TRANSPARENCY & ACCOUNTABILITY PERFORMANCE REPORT

2018

nalcor energy

Message from the Boards of Directors

Honourable Siobhan Coady
Minister of Natural Resources
Government of Newfoundland and Labrador
P. O. Box 8700
St. John's, NL
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Dear Minister Coady:

In accordance with the *Transparency and Accountability Act*, I am pleased to submit the 2018 Annual Performance Report on behalf of the Board of Directors of Nalcor Energy.

The 2017-2019 Strategic Plan for Nalcor Energy outlined the applicable strategic directions of the Provincial Government in relation to the energy sector, as communicated by the Minister of Natural Resources.

This Performance Report will present performance results and accomplishments for the calendar year 2018 for Nalcor Energy. As the Board of Directors of Nalcor Energy, we are accountable for the preparation of this report and we are accountable for the results.

Chair, Board of Directors
Nalcor Energy

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1 OVERVIEW

Nalcor Energy (Nalcor), a Category 1 public body, is Newfoundland and Labrador's energy company leading the development of the province's energy resources. The company's business includes the development, generation, transmission and sale of electricity; the exploration, development, production and sale of oil and gas; industrial fabrication site management; and energy trading. Nalcor leads the development of the province's energy resources and has a corporate-wide framework facilitating the prudent management of its assets while continuing an unwavering focus on the safety of its workers, contractors and the public.

Nalcor is a provincial Crown corporation established in 2007 under a special act of the Legislature of the Province of Newfoundland and Labrador. In 2016, Nalcor's executive structure was reorganized to allow for the separation of Nalcor's regulated business (Newfoundland and Labrador Hydro) from its unregulated business operations. Nalcor's legal structure at December 31, 2018 included the entities listed below.

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

While Nalcor Energy is headquartered in St. John's, its energy portfolio is located throughout the province (see Appendix 1).

Mandate

Nalcor

The mandate of Nalcor, 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, including:

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

Business Segments

Nalcor's operating structure as of December 31, 2018 reflects organizational changes that resulted in revised operating segments effective for reporting on April 1, 2018. The revised structure is comprised of five business segments, as compared to the six previously reported. Previously reported segmented information has been presented to conform to the current operating structure within the Nalcor Energy Consolidated Financial Statements. The designation of segments is based on a combination of regulatory status and management accountability. Nalcor's five business segments in its operating structure are: Newfoundland and Labrador Hydro, Power Development, Power Supply, Offshore Development and Corporate. The activities of these business segments support the fulfillment of the strategic directions of the provincial government for the energy sector. A description of each of the business segments is presented below.

Newfoundland and Labrador Hydro

Hydro is the primary generator of electricity in Newfoundland and Labrador. The utility delivers safe, reliable, and least cost power to utility, industrial, residential and commercial customers in more than 200 communities in the province.

Hydro activities are grouped as follows:

- Electricity production – Hydro has an installed generating capacity of 1,764 megawatts (MW) which includes the operations of nine hydroelectric generating stations, one oil-fired plant, four gas turbines, and 25 diesel plants, including 20 isolated diesel generating and distribution systems.
- Transmission and distribution – Hydro operates and maintains over 4,400 kilometres of transmission lines and more than 50 high voltage 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) – The NLSO provides oversight of the electricity system to reliably meet the changing requirements of electricity customers by utilizing the combination of available generation and transmission to provide service safely, reliably, and cost effectively.
- Customer service – Hydro customer service activities address the requirements of Newfoundland Power, industrial customers and over 38,000 direct residential and commercial customers in rural Newfoundland and Labrador.

- Electricity system planning – Hydro 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 electricity demand.

Power Development

The development of the 824 megawatt 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 Churchill Falls (Labrador) Corporation, the Labrador Transmission Assets (LTA), Labrador-Island Transmission 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 power-houses 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 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 525 MW to Hydro for use in the province, with any surplus recapture exported via sales to Nalcor Energy Marketing.

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

Nalcor Energy Trading is a full service, 24-hour electricity trading operation; it is Nalcor's face to the external electricity markets. Nalcor's current energy marketing portfolio includes recapture power that is not required by Hydro to meet electricity customer requirements in Labrador and firm transmission capacity through Québec. Nalcor's energy trading portfolio will grow over the coming years with the completion of the Muskrat Falls hydroelectric facility and Power Supply transmission assets.

Menihek is a 19 MW hydroelectric generating station located in north-western Labrador that provides electricity to customers in Schefferville, Québec. It is wholly owned by Nalcor and its operation is funded by Hydro-Québec through a long term agreement.

The Maritime Link is a 500 MW High Voltage direct current (HVdc) transmission line, as well as a 230 kilovolt High Voltage alternating current transmission line and associated infrastructure, between Granite Canal, Newfoundland and Labrador, and Woodbine, Nova Scotia. The project also includes two 170 km subsea cables across the Cabot Strait, and overland transmission lines in both provinces. The Maritime Link is owned by Emera.

Offshore Development

Nalcor's Offshore Development includes Oil and Gas and Bull Arm Fabrication.

Oil and Gas manages oil and gas interests and is currently a partner in three developments in the Newfoundland and Labrador offshore oil and gas industry: the Hebron oil field, the White Rose Growth Project, and the Hibernia Southern extension. Through its multi-year exploration strategy, Oil and Gas also supports efforts toward further exploration and development of new oil and gas resources for the benefit of the people of Newfoundland and Labrador.

Bull Arm Fabrication is Atlantic Canada's largest fabrication site. This facility spans over 6,300 acres and has integrated and comprehensive infrastructure to support fabrication and assembly of three key project functions, simultaneously, in three separate theatres: Fabrication Yard, Marine Facility, and Deepwater Site. The site has played a significant role in developing the province's oil and gas industry, including construction of major portions of both ExxonMobil's Hibernia and Hebron offshore oil projects.

On March 27, 2018 the Province announced its intent to establish a stand-alone Crown corporation to work directly with the Department of Natural Resources to accelerate growth opportunities in the petroleum industry. On March 11, 2019, the Province announced the introduction of new legislation to establish a new corporation focused on maximizing opportunities for growth in the province's offshore oil and gas industry. The corporation will drive exploration by attracting new investment, maximizing returns through equity investments, and enhancing local supply chain opportunities by leveraging existing capabilities; positioning the province as a globally preferred location for oil and gas development. Bull Arm Fabrication Inc. will become a subsidiary of the new corporation and support this effort. Nalcor continues to work with the Shareholder to transition the relevant areas of the business to a stand-alone Crown 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.

Values

Employees of Nalcor and its subsidiaries, including Hydro, are committed to developing and managing Newfoundland and Labrador's energy resources safely and responsibly, unified by the following core values:

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

Primary Clients

In addition to the clients of its subsidiary, Hydro, Nalcor's clients include:

- Partners in oil and gas projects
- Emera Energy
- Bull Arm Fabrication site tenants
- Supply and service companies in the energy sector and construction sector

Number of Employees, Physical Location and Other Key Statistics

As of December 31, 2018, Nalcor had 1,566 employees, with 64 per cent of these employees located in rural parts of the island and Labrador. The gender composition of Nalcor's employee group was 74 per cent male and 26 per cent female. Nalcor is currently implementing a multi-year action plan to support gender equity, diversity and inclusion across all lines of business.

In addition to the target-setting initiative established in 2017, Nalcor 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.

Nalcor has undertaken a self-identification census to attain an understanding of the current representation of members of other designated groups within our existing workforce. This information informs initiatives to support increased representation of designated groups while also building an inclusive work environment for all employees.

In 2018, we continued to build an inclusive work environment and to work with diverse groups within our workplace and communities. We held our first Diversity and Inclusion Day in October 2018, featuring topics like unconscious bias and respectful workplace. Diversity and inclusion moments, posters and videos have also been developed and distributed throughout the organization.

Gender	Rural	Urban	Total	Per cent
Female	166	246	412	26%
Male	831	323	1,154	74%
Total	997	569	1,566	
Per cent	64%	36%		

Board of Directors

As of December 31, 2018, Nalcor Energy's Board of Directors included:

- Brendan Paddick, Chair
- Stan Marshall
- John Green, QC
- Geoff Goodyear
- Christopher Hickman
- Jack Hillyard
- Mark MacLeod
- Brian Maynard
- Debbie Molloy
- David Oake
- Edna Turpin

2018 Consolidated Revenues and Expenses

In 2018, Nalcor had revenues from continuing operations of over $1.0 billion. The majority of Nalcor's revenues are currently generated from electricity sales from Hydro and Churchill Falls and petroleum sales in Oil and Gas. Approximately 32 per cent of Nalcor's 2018 expenditures from continuing operations relate to fuels and power purchases with operating costs accounting for 26 per cent of expenses; depreciation, depletion, amortization and impairment totaling 22 per cent and finance charges accounting for approximately 10 per cent.

The table below summarizes the consolidated revenue and expenses of Nalcor for the year ended December 31, 2018 (millions of dollars).

Revenue	$	%
Energy Sales	994	97.6%
Other revenue	24	2.4%
	1,018	
Expenses		
Fuels	189	22.6%
Power purchased	76	9.1%
Operating Costs	220	26.3%
Production, marketing and transportation costs	45	5.4%
Transmission rental and market fees	25	3.0%
Depreciation, depletion, amortization and impairment	186	22.2%
Exploration and evaluation	29	3.5%
Net finance expense	83	9.9%
Other expense	29	3.5%
Regulatory adjustments	(46)	(5.5%)
	836	
Profit for the year from continuing operations	182	
Loss for the year from discontinued operations	(2)	
Profit for the year	180	

The 2018 Consolidated Financial Statements for Nalcor are appended to this document (see Appendix 2).

2 HIGHLIGHTS AND PARTNERSHIPS

Nalcor works with a variety of agencies, departments and commissions to execute its mandate. During 2018, Nalcor worked closely with each of these organizations to advance the strategic directions of the provincial government related to the energy sector.

Department of Natural Resources

Nalcor works with the Department of Natural Resources on policy-related work to support strategic energy sector priorities for the province. In 2018, Nalcor and Hydro representatives served as members of the Rate Mitigation Committee, chaired by the Department of Natural Resources, which is analyzing options to mitigate future electricity rates.

The acquisition of working interests in offshore oil fields and the company's exploration strategy were coordinated efforts between the Department and Nalcor's Oil and Gas division. Nalcor and the department worked together to communicate insights from its exploration strategy to global exploration and production companies. These activities support fulfillment of the strategic direction of government related to the increased exploration and development of energy resources and realizing maximum benefits to the province through the strategic development of these resources.

