectric	4 MW	1998	25 years
Hydroelectric	300 MW	1998	43 years
Hydroelectric	225 MW	2015	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
Hydroelectric, Solar, Battery	240 kW Hydro 189 kW Solar 334.5 kW Battery	2019. Amended in 2020.	15 years
Biomass	450 kW	2018	1 year post in-service of Muskrat Falls



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

<i>(millions of Canadian dollars)</i>	2022	2023	2024	2025	2026
Power purchases	80.9	70.2	70.4	71.3	72.5

- (d) Through a power purchase agreement signed October 1, 2015, with Energy Marketing, Hydro maintains the transmission services contract it entered into with Hydro-Québec TransÉnergie which concludes in 2024.

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

2022	\$19.7 million
2023	\$19.9 million
2024	\$ 5.0 million

- (e) In 2013, Hydro entered into a Power Purchase Agreement with Muskrat Falls for the purchase of energy and capacity from the Muskrat Falls Plant. The supply period under the agreement is 50 years and contractual payments commenced in November 2021 upon commissioning of the Muskrat Falls Plant. Estimated payments for the next five years have not yet been determined as they may be impacted by the Province's rate mitigation plan.
- (f) In 2013, Hydro entered into the Transmission Funding Agreement (TFA) with LIL Opco, in which Hydro has committed to make payments which will be sufficient for LIL Opco to recover all costs associated with rent payments under the LIL Lease and payments to cover operating and maintenance costs incurred by LIL Opco. Hydro will be required to begin mandatory payments associated with the TFA upon commissioning of the Labrador-Island Link (LIL) assets. The term of the TFA is anticipated to continue until the service life of the LIL assets has expired.
- (g) 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 May 2021, Hydro entered into a second revised agreement with CBPP that expires on April 30, 2023. In December 2021, Hydro entered into a revised agreement with Vale that expires in March of 2022. Payment for services will be dependent on the successful provision of capacity assistance for the winter period by Vale and CBPP.
- (h) In December of 2021, CF(L)Co entered into an agreement for the sale of excess energy to Hydro-Québec. The Agreement has a term of 5 years.
- (i) Water Management Agreement (WMA) was enacted by the Board of Commissioners of Public Utilities between Churchill Falls and Nalcor. Nalcor subsequently assigned the WMA to Muskrat Falls. The agreement provides for coordinated production 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. As at December 31, 2021 Muskrat Falls has stored approximately 1.3 TWh of energy in the Churchill Falls reservoir.

**25. CAPITAL MANAGEMENT**

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.

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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).

A summary of the capital structure is outlined below:

<i>(millions of Canadian dollars)</i>	<b>2021</b>	<b>2020</b>		
<b>Debt</b>				
Sinking funds	<b>(192)</b>		(183)	
Short-term borrowings	<b>55</b>		262	
Current portion of long-term debt	<b>7</b>		7	
Long-term debt	<b>2,041</b>		1,765	
	<b>1,911</b>	<b>61.8%</b>	1,851	62.9%
<b>Equity</b>				
Share capital	<b>23</b>		23	
Contributed capital	<b>150</b>		151	
Reserves	<b>(6)</b>		(22)	
Retained earnings	<b>1,015</b>		939	
	<b>1,182</b>	<b>38.2%</b>	1,091	37.1%
<b>Total Debt and Equity</b>	<b>3,093</b>	<b>100.0%</b>	2,942	100.0%

**25.1 Hydro**

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, 2021, 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 \$55.0 million is outstanding as at December 31, 2021 (2020 - \$262.0 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. Hydro's total borrowing limit under the Act is \$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.

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**25.2 Churchill Falls**

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

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

Churchill Falls maintains a \$10.0 million Canadian or US equivalent unsecured operating credit facility with its banker. Advances may take the form of a Prime Rate advance or the issuance of a Bankers' Acceptance (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, 2021 (2020 - \$nil).

Churchill Falls has issued three irrevocable letters of credit totaling \$2.0 million (2020 - \$2.0 million), \$1.0 million of which does not impact the borrowing limit of the operating credit facility (2020 - \$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.

**26. SUPPLEMENTARY CASH FLOW INFORMATION**

<i>For the year ended December 31 (millions of Canadian dollars)</i>	<b>2021</b>	2020
Trade and other receivables	<b>(29)</b>	38
Inventories	<b>7</b>	10
Prepayments	-	(1)
Trade and other payables	<b>(17)</b>	(14)
Contract payable	<b>18</b>	-
<b>Changes in non-cash working capital balances</b>	<b>(21)</b>	<b>33</b>
Related to:		
Operating activities	<b>(22)</b>	31
Investing activities	<b>1</b>	2
	<b>(21)</b>	<b>33</b>

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**27. SEGMENT INFORMATION**

Hydro operates in four business segments. The designation of segments is based on a combination of regulatory status and management accountability.