Department of Finance

Nalcor works with the Department of Finance in relation to addressing requirements related to financial structure, dividend policies as well as providing guarantees for the company's debt financing activities.

Other Departments/Public Bodies

Nalcor also shares commitments with the Department of Municipal Affairs and Environment, Service NL, the federal Department of Fisheries and Oceans, and Environment and Climate Change Canada in relation to the environmental aspects of the company's activities. It also works with the Human Resource Secretariat in the provincial government.

3 ISSUES

The strategic issues outlined below will be addressed by Nalcor Energy in order to realize its mandate and vision. Consistent with the underlying philosophy of the multi-year performance-based planning required under the provisions of *Transparency and Accountability Act,* these issues are at a governance level and reflect the priorities of Nalcor Energy and support the Provincial Government's strategic directions for the electricity sector.

Issue 1: Electricity Supply and Reliability

Issue 2: Value from Electricity

Issue 3: Oil & Gas Interests, Exploration and Development

4 OUTCOMES

Nalcor's 2017-2019 Strategic Plan highlighted three strategic issues around which goals and objectives were established. These issues encompass the activities of Nalcor Energy and its subsidiaries. A separate report will be filed by Hydro for 2018. For each strategic issue, the 2018 objectives and indicators are provided along with a summary of related accomplishments.

ISSUE 1: ELECRICITY 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 energy resources to provide Newfoundlanders and Labradorians with a secure and reliable source of electricity to meet their ongoing needs. This mandate supports the strategic direction of Government related to energy security and reliability in Newfoundland and Labrador.

Throughout 2018, Nalcor continued to advance the construction of the generation and transmission components of the Muskrat Falls Project to secure a reliable source of clean, renewable power for electricity customers in the province.

Through its subsidiaries Hydro and Churchill Falls, Nalcor undertakes a robust asset management program to ensure ongoing capital investments and maintenance of existing electricity assets to ensure long-term reliable operation of these assets.

Muskrat Falls Project

Construction of the Muskrat Falls Project continued throughout 2018 with many milestones reached. By December 31, 2018, the Muskrat Falls Project achieved 96 per cent construction completion (Transmission was 99 per cent construction complete and Generation was 92 per cent construction complete).

Power Development (Generation)—The powerhouse, spillway and three dams are the primary components of the generating facility that span the lower Churchill River to create the reservoir, which is the source of power for the plant. By the end of 2018, the concrete and steel liners that form the foundations and water passages for the turbines were installed in the powerhouse, completing the embedment phase for the turbines and generators. Work continued on the assembly and installation of the turbine and generator for the first of the four units. We also saw the final concrete placed on the North Dam, with the total amount of concrete placed reaching 243,000 m^3. First power from the generation project is expected late 2019.

Power Supply (Transmission)—In early 2018, Nalcor completed the successful initial energization of the transmission assets across the province. Following this initial energization in June, Nalcor successfully brought power from the existing Churchill Falls Generating Station in Labrador to the island over the Labrador-Island Link (LIL). Commissioning and testing continued through 2018 while power was brought over LIL from Labrador to Hydro's customers on the island, adding to winter reliability in winter 2018/19.

Churchill Falls – Asset Management

The Churchill Falls plant is one of the largest underground hydroelectric powerhouses in the world, with a rated capacity of 5,428 megawatts (MW). Safely operating and maintaining its electricity assets, as well as delivering the municipal and community services in support of these electricity assets, drives the Churchill Falls strategy.

In 2018, Churchill Falls celebrated 47 years since first power. Asset management continues to be a priority given the age of the plant and its related infrastructure. Our current commitments expire in 2041 and we are committed to ensuring our assets will continue to operate reliably well beyond then.

Taking steps to ensure the continued performance of the Churchill Falls facilities through planning and strategic investment will drive the company's strategy for the 2018-2019 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. Currently, capital investments for 2018-2019 planning period are forecast to be in excess of $132 million.

By advancing the Muskrat Falls Project, including integration of Muskrat Falls assets into the provincial electricity system and interconnection with the North American grid, and continuing to invest in Churchill Falls assets, Nalcor is ensuring a secure and reliable source of electricity and supporting the strategic direction of government related to Energy Security and Reliability for the long-term.

The objectives and indicators for 2018 are consistent with the direction outlined in the 2017-2019 Strategic Plan.

Issue 1: Electricity Supply and Reliability	
Goal: By December 31, 2019, Nalcor will have advanced long-term security and reliability of the province's electricity supply.	
Indicators	▪ Advanced construction of the Muskrat Falls Project. ▪ Prepared for integration into the electricity system. ▪ Prepared for interconnection with North American grid. ▪ Continued to invest in Churchill Falls assets.
Objective By December 31, 2018, Nalcor will have progressed capital projects for enhancement of the long-term security and reliability of the province's electricity supply.	

INDICATORS	2018 Accomplishments
Maintain strong safety performance in generation and transmission compared to industry benchmarks.	**Generation** ▪ Zero lost-time incidents and 7 medical treatments in 2018. ▪ Over 10.5 million hours worked without a lost-time incident. ▪ Metrics year to date: ○ Lead/Lag Ratio: Actual = 1,279:1 vs Target 2,650:1 – *below target* ○ All Injury Frequency Rate (AIFR): Actual 0.276 vs Target 0.354 - *better than target* ○ Lost Time Injury Frequency (LTIF): Actual 0 vs Target 0.088 - *better than target* **LCP Power Supply:** ▪ Zero lost-time incidents and 1 medical treatment in 2018. ▪ Over 3.5 million hours worked without a lost-time incident. ▪ Metrics year to date: ○ Lead/Lag Ratio: Actual = 2,287:1 vs Target 1,288:1 – *better than target* ○ AIFR: Actual 0.385 vs Target 0.806 – *better than target* ○ LTIF: Actual 0 vs Target 0 - *on target*
Achieve key project milestones for the generation portion of the Muskrat Falls Project.	▪ 92.4% complete, with 14.3% completed against plan, 14.2% for the year. ▪ Budgeted $1,005M and spent $693M. ▪ Installed the concrete and steel liners that form the foundations and water passages for the turbines in the powerhouse. ▪ Completed the Turbine and Generator (T&G) embedment phase, the

	placement of all mass concrete, and the beginning of Unit 1 assembly and installation of T&G. ▪ Excavated and watered up the tailrace channel. ▪ Installed five transformers on the tailrace deck. ▪ Completed concrete placement on the North Dam. ▪ Installed rollways in two of the five spillway bays. ▪ Completed activities for impoundment readiness for the North Dam (Q1 2019), Intake water tight (Q1 2019) and Spillway readiness (Q2 2019). ▪ Completed all construction of the high voltage direct current (HVdc) facilities and transmission infrastructure for LTA and LIL.
Prepare for the commissioning of the generation assets.	▪ Finalized the Readiness Plan for Unit 1 Pre/Post Grid Synchronization Tests. ▪ Finalized the Dynamic Commissioning and Start-Up Plan and Schedule.
Achieve key project milestones for the transmission portion of the Muskrat Falls Project.	**Labrador Transmission Assets (LTA):** ▪ LTA saw a significant milestone reaching 99.9% completion. ▪ Energized the Churchill Falls Extension and the Churchill Falls Switchyard. ▪ Completed turnover of the LTA overland transmission to operations. ▪ Energized the Muskrat Falls switchyards and AC line. **Labrador-Island Transmission Link:** ▪ Overland transmission line testing completed. ▪ Overland transmission line handover/turnover completed. ▪ Final testing completed and all cables accepted for the Strait of Belle Isle marine cable crossing (SOBI). ▪ SOBI turnover to operations completed. ▪ Labrador electrode line construction completed. ▪ Initial power flow from Labrador to the island. ▪ Maintained 24/7 operations since December.
Prepare for commissioning of the transmission assets	▪ Completed testing and Trial Operation for all LTA assets and the LTA assets are ready for power transfer. ▪ Completed testing and Trial Operation for Pole 1 LIL assets; Pole 1 ready for power transfer. ▪ Finalized commissioning plan for Bi-pole operation.
Continued to invest in Churchill Falls assets	▪ Completed the runner replacement of generating unit 3 along with minor refurbishment exceeding its GWAC (Guaranteed Winter Availability Contract) target of 98 per cent and met 95 per cent of its

	capital projects performance completion rate.

The objectives and indicators for 2019 are consistent with the direction outlined in the 2017-2019 Strategic Plan.

Issue 1: Electricity Supply and Reliability	
Goal: By December 31, 2019, Nalcor will have further progressed capital projects for enhancement of the long-term security and reliability of the province's electricity supply.	
Indicators	▪ Advanced construction of the Muskrat Falls Project. ▪ Prepared for integration into the electricity system. ▪ Prepared for interconnection with North American grid. ▪ Continued to invest in Churchill Falls assets.

ISSUE 2: VALUE FROM ELECTRICITY

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 keenly aware of the impact its operations have on electricity costs. Capital and financing costs associated with Nalcor's capital projects - through its subsidiary Hydro and, in particular, the Muskrat Falls Project - are not only backed by taxpayers but also passed along to customers through electricity rates.

Nalcor continues to consider the opportunities for minimizing costs of capital while also increasing revenue from its operations. This mandate supports the strategic direction of government regarding maximized value with regard to the development and export of energy. Nalcor is focused on safely and successfully completing the Muskrat Falls Project. At the same time the company is continuing to explore and assess opportunities in export markets that could bring value to the province from the sale of surplus energy. The company is investigating all reasonable measures to minimize the impact of the Muskrat Falls Project on electricity customers. These measures will provide opportunities to manage and mitigate electricity rates for customers after the in-service of the Muskrat Falls Project.

Nalcor currently sells electricity as a participant in the competitive energy markets in Canada and the United States. The current portfolio includes electricity available from the 300 MW recapture energy block available from Churchill Falls to Hydro. To access export markets, Nalcor, through its subsidiary Hydro, signed a Transmission Service Agreement with Hydro-Québec TransÉnergie (HQT) under HQT's Open Access Transmission Tariff in 2009 and in 2013, Nalcor renewed that agreement for another 10 years. The agreement is for long-term power transmission capacity from Labrador through Québec to the New York border with the ability to transmit electricity to other markets. In 2018, net income from these activities totaled $23 million and accounted for approximately 13 per cent of total Nalcor income. During the planning period, Nalcor will pursue all opportunities to optimize the value of the province's electricity portfolio through export sales.

In 2010, CF(L)Co filed a motion with the Québec Superior Court, requesting the court to amend the extremely low pricing terms of the 1969 Power Contract and the Renewed Power Contract between CF(L)Co and Hydro-Québec. The Québec Superior Court ruled against CF(L)Co in 2014, following which CF(L)Co filed an appeal, which was subsequently ruled against by the Quebec Appeal Court in 2016. Following such rulings against CF(L)Co, CF(L)Co filed an application for leave to appeal to the Supreme Court of Canada which was subsequently granted. The appeal was heard by the Supreme Court of Canada in December 2017 and the decision was rendered in November 2018. The company's appeal was denied and no further action will be taken.

In a second, but unrelated, legal action filed by Hydro-Québec in the Québec Superior Court in 2013, Hydro-Québec sought a Declaratory Judgment relating to the interpretation of certain terms of the 1969 Power Contract and the Renewed Power Contract (commencing September 1, 2016 and expiring August 31, 2041). In this proceeding, Hydro-Québec sought the Court's declarations with respect to: "Continuous Energy" under the Renewed Power Contract and CF(L)Co's right to sell power beyond the 300 MW recall block provided for in the Power Contract and the Renewed Power Contract on an interruptible basis to third parties. The Québec Superior Court ruled against CF(L)Co in August 2016. On September 7, 2016, CF(L)Co filed an appeal with the Quebec Court of Appeal. In December 2016, the appeal factum was filed and the Declaratory Judgment Case was heard at the Quebec Court of Appeal on December 4, 2018. The decision on the case is still pending.

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.

The objectives and indicators for 2018 are consistent with the direction outlined in the 2017-2019 Strategic Plan.

Issue 2: Value from Electricity	
Goal: By December 31, 2019, Nalcor will have advanced efforts to maximize the overall value from the electricity resources for the people of the province.	
Indicators	▪ Advanced opportunities to mitigate rates. ▪ Advanced opportunities to maximize value from electricity sales and new developments.
Objective By December 31, 2018, Nalcor will have advanced opportunities to extract maximum value from the province's electricity resources.	
INDICATORS	**2018 ACCOMPLISHMENTS**
Investigate options and, as appropriate, act upon options to mitigate impact of Muskrat Falls Costs on electricity rates.	▪ Procured market energy to economically displace thermal generation at Holyrood resulting in net savings for Hydro of approximately $4 million. ▪ Implemented procedures to manage and maximize the delivery of Churchill Falls surplus recapture energy to serve island customers with the Newfoundland and Labrador System Operator and the LIL operator. ▪ Submitted an application to the Public Utilities Board to engage in ponding activities that would see the use of the island's hydroelectric reservoir system to capture value between low and high priced electricity market conditions. The application was approved in late 2018 and ponding activity is planned for 2019.
Continue to implement measures to maximize portfolio value such as targeting higher priced markets and times to exceed the energy price benchmark.	▪ Generated revenues more than $7.1 million, or 36% above market benchmark (NY/QC interface). ▪ Delivered 96% of available recapture energy to market. ▪ Executed the transmission congestion risk mitigation strategy according to plan.
Take action, as required, upon receiving a decision from the Supreme Court of Canada addressing the inequities of the 1969 Power Contract pricing terms.	▪ Nalcor received a decision from the Supreme Court of Canada on November 2, 2018. The company's appeal was denied. All legal avenues have been exhausted and no further steps will be taken.
Continued preparations relating to the appeal of the	▪ The hearing for the Declaratory Judgment Case was held at the Quebec Court of Appeal on December 4, 2018. The decision on

Declaratory Judgement legal proceedings.	the case is still pending. ▪ CF(L)Co is continuing to work cooperatively with Hydro-Québec and is abiding by the decision of the Superior Court while the appeal process is ongoing.
Assessed and engaged potential customers on potential future electricity development for the export market and industrial customer opportunities.	▪ Completed a market sounding of electricity players in Nalcor's key markets, including eastern Canada, New York and New England, to assess the potential to secure longer term, value-add contracts to compliment the company's short-term trading activities.

The objectives and indicators for 2019 are consistent with the direction outlined in the 2017-2019 Strategic Plan.

Issue 2: Value from Electricity	
Goal: By December 31, 2019, Nalcor will have further advanced efforts to maximize the overall value from the electricity resources for the people of the province.	
Indicators	▪ Continued to implement measures to maximize portfolio value such as targeting higher priced markets and times to exceed the energy price benchmark. ▪ Continued preparations relating to the appeal of the Declaratory Judgement legal proceedings. ▪ Assessed and engaged potential customers on potential future electricity development for the export market and industrial customer opportunities.

ISSUE 3: OIL AND GAS INTERESTS, EXPLORATION AND DEVELOPMENT

The mandate of Nalcor, established under the *Energy Corporation Act (2008),* includes exploring for, developing, producing, refining, marketing and transporting hydrocarbons and products from hydrocarbons. Through its subsidiary, Nalcor Energy - Oil and Gas Inc., these activities supported fulfillment of the strategic direction of government related to advancing the oil and gas industry in the province for the past decade.

On March 27, 2018 the Province announced its intent to establish a stand-alone Crown corporation to work directly with the Department of Natural Resources to accelerate growth opportunities in the petroleum industry. On March 11, 2019, the Province announced introduction of new legislation to establish a new corporation focused on maximizing opportunities for growth in the province's offshore oil and gas industry. The corporation will drive exploration by attracting new investment, maximize returns through equity investments, and enhance local supply chain opportunities by leveraging existing capabilities; positioning the province as a globally preferred location for oil and gas development. Bull Arm Fabrication Inc. will become a subsidiary of the new corporation and support this effort. Nalcor continues to work with the Shareholder to transition the relevant areas of the business to a stand-alone Crown corporation.

Nalcor Oil and Gas has developed a multi-year strategy that outlines priorities for increasing exploration interest in the province. Oil and gas exploration, when successful, can lead to significant discoveries and new developments. Nalcor's exploration strategy is driven by a desire to replace reserves that have been produced, add sufficient reserves to allow for growth in production, and discover new resources that will provide the basis for a long term industry that yields significant economic benefits for the people of the province. This strategy aims to encourage more exploration and drilling by international exploration and production companies through investment in the provision of high-quality geoscience information and data.

Nalcor's Oil and Gas line of business also currently manages oil and gas interests in three developments offshore Newfoundland and Labrador. Nalcor Oil and Gas holds a five per cent working interest in the White Rose Extension project. This project includes the North Amethyst field, West White Rose and South White Rose Extension. The company also has a 10 per cent working interest 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. As of the end of 2018, these partnerships have provided $1 billion in revenue.

Over the planning period, the new corporation will continue to work with its partners to advance work plans and achieve project milestones.

- White Rose Extension Project: The North Amethyst field produced first oil in May 2010 and has produced over 52 million barrels through December 2018. In 2015, first production from the South White Rose Extension was achieved and in 2016, first production was achieved from the first producer in the Hibernia formation at the White Rose field. In 2017, the White Rose Extension project was sanctioned, with first oil anticipated in 2022. For the 2019-2020 period, key activities will include the construction of the Wellhead Platform and the further delineation of the White Rose area's future oil and gas potential.
- Hibernia Southern Extension: First oil was achieved from HSE in 2011, supplementing production from the original Hibernia project area, helping the overall field in achieving the one billionth barrel of oil on December 21, 2016. Accelerated drilling progress in 2016 and 2017 helped achieve record production levels from the HSE area. For the 2019-2020 period, the focus will be on the sustainment of maximum production levels through sound reservoir management.
- Hebron: First oil was achieved from Hebron on November 27th, 2017, one month ahead of schedule. For the 2019-2020 period, activities will focus on safe and environmentally sound ramp up of production rates from the platform, as well as the investigation and analysis of future upside potential in the field.

In addition to the economic value provided through equity, the ownership position provides Nalcor Energy - Oil and Gas Inc. with direct involvement in the management of the development of our resources. The knowledge, information and understanding that this participation brings, will enable the corporation to foster relationships that help ensure better alignment between provincial interest and the partners in the project. Over the planning period, the new corporation will continue to exercise its rights under joint venture agreements to pursue issues of interest to enhance sustainable long-term exploration and development of our resources.

Issue 3: Oil and Gas Interests, Exploration and Development	
Goal: By December 31, 2019, Nalcor Energy-Oil and Gas will have advanced opportunities to increase exploration and development of the Province's oil and gas resources.[1]	
Indicators	▪ Managed equity interests in offshore development in support of planned project advancements ▪ Advanced knowledge of resource potential through execution of multi-year exploration strategy.
Objective By December 31, 2018, Nalcor Energy-Oil and Gas will have supported efforts to further advance offshore project milestones and further enhanced knowledge of the province's oil and gas resource potential.	
INDICATORS	**2018 ACCOMPLISHMENTS**
Supported planning for the establishment of new stand-alone Oil and Gas Crown corporation; develop and execute on a consolidated plan for a successful transition.	▪ Nalcor and Oil and Gas formed internal teams comprising of members of Finance, Human Resources, Commercial and Legal, who engaged with members of the Government of Newfoundland and Labrador (GNL) to support the transition activities as directed by GNL.
Continue to exercise Joint Venture voting rights and committee representation in the three offshore developments in support of the advancement of progress toward planned project milestones.	▪ Participated in North White Rose Hibernia discovery well (A-24), with ~85 meter column of oil encountered, delineating ~600 meter oil column in the area, on Nalcor working interest lands. ▪ Continued the White Rose Extension Project (WREP) with Argentia, Marystown and Ingleside, TX scopes. ▪ Fourth Hebron producer drilled and production is ahead of schedule. ▪ Hebron production rates exceeded expectations; longer term ultimate recovery implications continue to be matured. ▪ Hibernia South infill well spudded in Q4. ▪ A Climate Change Strategic Plan was drafted with consultations ongoing. ▪ Jeanne d'Arc basin tieback opportunities database developed; engaged with stakeholders through 2018.

[1] Nalcor, Oil and Gas is maintaining its current reporting structure for this report. Changes will be reflected as we move through the transition to the new corporation.