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 energy to mining operations in Labrador West as well as costs of Hydro that are excluded from the determination of customer rates. Churchill Falls operates a hydroelectric generating facility which sells electricity to Hydro-Québec and Hydro Regulated. Energy Marketing includes the sale of electricity and transmission to Energy Marketing.

	Hydro Regulated	Churchill Falls	Energy Marketing	Non-Regulated Activities	Inter-Segment	Total
<i>(millions of Canadian dollars)</i>						
<b>For the year ended December 31, 2021</b>						
<b>Energy sales</b>	<b>538</b>	<b>99</b>	<b>4</b>	<b>47</b>	<b>(32)</b>	<b>656</b>
<b>Other revenue</b>	<b>16</b>	<b>16</b>	<b>21</b>	<b>-</b>	<b>4</b>	<b>57</b>
<b>Revenue</b>	<b>554</b>	<b>115</b>	<b>25</b>	<b>47</b>	<b>(28)</b>	<b>713</b>
<b>Fuels</b>	<b>122</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>122</b>
<b>Power purchased</b>	<b>123</b>	<b>-</b>	<b>4</b>	<b>43</b>	<b>(32)</b>	<b>138</b>
<b>Operating costs</b>	<b>129</b>	<b>39</b>	<b>-</b>	<b>1</b>	<b>-</b>	<b>169</b>
<b>Transmission rental</b>	<b>-</b>	<b>-</b>	<b>21</b>	<b>-</b>	<b>-</b>	<b>21</b>
<b>Depreciation and amortization</b>	<b>84</b>	<b>21</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>105</b>
<b>Net finance expense (income)</b>	<b>91</b>	<b>(1)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>90</b>
<b>Other expense</b>	<b>2</b>	<b>7</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9</b>
<b>Expenses</b>	<b>551</b>	<b>66</b>	<b>25</b>	<b>44</b>	<b>(32)</b>	<b>654</b>
<b>Share of profit of joint arrangement</b>	<b>-</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1</b>
<b>Preferred dividends</b>	<b>-</b>	<b>(4)</b>	<b>-</b>	<b>-</b>	<b>4</b>	<b>-</b>
<b>Profit before regulatory adjustments</b>	<b>3</b>	<b>52</b>	<b>-</b>	<b>3</b>	<b>-</b>	<b>58</b>
<b>Regulatory adjustments</b>	<b>(33)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(33)</b>
<b>Profit for the year</b>	<b>36</b>	<b>52</b>	<b>-</b>	<b>3</b>	<b>-</b>	<b>91</b>
<b>Capital expenditures*</b>	<b>115</b>	<b>48</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>163</b>
<b>Total assets</b>	<b>2,910</b>	<b>718</b>	<b>59</b>	<b>7</b>	<b>-</b>	<b>3,694</b>

\*Capital expenditures include non-cash additions of \$0.2 million contributed by Lower Churchill Management Corporation and \$1.6 million of interest capitalized during construction.

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	Hydro Regulated	Churchill Falls	Energy Marketing	Non-Regulated Activities	Inter- Segment	Total
<i>(millions of Canadian dollars)</i>						
For the year ended December 31, 2020						
Energy sales	557	94	4	50	(32)	673
Other revenue	6	-	20	-	3	29
Revenue	563	94	24	50	(29)	702
Fuels	158	-	-	-	-	158
Power purchased	75	-	4	43	(32)	90
Operating costs	135	38	-	1	1	175
Transmission rental	1	-	20	-	-	21
Depreciation and amortization	79	21	-	-	1	101
Net finance expense (income)	90	(1)	-	-	(1)	88
Other expense	4	5	-	-	-	9
Expenses	542	63	24	44	(31)	642
Preferred dividends	-	(3)	-	-	3	-
Profit before regulatory adjustments	21	34	-	6	(1)	60
Regulatory adjustments	(15)	-	-	-	-	(15)
Profit for the year	36	34	-	6	(1)	75
Capital expenditures*	90	42	-	-	1	133
Total assets	2,780	683	26	9	-	3,498

\*Capital expenditures include non-cash additions of \$0.2 million contributed by Lower Churchill Management Corporation and \$1.5 million of interest capitalized during construction.