Issue 3: Oil and Gas Interests, Exploration and Development	
	▪ Bay du Nord negotiations resulted in a Framework Agreement being signed July 26, 2018 with due diligence ongoing.
Continued to acquire geoscience data. Continued offshore exploration data surveys. Continued multiyear exploration strategy.	▪ Over 650 leads and prospects offshore NL now inventoried in internal NESS system. ▪ Completed 2018 exploration strategy activities: ○ Successfully executed 2018 phase of multi-year Exploration Strategy ○ Completed 8,100 km^2 3D program targeting 2020 Eastern Newfoundland license round – early insights are positive and early interest from global industry ○ Seabed coring project completed targeting 2019 South Eastern Newfoundland license round. ▪ Received record bid results (single bid, and total bids) in 2018 Eastern Newfoundland License Round. ▪ Continued to provide strategic exploration policy advice to enable achievement of Advance 2030 targets.
Communicated Nalcor geoscience results to the global oil and gas industry.	▪ Presented numerous scientific papers on NL offshore geoscience to global conferences. ▪ Continued engagement with global exploration and production companies regarding exploration, prospectivity and upcoming license rounds.

The objectives and indicators for 2019 are consistent with the direction outlined in the 2017-2019 Strategic Plan.

Issue 3: Oil and Gas Interests, Exploration and Development	
Goal: By December 31, 2019, Oil and Gas will have further advanced offshore project milestones and further enhanced knowledge of the province's oil and gas resource potential.[2]	
Indicators	▪ Support planning for the establishment of a new stand-alone Oil and Gas Crown corporation; develop and execute on a consolidated plan for a successful transition. ▪ Continue to exercise Joint Venture voting rights and

[2] Oil and Gas is maintaining its current reporting structure for this report. Changes will be reflected as we move through the transition to the new corporation.

Issue 3: Oil and Gas Interests, Exploration and Development	
	committee representation in the three offshore developments in support of the advancement of progress toward planned project milestones. ▪ Continued to acquire geoscience data. ▪ Continue offshore exploration data surveys. ▪ Continue multiyear exploration strategy. ▪ Communicate Nalcor geoscience results to the global oil and gas industry.

5 OPPORTUNITIES AND CHALLENGES

Implementing the remaining priorities outlined in the current strategic plan for 2019 will require Nalcor to continue to build on its accomplishments and to address future challenges and opportunities. These challenges and opportunities reflect the next phase of Nalcor's strategy in support of the provincial government's energy sector strategic directions.

Electricity Supply and Reliability

Muskrat Falls Project – During the 2019 planning period, Nalcor will continue to advance Muskrat Falls Project to secure a new reliable source of clean, renewable power. The integration of the assets from Muskrat Falls into the provincial electricity system and interconnection with the North American grid will continue to support energy security and reliability.

Churchill Falls – Asset Management – During the next phase of the planning period, Nalcor will continue to safely operate and maintain its electricity assets in Churchill Falls. Its long-term asset management plan and strategic investment will ensure the continued performance of Churchill Falls and contribute to long-term energy security and reliability.

Value from Electricity

Nalcor's energy marketing portfolio continues to grow. Over the remainder of the planning period, Nalcor will advance its plan for energy marketing operations, continuing to maximize opportunities to enhance value from electricity exports, bringing value to the province. Currently, Nalcor and Hydro, along with members of the Department of Finance and Department of Natural Resources are representatives on the Rate Mitigation Committee, chaired by the Assistant Deputy Minister, Energy Policy. The Rate Mitigation Committee is tasked with analyzing initiatives to help mitigate future electricity rates in an integrated manner to ensure that maximum results to achieve rate mitigation are achieved. Nalcor and Hydro support all reasonable measures to minimize the impact of the Muskrat Falls Project on rate payers of the province.

Oil and Gas Interests, Exploration and Development

On March 27, 2018 the Province announced its intent to establish a stand-alone Crown corporation to work directly with the Department of Natural Resources to accelerate growth opportunities in the petroleum industry. On March 11, 2019, the Province announced the introduction of new legislation to establish a new corporation focused on maximizing opportunities for growth in the province's offshore oil and gas industry. The corporation will drive exploration by attracting new investment, maximizing returns through equity investments, and enhancing local supply chain opportunities by leveraging existing capabilities; positioning this province as a globally preferred location for oil and gas development. Bull Arm Fabrication Inc. will become a subsidiary of the new corporation and support this effort. Nalcor continues to work with the Shareholder to transition the relevant areas of the business to a stand-alone Crown corporation.

Appendix 1

Energy Portfolio

ENERGY PORTFOLIO

LEGEND

- ● Hydroelectric Generation Station
- ■ Thermal Plant/Combustion Turbine
- ▲ Diesel Plant
- Wind Generation
- Offshore Oil Projects
- ★ Industrial Fabrication Site
- ◆ Diesel Plant operated on behalf of Mushuau Innu First Nation

* OPERATED UNDER LICENCE FROM THE GOVERNMENT OF NEWFOUNDLAND AND LABRADOR

PPA POWER PURCHASE AGREEMENT

Appendix 2

Nalcor Energy Consolidated Financial Statements

NALCOR ENERGY
CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018

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Independent Auditor's Report

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

Opinion

We have audited the consolidated financial statements of Nalcor Energy (the "Company"), which comprise the consolidated statement of financial position as at December 31, 2018, 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, 2018, 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.

Emphasis of Matter – Discontinued Operations

We draw attention to Note 5 to the financial statements, which describes that effective September 30, 2018 the Company discontinued operations in Nalcor Energy - Bull Arm Fabrication Inc. This segment is now classified as a disposal group held for distribution. Our opinion is not modified in respect of this matter.

Emphasis of Matter – Restated Comparative Information

We draw attention to Note 4 to the financial statements, which explains that certain comparative information presented for December 31, 2017 has been restated due to the adoption of IFRS 9, Financial Instruments and IFRS 15, Revenue from Contracts with Customers. Our opinion is not modified in respect of this matter.

Other Matter

As part of our audit of the financial statements for the year ended December 31, 2018, we audited the adjustments in Note 4 that were applied to restate certain comparative information presented for the year ended December 31, 2017 related to the adoption of IFRS 9 and IFRS 15.

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.

Auditor’s Responsibilities for the Audit of the Financial Statements (continued)

- 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 23, 2019

NALCOR ENERGY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31 (millions of Canadian dollars)	Notes	**2018**	2017
			(Restated - Notes 4.1 & 4.2)
ASSETS			
Current assets			
Cash and cash equivalents	6	**153**	143
Restricted cash		**1,422**	1,037
Short-term investments	11	**332**	1,052
Trade and other receivables	7	**434**	370
Inventories	8	**121**	124
Current portion of other long-term assets	12	**2**	2
Prepayments		**27**	20
Derivative assets	31	**1**	3
Total current assets before distribution to shareholder		**2,492**	2,751
Assets for distribution to shareholder	5	**1**	-
Total current assets		**2,493**	2,751
Non-current assets			
Property, plant and equipment	9	**15,755**	14,565
Intangible assets	10	**34**	30
Long-term investments	11	**130**	332
Other long-term assets	12	**222**	196
Total assets		**18,634**	17,874
Regulatory deferrals	13	**159**	117
Total assets and regulatory deferrals		**18,793**	17,991
LIABILITIES AND EQUITY			
Current liabilities			
Short-term borrowings	15	**189**	369
Trade and other payables	14	**486**	584
Current portion of long-term debt	15	**7**	7
Derivative liabilities	31	**1**	8
Current portion of other liabilities	17,18	**3**	2
Total current liabilities before distribution to shareholder		**686**	970
Liabilities directly associated with the assets for distribution to shareholder	5	**1**	-
Total current liabilities		**687**	970
Non-current liabilities			
Long-term debt	15	**9,688**	9,386
Class B limited partnership units	16	**533**	491
Deferred credits	17	**1,777**	1,752
Deferred contributions	18	**26**	22
Decommissioning liabilities	19	**86**	86
Long-term payables	20	**45**	52
Employee future benefits	21	**123**	126
Total liabilities		**12,965**	12,885
Shareholder's equity			
Share capital	22	**123**	123
Shareholder contributions	22	**4,224**	3,693
Reserves		**(89)**	(108)
Retained earnings		**1,499**	1,319
Total equity		**5,757**	5,027
Total liabilities and equity		**18,722**	17,912
Regulatory deferrals	13	**71**	79
Total liabilities, equity and regulatory deferrals		**18,793**	17,991

Commitments and contingencies (Note 33)

See accompanying notes

On behalf of the Board:

DIRECTOR　　　　　　　　DIRECTOR

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

For the year ended December 31 (millions of Canadian dollars)	Notes	**2018**	2017
			(Restated - Note 4.1 & 4.2)
Continuing operations			
Energy sales	24	**994**	841
Other revenue	24	**24**	23
Revenue		**1,018**	864
Fuels		**189**	226
Power purchased		**76**	62
Operating costs	25	**220**	218
Production, marketing and transportation costs	26	**45**	30
Transmission rental and market fees	27	**25**	25
Depreciation, depletion, amortization and impairment	9,10	**186**	300
Exploration and evaluation		**29**	1
Net finance expense	28	**83**	66
Other expense	29	**29**	23
Expenses		**882**	951
Profit (loss) before regulatory adjustments		**136**	(87)
Regulatory adjustments	13	**(46)**	(91)
Profit for the year from continuing operations		**182**	4
Discontinued operations			
(Loss) profit for the year from discontinued operations	5	**(2)**	47
Profit for the year		**180**	51
Other comprehensive income (loss)			
Total items that may or have been reclassified to profit or loss:			
Actuarial gain (loss) on employee future benefits	21,30	**11**	(3)
Net fair value loss on cash flow hedges	30	**(16)**	(66)
Reclassification adjustments related to:			
Cash flow hedges recognized in profit or loss	30	**24**	1
Other comprehensive income (loss) for the year		**19**	(68)
Total comprehensive income (loss) for the year		**199**	(17)

See accompanying notes

NALCOR ENERGY
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(millions of Canadian dollars)	Notes	Share Capital	Shareholder Contributions	Fair Value Reserve	Employee Benefit Reserve	Retained Earnings	Total
				(Restated - Note 4.1)		(Restated - Note 4.2)	
Balance at January 1, 2018		**123**	**3,693**	**(78)**	**(30)**	**1,319**	**5,027**
Profit for the year		**-**	**-**	**-**	**-**	**180**	**180**
Other comprehensive income							
Net change in fair value of cash flow hedges	**30**	**-**	**-**	**(16)**	**-**	**-**	**(16)**
Net change in fair value of financial instruments reclassified to profit or loss	**30**	**-**	**-**	**24**	**-**	**-**	**24**
Actuarial gain on employee future benefits	**21,30**	**-**	**-**	**-**	**11**	**-**	**11**
Total comprehensive income for the year		**-**	**-**	**8**	**11**	**180**	**199**
Shareholder contributions	**22**	**-**	**531**	**-**	**-**	**-**	**531**
Balance at December 31, 2018		**123**	**4,224**	**(70)**	**(19)**	**1,499**	**5,757**
Balance at January 1, 2017		123	2,861	(13)	(27)	1,268	4,212
Profit for the year		-	-	-	-	51	51
Other comprehensive (loss) income							
Net change in fair value of cash flow hedges	30	-	-	(66)	-	-	(66)
Net change in fair value of financial instruments reclassified to profit or loss	30	-	-	1	-	-	1
Actuarial loss on employee future benefits	21,30	-	-	-	(3)	-	(3)
Total comprehensive (loss) income for the year		-	-	(65)	(3)	51	(17)
Shareholder contributions	22	-	832	-	-	-	832
Balance at December 31, 2017		123	3,693	(78)	(30)	1,319	5,027

See accompanying notes

NALCOR ENERGY
CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31 (millions of Canadian dollars)	Notes	**2018**	2017 (Restated - Note 4.2)
Operating activities			
Profit for the year		**180**	51
Adjustments to reconcile profit to cash provided from (used in) operating activities:			
Depreciation, depletion and impairment - property, plant and equipment	9	**180**	203
Amortization and impairment - intangible assets	10	**6**	97
Regulatory adjustments	13	**(46)**	(91)
Finance income		**(51)**	(45)
Finance expense		**134**	110
Other		**20**	(4)
		423	321
Changes in non-cash working capital balances	34	**(27)**	(84)
Interest received		**50**	61
Interest paid		**(396)**	(331)
Net cash provided from (used in) operating activities		**50**	(33)
Investing activities			
Additions to property, plant and equipment	35	**(1,080)**	(2,517)
Additions to intangible assets	10,35	**(9)**	(51)
(Increase) decrease in long-term receivables		**(1)**	28
(Increase) decrease in sinking fund		**(5)**	90
Proceeds on disposal of property plant and equipment		-	12
(Increase) decrease in reserve fund	12	**(12)**	15
Decrease (increase) in short-term investments		**720**	(961)
Decrease (increase) in long-term investments		**202**	(298)
Other		**3**	(1)
Changes in non-cash working capital balances	34	**(141)**	(619)
Net cash used in investing activities		**(323)**	(4,302)
Financing activities			
Proceeds from long-term debt		**316**	3,516
Retirement of long-term debt		-	(150)
(Increase) decrease in restricted cash		**(385)**	341
Class B limited partnership unit contributions	16	-	55
Decrease in short-term borrowings	15	**(180)**	(66)
Decrease in long-term payables		**(10)**	(10)
Shareholder contributions	22	**531**	832
Increase in deferred contributions		**6**	12
Increase in deferred credits		**11**	6
Rate stabilization plan payout	13	**(3)**	(131)
Settlement of cash flow hedges		-	(67)
Other		**(3)**	(3)
Net cash provided from financing activities		**283**	4,335
Net increase in cash and cash equivalents		**10**	-
Cash and cash equivalents, beginning of the year		**143**	143
Cash and cash equivalents, end of the year		**153**	143

Cash includes continuing and discontinued operations (Note 5) cash balances

See accompanying notes

1. DESCRIPTION OF BUSINESS

Nalcor Energy (Nalcor or the Company) is incorporated under a special act of the Legislature of the Province of Newfoundland and Labrador (the Province) as a Crown corporation and its business includes the development, generation, transmission and sale of electricity, oil and gas, industrial fabrication and energy marketing. 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). Oil and Gas 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 – Bull Arm Fabrication Inc. (Bull Arm Fabrication), an industrial fabrication site with a fully integrated infrastructure to support large-scale fabrication and assembly. Its facilities include onshore fabrication halls and shops, a dry-dock and a deep water site.

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, finance and operate 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.

Nalcor also holds a 100% interest in Gull Island Power Company Limited (GIPCo) and, through Hydro, a 51.0% interest in Lower Churchill Development Corporation Limited (LCDC), both of which are inactive.

1.2 Investment in Joint Arrangement

Nalcor holds a 65.8% beneficial interest (through Hydro) in Churchill Falls (Labrador) Corporation Limited (Churchill Falls), a joint operation that owns and operates a hydroelectric generating plant and related transmission facilities situated in Labrador with a rated capacity of 5,428 MW.

Nalcor holds a 33.33% beneficial interest (through Churchill Falls) in Twin Falls Power Corporation Limited (Twin Falls).

1.3 Structured Entities

Nalcor consolidates the results of structured entities in which it holds a financial interest and is the primary beneficiary. Nalcor has determined that it is the primary beneficiary of the LIL Construction Project Trust (the IT) and, as a result, has included the financial statements of the IT in these annual audited consolidated financial statements. Nalcor has determined that it is not the primary beneficiary of the Muskrat Falls/Labrador Transmission Assets (MF/LTA) Funding Trust or the LIL 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 have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). Nalcor has adopted accounting policies which are based on the IFRS applicable as at December 31, 2018 and includes individual IFRS, International Accounting Standards (IAS), and interpretations made by the IFRS Interpretations Committee and the Standing Interpretations Committee.

These annual audited consolidated 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 annual audited consolidated financial statements are presented in Canadian Dollars (CAD) and all values rounded to the nearest million, except when otherwise noted. The annual audited consolidated financial statements were approved by Nalcor's Board of Directors (the Board) on March 1, 2019.

2.2 Basis of Consolidation

The annual audited consolidated financial statements include the financial statements of Nalcor, its subsidiary companies and its share of investments in joint arrangements. In addition, the financial statements of all structured entities, for which Nalcor has been determined the primary beneficiary, are included in these annual audited consolidated financial statements. Intercompany transactions and balances have been eliminated upon consolidation.

Effective June 18, 1999, Hydro, Churchill Falls, and Hydro-Québec entered into a shareholders' agreement (the Shareholders' Agreement) which provided, among other matters, that certain of the strategic operating, financing and investing policies of Churchill Falls be subject to approval jointly by representatives of Hydro and Hydro-Québec on Churchill Falls' Board of Directors. Although Hydro holds a 65.8% ownership interest, the agreement changed the nature of the relationship between Hydro and Hydro-Québec, with respect to Churchill Falls, from that of majority and minority shareholders, respectively, to that of a joint operation. Accordingly, Hydro has recognized its share of assets, liabilities and profit or loss in relation to its interest in Churchill Falls subsequent to the effective date of the Shareholders' Agreement.

Churchill Falls' investment in Twin Falls is accounted for using the equity method.

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

2.3 Cash and Cash Equivalents and Short-term Investments

Cash and cash equivalents consist of amounts on deposit with Schedule 1 Canadian Chartered banks, as well as highly liquid investments with maturities of three months or less. Investments with maturities greater than three months and less than twelve months are classified as short-term investments.

2.4 Restricted Cash

Restricted cash consists of cash held on deposit with Schedule 1 Canadian Chartered banks and administered by the Collateral Agent for the sole purpose of funding construction costs related to the LIL, Labrador Transmission Assets (LTA) and Muskrat Falls' hydroelectric plant, including pre-funded equity requirements required under the Labrador-Island Link Limited Project Finance Agreement (LIL PFA) and MF/LTA Project Finance Agreement (MF/LTA PFA). The Project draws 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 Trustee of the IT and funds held in trust by solicitors of the Project.

2.5 Trade and Other Receivables

Trade and other receivables are classified and measured at amortized cost using the effective interest method.

2.6 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 the 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.

2.7 Property, Plant and Equipment

Items of property, plant and equipment are recognized using the cost model and thus are recorded 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 2.11. Costs capitalized with the related asset include all those costs directly attributable to bringing the asset into operation. When significant parts of property, plant and equipment are required to be replaced at intervals, Nalcor recognizes such parts as individual assets with specific useful lives and depreciation rates, respectively. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repairs and maintenance costs are recognized in profit or loss as incurred. Property, plant and equipment is not revalued for financial reporting purposes. Depreciation of these assets commences when the assets are ready for their intended use.

<u>Hydro</u>

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Generation plant	
Hydroelectric	45 to 100 years
Thermal	35 to 65 years
Diesel	25 to 55 years
Transmission	
Lines	30 to 65 years
Terminal stations	40 to 55 years
Distribution system	30 to 55 years
Other assets	5 to 55 years

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

Power Supply - Churchill Falls

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Hydroelectric generation plant	25 to 100 years
Transmission and terminals	30 to 65 years
Service facilities and other	5 to 45 years

Hydro and Churchill Falls assets' residual values, useful lives and method of depreciation are reviewed at the end of each year and adjusted prospectively, if appropriate. The carrying value of property, plant and equipment is reviewed for impairment whenever events indicate that the carrying amounts of those assets may not be recoverable.

Offshore Development - Oil and Gas

(i) Development and Production Costs

Items of property, plant and equipment, which include petroleum and natural gas development and production assets, are carried at cost less accumulated depreciation, depletion and impairment. Development and production assets are grouped into cash-generating units (CGUs) for impairment testing.

Expenditures on the construction, installation or completion of infrastructure facilities such as processing facilities and the drilling of development wells, including unsuccessful development or delineation wells, are capitalized within property, plant and equipment, as long as it is technically feasible and economically viable to extract identified reserves.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the decommissioning costs and, for qualifying assets, borrowing costs. 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.

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.

(ii) Subsequent Costs

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 Oil and Gas and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Routine repair and maintenance costs are charged to profit or loss during the period in which they are incurred.

(iii) 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 may be considered commercially producible if 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.

(iv) Other Assets

Office equipment and computer hardware are carried at cost less accumulated depreciation. Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of 5 to 20 years. Depreciation methods, useful lives and residual values are reviewed at each reporting date.

Power Supply and Power Development

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Project support assets	4 to 7 years

As use of the project support assets are directly attributable to the construction of the Muskrat Falls hydroelectric plant and LTA, related depreciation costs are capitalized as incurred, until such time as the assets are substantially ready for their intended use or sale.

2.8 Exploration and Evaluation Assets

Pre-license exploration and evaluation costs are recognized in profit or loss as incurred. Costs of exploring for and evaluating licensed petroleum and gas properties are capitalized and the resulting intangible exploration and evaluation assets are tested for impairment in accordance with IFRS 6 and IAS 36.

Exploration and evaluation costs related to each license/prospect are initially capitalized within "Exploration and Evaluation Assets". Such exploration and evaluation costs may include costs of license acquisition, technical services and studies, exploration drilling and testing, directly attributable overhead and administrative expenses and the projected costs of retiring the assets. General prospecting or evaluation costs incurred prior to having obtained the legal rights to explore an area are expensed directly to profit or loss as they are incurred.

Exploration and evaluation assets are not depleted and are carried forward until technical feasibility and commercial viability of extracting a mineral resource is considered to be determined. The technical feasibility and commercial viability of extracting a mineral resource is considered to be determined when proved reserves are determined to exist. A review of each exploration license or field is carried out, at least annually, to ascertain whether proved reserves have been discovered.

Upon determination of proved reserves, exploration and evaluation assets attributable to those reserves are first tested for impairment and then reclassified from exploration and evaluation assets to property, plant and equipment. As at December 31, 2018, there were no exploration and evaluation assets recorded.

2.9 Investment Property

Investment property is property held for the purpose of generating rental income or capital appreciation, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. As at December 31, 2018, investment property includes the Bull Arm Fabrication site and facilities.

Investment property is recognized using the cost model and thus is recorded at cost less accumulated depreciation and accumulated impairment losses. Cost includes materials, labour, contracted services and professional fees. Costs capitalized with the related asset include all those costs directly attributable to bringing the asset into operation. When significant parts of investment property are required to be replaced at intervals, Nalcor recognizes such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the investment property as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the Consolidated Statement of Profit and Comprehensive Income (Loss) as incurred. Investment property is not revalued for financial reporting purposes. Depreciation of these assets commences when the assets are ready for their intended use.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Computer equipment, vehicles and office equipment	5 years
Buildings	18 years
Topsides module hall door	26 years
Visitor center	42 years

The assets' residual values, useful lives and methods of depreciation are reviewed at each year end and adjusted prospectively, if appropriate. The carrying value of investment property is reviewed for impairment whenever events indicate that the carrying amounts of those assets may not be recoverable.

2.10 Intangible Assets

Intangible assets that are expected to generate future economic benefit and are measurable, including computer software costs, costs of technical services, feasibility studies, exploration assets and intellectual property 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:

Computer software	5 to 10 years
Feasibility studies	5 to 20 years
Seismic data acquisitions	6 years

2.11 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 (Loss) in the period in which they are incurred.

2.12 Impairment of Non-Financial Assets

At the end of each reporting period, Nalcor reviews the carrying amounts of its non-financial assets, except for exploration and evaluation assets, to determine whether there is any indication that those assets may be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Exploration and evaluation assets are assessed for impairment when they are reclassified to property, plant and equipment and also if there are indicators that suggest that the carrying amount exceeds the recoverable amount.

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. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified. The recoverable amount is the higher of fair value less costs of disposal and value in use. 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. Value in use is generally computed by reference to the present value of future cash flows expected to be derived from non-financial assets.

Exploration and evaluation assets are allocated to the CGUs on a project basis when they are assessed for impairment, both at the time of any triggering facts and circumstances as well as upon their reclassification to property, plant and equipment.

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. An impairment loss is recognized immediately in the Consolidated Statement of Profit and Comprehensive Income (Loss).

2.13 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 equity stakes 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 and Comprehensive Income (Loss) reflects the share of the profit or loss of the joint venture.

Nalcor entered an agreement in 2011, classified as a joint venture that gave entitlement to a percentage of all licencing revenue received, subsequent to the first additional license of the data. The other party to the joint venture is the licensor in the agreement, which retains ownership of the data and the right to license the data on a non-exclusive basis to third parties of the supplement agreement.

2.14 Employee Future Benefits

(i) 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.

(ii) Other Benefits
Nalcor provides group life insurance and health care benefits on a cost-shared basis to retired employees, in addition to a retirement allowance.

The cost of providing these benefits is determined using the projected unit credit method, with actuarial valuations being completed on an annual basis, based on service and Management's best estimate of salary escalation, retirement ages of employees and expected health care costs.

Actuarial gains and losses on Nalcor's defined benefit obligation are recognized in reserves in the period in which they occur. Past service costs are recognized in operating costs as incurred. Pursuant to 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 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.

2.15 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.

2.16 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 (Loss) if the liability is short-term in nature.

2.17 Revenue Recognition

Revenue from Contracts with Customers
Nalcor recognizes revenue from contracts with customers related to the sale of electricity.

Nalcor recognizes revenue from 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. In addition, Nalcor recognizes revenue under a Guaranteed Winter Availability Contract (GWAC) through 2041. The GWAC was signed with Hydro-Québec in 1998 and provides for the sale of 682 MW of guaranteed seasonal availability to Hydro-Québec during the months of November through March in each of the remaining years until 2041.

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 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 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.

Other Revenue

Revenue associated with the sale of geoscience data is recognized when the terms and conditions governing sales have been met, the amount of revenue can be reliably measured and recovery of the consideration is probable.

2.18 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Lessor accounting

Amounts due from lessees under finance leases are recognized as receivables at the amount of Nalcor's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on Nalcor's net investment outstanding in respect of the leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

Lessee accounting

Assets held under finance leases are initially recognized as assets of Nalcor at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the Consolidated Statement of Financial Position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with Nalcor's general policy on borrowing costs (Note 2.11). Contingent rental costs are recognized as operating costs in the periods in which they are incurred.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

2.19 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 and Comprehensive Income (Loss) as other expense.

2.20 Income Taxes

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

2.21 Financial Instruments

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. 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. All recognized financial assets and financial liabilities are subsequently measured in their entirety at either amortized cost or fair value, depending on the classification of the financial assets and financial liabilities.

Classification of Financial Instruments

Nalcor has classified each of its financial instruments into the following categories: financial assets at FVTPL, amortized cost, FVTOCI and financial liabilities at amortized cost and derivatives designated as hedging instruments.

Financial instrument	Category
Cash and cash equivalents	Amortized cost
Restricted cash	Amortized cost
Short-term investments	Amortized cost
Trade and other receivables	Amortized cost
Derivative instruments	FVTPL and derivatives designated as hedging instruments
Sinking funds – investments in same Hydro issue	Amortized cost
Sinking funds – other investments	Amortized cost
Reserve fund	FVTOCI
Long-term receivables	Amortized cost
Long-term investments (including current portion)	Amortized cost
Trade and other payables	Amortized cost
Short-term borrowings	Amortized cost
Long-term debt	Amortized cost
Long-term payables	Amortized cost
Class B limited partnership units	Amortized cost

(i) Effective Interest Method

The effective interest method is a method of calculating the amortized cost of a debt instrument and allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses (ECL) for debt financial assets, through the expected life of the debt instrument, or, where appropriate, a shorter period to the gross carrying amount on initial recognition.

Income or expense is recognized on an effective interest basis for debt instruments other than those financial assets and liabilities classified as at FVTPL.

Financial Assets

(ii) Financial Assets at Amortized Cost
The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any loss allowance.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset.

Interest income is recognized in profit or loss and is included in net finance expense.

(iii) Financial Assets at FVTOCI
Financial assets classified at FVTOCI are initially measured at fair value plus transaction costs. 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.

(iv) Financial Assets at FVTPL
Financial assets that do not meet the criteria for being measured at amortized cost or FVTOCI are measured at FVTPL.

Specifically:

- Investments in equity instruments are classified at FVTPL, unless Nalcor designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination at FVTOCI on initial recognition.
- Debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria are classified at FVTPL. In addition, debt instruments that meet either the amortized cost criteria or the FVTOCI criteria may be designated at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases.

Nalcor has not designated any debt instruments at FVTPL nor does Nalcor hold any equity investments classified 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. The net gain or loss recognized in profit or loss includes any dividend or interest earned on the financial asset and is included in net finance expense.

Financial Liabilities

(v) Financial Liabilities at FVTPL
Financial liabilities are classified at FVTPL when the financial liability is contingent consideration of an acquirer in a business combination to which IFRS 3 applies, held for trading, or it is designated as at FVTPL.

A financial liability is classified as held for trading if it has been acquired principally for the purpose of repurchasing it in the near term; or on initial recognition it is part of a portfolio of identified financial instruments that Nalcor manages together and has a recent actual pattern of short-term profit-taking; or it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with Nalcor's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire combined contract to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value with any gains or losses arising on changes in fair value recognized in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liabilities and is included in net finance expense.

Financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of the liability is recognized in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognized in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

(vi) Financial Liabilities at Amortized Cost

Financial liabilities that do not meet the criteria of FVTPL or are not designated as such are subsequently measured at amortized cost using the effective interest method.

(vii) Derivative Instruments and Financial Instruments used for Hedging

Derivative instruments are utilized by Nalcor to manage risk. Nalcor’s policy is not to utilize derivative instruments for speculative purposes. Derivatives are initially measured at fair value at the date the derivative contracts are entered into and are subsequently measured at their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging relationship.

Nalcor may choose to designate derivative instruments as hedges and apply hedge accounting if there is an economic relationship between the hedged item and the hedging instrument; the effect of credit risk does not dominate the value changes that result from that economic relationship; and the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that Nalcor actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item. Nalcor formally documents all hedges and the related risk management objectives at the inception of the hedge. Derivative instruments that have been designated and qualify for hedge accounting are classified as either cash flow or fair value hedges. Nalcor does not hold any fair value hedges.

Hedges which meet the criteria for hedge accounting are accounted for as follows:

Cash Flow Hedges

The effective portion of the gain or loss on the hedging instrument is recognized directly in other comprehensive income (loss), while any ineffective portion is recognized immediately in the Consolidated Statement of Profit and Comprehensive Income (Loss) for the period in other expense.

Amounts recognized in other comprehensive income (loss) are transferred to the Consolidated Statement of Profit 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.

2.21.1 Derecognition of Financial Instruments

Nalcor derecognizes a financial asset only 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 entity. If Nalcor neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, its retained interest in the asset and any associated liability for amounts it may have to pay is recognized. If Nalcor retains substantially all the risks and rewards of ownership of a transferred financial asset, it continues to recognize the financial asset and also recognizes the collateralized borrowing for the proceeds received.

On derecognition of a financial asset measured at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the fair value reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in an equity instrument which Nalcor has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the fair value reserve is not reclassified to profit or loss, but is transferred to retained earnings.

Nalcor derecognizes financial liabilities when, and only when, its obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

2.21.2 Impairment of Financial Assets

Nalcor recognizes a loss allowance for 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.

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, Nalcor compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, Nalcor considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which Nalcor’s debtors operate, obtained from economic expert reports, financial analysts, governmental bodies and other similar organizations, as well as consideration of various external sources of actual and forecasted economic information that relate to Nalcor’s core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor; and
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, Nalcor presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless Nalcor has reasonable and supportable information that demonstrates otherwise.

Nalcor assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if the financial instrument has a low risk of default, the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. Nalcor considers a financial asset to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definition.

Nalcor regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying a significant increase in credit risk before the amount becomes past due.

<u>Definition of default</u>
Nalcor considers that an event of default has occurred when there is a breach of financial covenants by a counterparty or information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including Nalcor, in full. Irrespective of the outcome of the above assessment, Nalcor considers that default has occurred when a financial asset is more than 90 days past due unless Nalcor has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

<u>Credit-impaired financial assets</u>
A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about significant financial difficulty of the issuer or the borrower; a breach of contract, such as a default or past due event; the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider; it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or the disappearance of an active market for that financial asset because of financial difficulties.

<u>Write-off policy</u>
Nalcor writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery. Financial assets written off may still be subject to enforcement activities under Nalcor's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognized in profit or loss.

<u>Measurement and recognition of expected credit losses</u>
The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is

represented by the assets' gross carrying amount at the reporting date.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to Nalcor in accordance with the contract and all the cash flows that Nalcor expects to receive, discounted at the original effective interest rate. For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with IAS 17 – Leases.

Where lifetime ECL is measured on a collective basis to cater for cases where evidence of significant increases in credit risk at the individual instrument level may not yet be available, the financial instruments are grouped by the nature of the financial instruments; past due status; nature and size of industry of debtors; nature of collaterals for finance lease receivables; and external credit ratings where available. The grouping is regularly reviewed by Management to ensure the constituents of each group continue to share similar credit risk characteristics.

If Nalcor has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, Nalcor measures the loss allowance at an amount equal to 12-month ECL at the current reporting date.

Nalcor recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and accumulated in the fair value reserve, and does not reduce the carrying amount of the financial asset in the Consolidated Statement of Financial Position.

2.22 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 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 and Comprehensive Income (Loss) in the period in which they become receivable.

2.23 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 based upon Board Order No. P.U. 49 (2016) is 6.6% in 2018 and 6.6% in 2017 +/- 20 basis points. Hydro applies various accounting policies that differ from enterprises that do not operate in a rate regulated environment. Generally, these policies result in the deferral and amortization of costs or credits which are expected to be recovered or refunded in future rates. In the absence of rate regulation, these amounts would be included in the determination of profit or loss in the year the amounts are incurred. The effects of rate regulation on the annual audited consolidated financial statements are disclosed in Note 13.

2.24 Non-current assets (or disposal groups) held for sale and discontinued operations

Nalcor classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction or distribution, rather than through continuing use. Non-current assets and disposal groups classified as held for sale or distribution are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs.

The criteria for held for sale or distribution classification is regarded as met only when the sale or distribution is highly probable and the asset or disposal group is available for immediate sale or distribution in its present condition. Actions required to complete the distribution should indicate that it is unlikely that significant changes to the distribution will be made or that the decision to distribute will be withdrawn. Management must be committed to the plan to sell or distribute the asset and the sale or distribution is expected to be completed within one year from the date of the classification.

Property, plant and equipment and intangible assets are not depreciated or amortized once classified as held for sale or distribution.

Assets and liabilities classified as held for sale or distribution are presented separately as current items in the Consolidated Statement of Financial Position.

A disposal group qualifies as a discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale or distribution, and:

- Represents a separate major line of business or geographical area of operations; and
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss from discontinued operations in the Consolidated Statement of Profit and Comprehensive Income (Loss).

Additional disclosures are provided in Note 5. All other notes to the annual audited consolidated financial statements include amounts for continuing operations, unless indicated otherwise.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the annual audited consolidated 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.

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. 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 2.7. 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.

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 Canadian Dollars.

(v) Determination of CGUs

Nalcor's accounting policy relating to impairment of non-financial assets is described in Note 2.12. 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 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.

(viii) Consolidation

Management applies its judgment when determining whether to consolidate structured entities in accordance with the criteria outlined in IFRS 10. Management has determined that the Company should consolidate the IT but should not consolidate the MF/LTA and LIL Funding Trusts.

(ix) Discontinued Operations

Effective September 30, 2018, the Offshore Development segment, inclusive of Oil and Gas and Bull Arm Fabrication, represented a discontinued operation, based on the expectation that the whole segment would be distributed to the Province. However, subsequent to this date the Province announced the structure of the transaction, which resulted in the existing Oil and Gas operations, specifically existing equity interests in offshore developments, remaining with Nalcor, which led to Oil and Gas no longer meeting the criteria of a discontinued operation. Management considers Bull Arm Fabrication to meet the criteria to be classified as held for sale or distribution at that date for the following reasons:

- Bull Arm Fabrication is available for immediate distribution to the Province;
- Actions to complete the distribution have been initiated and are expected to be completed within one year from the date of initial classification; and
- The shareholders have communicated their intent to distribute the company.

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) Investment Property
Due to the nature of the property and lack of comparable market data, the fair value of Nalcor's investment property is determined using the fair value less costs to sell. Significant assumptions have been used in the determination of fair value.

(iii) Intangible Assets
Amounts recorded for amortization are based on the useful lives of Nalcor's assets. 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 amortization recorded.

(iv) 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.

(v) Partnership Unit Liabilities
LIL LP determines the fair value of the Class B limited partnership units at each financial reporting date. These units represent the limited partners' ownership interests in the Partnership. Due to the nature of the liabilities and lack of comparable market data, the fair value of these units is determined using the present value of future cash flows. Significant assumptions used in the determination of fair value include estimates of the amount and timing of future cash flows and the discount rate.

The process of valuing financial liabilities for which no published market price exists is based on inherent uncertainties and the resulting values may differ from values that would have been used had a ready market existed for the liability. These differences could be material to the fair value of the financial liability.

(vi) 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 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.

(vii) Employee Future Benefits
Nalcor provides group life insurance and health care benefits on a cost-shared basis to retired employees, in addition to a severance payment upon retirement. The expected cost of providing these other employee benefits is accounted for on an accrual basis, and has been actuarially determined using the projected unit credit method prorated on service, and Management's best estimate of salary escalation, retirement ages of employees, and expected health care costs.

(viii) Revenue

In the absence of a signed agreement with Hydro-Québec relating to the Annual Energy Base (AEB), Churchill Falls has an agreement with Hydro-Québec to continue to use the 2008 AEB on an interim basis until final judgment is obtained in the Declaratory Judgment case.

3.3 Use of Assumptions

(i) Derivative Assets

Fair value assumptions for financial transmission rights have been based on internal valuation techniques and models that extrapolate observable external market inputs, such as commodity prices, and include significant judgment regarding the expected impact of seasonality and locational adjustments.

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 January 1, 2018, January 1, 2019 or January 1, 2020, as specified.

- IFRS 9 – Financial Instruments [1]
- IFRS 15 – Revenue from Contracts with Customers [1]
- IFRIC 22 – Foreign Currency Transactions and Advance Consideration [1]
- IFRS 16 – Leases [2]
- IFRS 9 – Prepayment Features with Negative Compensation [2]
- IAS 19 – Plan Amendment, Curtailment or Settlement (Amendments to IAS 19) [2]
- IAS 28 – Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28) [2]
- IAS 23 – Borrowing Costs (Amendments to IAS 23) [2]
- IFRS 11 – Joint Arrangements (Amendments to IFRS 11) [2]
- IAS 1 – Presentation of Financial Statements [3] and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors [3] (Amendments to IAS 1 and IAS 8)

[1] Effective for annual periods beginning on or after January 1, 2018.
[2] Effective for annual periods beginning on or after January 1, 2019, with earlier application permitted.
[3] Effective for annual periods beginning on or after January 1, 2020, with earlier application permitted.

4.1 IFRS 9 – Financial Instruments

IFRS 9 – Financial Instruments (as revised in July 2014) became effective for accounting periods commencing on January 1, 2018. IFRS 9 introduces new requirements for the classification and measurement of financial assets and financial liabilities, impairment for financial assets and general hedge accounting. Details of these new requirements as well as their impact on Nalcor's annual audited consolidated financial statements are described below.

Nalcor has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9.

4.1.1 Classification and measurement of financial assets

The date of initial application of IFRS 9 is January 1, 2018. Nalcor has applied the requirements of IFRS 9 to instruments that have not been derecognized as at January 1, 2018 and has not applied the requirements to instruments that have already been derecognized as at January 1, 2018. Comparative amounts in relation to instruments that have not been derecognized as at January 1, 2018 have been restated where appropriate.

All recognized financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Management reviewed and assessed Nalcor's existing financial assets as at January 1, 2018 based on the facts and circumstances that existed at that date, and concluded that the initial application of IFRS 9 has had the following impact on Nalcor's financial assets with regards to classification and measurement:

- financial assets classified as held-to-maturity and loans and receivables under IAS 39 that were measured at amortized cost continue to be measured at amortized cost under IFRS 9 as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding;
- with the exception of short-term investments and sinking funds, the financial assets that were classified as available-for-sale (AFS) financial assets under IAS 39 have been classified as financial assets at FVTOCI as they are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and they have contractual cash flows that are solely of payments of principal and interest on the principal amount outstanding. The changes in fair value on these continue to be accumulated in other comprehensive income until they are derecognized. The short-term investments and sinking funds have been classified as financial assets at amortized cost under IFRS 9 as they are held within a business model whose objective is to collect contractual cash flows, which consist solely of payments of principal and interest on the principal amount outstanding; and
- financial assets that were measured at FVTPL under IAS 39 continue to be measured as such under IFRS 9.

For financial assets that have been reclassified to the amortized cost category, the fair value gain (loss) that would have been recognized if these financial assets had not been reclassified as part of the transition to IFRS 9 was $3.9 million for the year ended December 31, 2018.

Note 4.1.5 illustrates the change in classification of Nalcor's financial assets upon application of IFRS 9.

Note 4.1.6 details the amount of adjustment for each financial statement line item affected by the application of IFRS 9 for the current and prior reporting periods.

4.1.2 Impairment of financial assets

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires Nalcor to account for ECL and changes in those ECL at each reporting date to reflect changes in credit risk since initial recognition of the financial assets.

As at January 1, 2018, Management reviewed and assessed Nalcor's existing financial assets and amounts due from customers for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of IFRS 9 to determine the credit risk of the respective items at the date they were initially recognized, and compared that to the credit risk as at January 1, 2017 and January 1, 2018. The comparison made as at January 1, 2017, January 1, 2018 and December 31, 2018 determines whether 12 month ECL should be recognized or a lifetime expected credit loss should be recognized where credit risk has increased significantly for the respective financial instruments at that date. The change resulting from the application of the impairment model under IFRS 9 has not resulted in a material adjustment from what was previously recorded under IAS 39.

4.1.3 Classification and measurement of financial liabilities

The application of IFRS 9 has had no impact on the classification and measurement of Nalcor's financial liabilities.

4.1.4 General hedge accounting

The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about Nalcor's risk management activities have also been introduced.

In accordance with IFRS 9's transition provisions for hedge accounting, Nalcor has applied IFRS 9 hedge accounting requirements prospectively from the date of initial application on January 1, 2018. Nalcor's qualifying hedging relationships in place as at January 1, 2018 qualified for hedge accounting in accordance with IFRS 9 and were therefore regarded as continuing hedging relationships. No rebalancing of any of the hedging relationships was necessary on January 1, 2018. As the critical terms of the hedging instruments match those of their corresponding hedged items, all hedging relationships continue to be effective under IFRS 9's effectiveness assessment requirements. Nalcor has not designated any hedging relationships under IFRS 9 that would not have met the qualifying hedge accounting criteria under IAS 39. Consistent with prior periods, Nalcor has continued to designate the change in fair value of the entire forward contract, i.e. including the forward element, as the hedging instrument in Nalcor's cash flow hedge relationships.

The application of the IFRS 9 hedge accounting requirements has had no impact on the results and financial position of Nalcor for the current and/or prior years. Refer to Note 31 for detailed disclosures regarding the Nalcor's risk management activities.

4.1.5 Disclosures in relation to the initial application of IFRS 9

The table below illustrates the classification and measurement of financial assets and financial liabilities under IFRS 9 and IAS 39 at January 1, 2018.

Financial instrument	Category under IAS 39	Category under IFRS 9
Cash and cash equivalents	Loans and receivables	Amortized cost
Restricted cash	Loans and receivables	Amortized cost
Short-term investments	AFS financial assets	Amortized cost
Trade and other receivables	Loans and receivables	Amortized cost
Derivative instruments	FVTPL and financial instruments used for hedging	FVTPL and derivatives designated as hedging instruments
Sinking funds – investments in same Hydro issue	Held-to-maturity investments	Amortized cost
Sinking funds – other investments	AFS financial assets	Amortized cost
Reserve fund	AFS financial assets	FVTOCI
Long-term receivables	Loans and receivables	Amortized cost
Long-term investments (including current portion)	Held-to-maturity investments	Amortized cost
Trade and other payables	Other financial liabilities	Amortized cost
Short-term borrowings	Other financial liabilities	Amortized cost
Long-term debt	Other financial liabilities	Amortized cost
Long-term payables	Other financial liabilities	Amortized cost
Class B limited partnership units	Other financial liabilities	Amortized cost

The tables below address the changes resulting from the change in measurement category of the sinking funds. Short-term investments did not require an adjustment from the change in measurement category, due to the fair value approximating the carrying value due to their short-term maturity.

(millions of Canadian dollars)	IAS 39 carrying amount December 31, 2017	Reclassification	Remeasurement	IFRS 9 carrying amount January 1, 2018	Retained earnings effect on January 1, 2018
Financial assets					
Amortized cost					
Additions:					
From available-for-sale (IAS 39)	-	231	(37)	194	-
Total	-	231	(37)	194	-
Financial assets					
FVTOCI					
Subtractions:					
Available-for-sale (IAS 39) to amortized cost (IFRS 9)	231	(231)	-	-	-
Total	231	(231)	-	-	-
Total financial asset balances, reclassifications and remeasurements at January 1, 2018	**231**	-	**(37)**	**194**	-

4.1.6 Financial impact of the application of IFRS 9

The tables below show the amount of adjustment for each financial statement line item affected by the application of IFRS 9 for the current and prior years.

(millions of Canadian dollars)	**Year ended December 31, 2018**	Year ended December 31, 2017
Impact on other comprehensive income for the year		
Items that may be reclassified subsequently to profit or loss:		
Net fair value gain on available-for-sale financial instruments	**4**	10
Impact in other comprehensive income for the year	**4**	10

(millions of Canadian dollars)	As previously reported	IFRS 9 adjustments	**As restated**
Impact on assets, liabilities and equity as at January 1, 2017			
Other long-term assets	274	(47)	**227**
Total effect on assets	274	(47)	**227**
Fair value reserve	34	(47)	**(13)**
Total effect on equity	34	(47)	**(13)**

(millions of Canadian dollars)	As previously reported	IFRS 9 adjustments	**As restated**
Impact on assets, liabilities and equity as at December 31, 2017			
Other long-term assets	233	(37)	**196**
Total effect on assets	233	(37)	**196**
Fair value reserve	(41)	(37)	**(78)**
Total effect on equity	(41)	(37)	**(78)**

The application of IFRS 9 had no impact on the cash flows of Nalcor.

4.2 IFRS 15 – Revenue from Contracts with Customers

IFRS 15 – Revenue from Contracts with Customers (as amended in April 2016) became effective for accounting periods commencing on January 1, 2018. Nalcor has applied IFRS 15 in accordance with the fully retrospective transitional approach using practical expedients for completed contracts (IFRS 15.C5(a)), modified contracts (IFRS 15.C5(c)) and allowing both non-disclosure of the amount of the transaction price allocated to the remaining performance obligations, and an explanation of when it expects to recognize that amount as revenue for all reporting periods presented before the date of initial application (IFRS 15.C5(d)).

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 covers only revenue arising from contracts with customers. Under IFRS 15, a customer of Nalcor is a party that has contracted with Nalcor to obtain goods or services that are an output of Nalcor's ordinary activities in exchange for consideration. Unlike the scope of IAS 18, the recognition and measurement of interest income and dividend income from debt and equity investments are no longer within the scope of IFRS 15. Instead, they are within the scope of IFRS 9.

As mentioned above, IFRS 15 establishes a single model to deal with revenue from contracts with customers. Its core principle is that Nalcor should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which Nalcor expects to be entitled, in exchange for those goods or services.

Nalcor's accounting policies for its revenue streams are disclosed in detail in Note 2.17.

The details and quantitative impact of the changes in accounting policies are disclosed below:

Prior to the application of IFRS 15, revenue from properties in which Oil and Gas has an interest with other producers was recognized on the basis of Oil and Gas' net working interest of petroleum and natural gas produced (the entitlement method). Under this method, crude oil produced below or above Oil and Gas' net working interest resulted in an under-lift or over-lift position. Under-lift or over-lift positions are measured at market value and recorded as an asset or liability, respectively.

Subsequent to the application of IFRS 15, Nalcor recognizes revenue that depicts the transfer of output to its customers in each reporting period by applying IFRS 15. Accordingly, when Nalcor has received less output than its net working interest (under-lift) it has a right to future production of the joint operation and the under-lift portion shall be recognized as an asset that represents inventory for output not yet received, with the other side of the entry presented in profit or loss as part of the production expenses measured at cost. Similarly, the over-lift portion shall be recognized as a liability that represents an accrual for inventory received but not yet paid for, with the other side of the entry presented in profit or loss as part of the production expenses measured at cost.

The table below addresses the changes resulting from the change in classification and measurement category of the under-lift and over-lift on the audited Consolidated Statement of Financial Position.

(millions of Canadian dollars)	Carrying amounts previously reported at December 31, 2017	Reclassification	Remeasurement	Carrying amounts under IFRS 15 at January 1, 2018
Trade and other receivables	395	(25)	-	370
Inventory	116	25	(17)	124
Retained earnings	(1,336)	-	17	(1,319)
Total	(825)	-	-	(825)

Financial impact of the application of IFRS 15

The tables below show the amount of adjustment for each financial statement line item affected by the application of IFRS 15 for the current and prior years.

Consolidated Statement of Profit and Comprehensive Income (Loss)

For the year ended December 31 (millions of Canadian dollars)	**2018**	2017
Energy sales	**17**	(18)
Production, marketing and transportation costs	**4**	(6)
Total	**13**	(12)

Consolidated Statement of Financial Position

(millions of Canadian dollars)	As previously reported	IFRS 15 Adjustment	**As restated**
Impact on assets, liabilities and equity as at January 1, 2017			
Trade and other receivables	294	(7)	**287**
Inventories	93	2	**95**
Retained earnings	(1,273)	5	**(1,268)**
Total	(886)	-	**(886)**

(millions of Canadian dollars)	As previously reported	IFRS 15 Adjustment	**As restated**
Impact on assets, liabilities and equity as at December 31, 2017			
Trade and other receivables	395	(25)	**370**
Inventories	116	8	**124**
Retained earnings	(1,336)	17	**(1,319)**
Total	(825)	-	**(825)**

Consolidated Statement of Cash Flows

(millions of Canadian dollars)	As previously reported	IFRS 15 Adjustment	**As restated**
Impact on cash flows as at December 31, 2017			
Operating activities			
Profit for the year	63	(12)	**51**
Changes in non-cash working capital balances	(96)	12	**(84)**
Total	(33)	-	**(33)**

4.3 IFRIC 22 – Foreign Currency Transactions and Advance Consideration

IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (for example, a non-refundable deposit or deferred credit).

The application of these amendments to IFRIC 22 did not have a material impact on Nalcor's annual audited consolidated financial statements.

4.4 IFRS 16 – Leases

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. It will supersede the following lease standard and interpretations upon its effective date:

- IAS 17 – Leases;
- IFRIC 4 – Determining Whether an Arrangement contains a Lease;
- SIC-15 – Operating Leases – Incentives; and
- SIC-27 – Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

IFRS 16 applies a control model to the identification of leases, distinguishing between leases and service contracts on the basis of whether there is an identified asset controlled by the customer.

The standard introduces significant changes to lessee accounting: it removes the distinction between operating and finance leases under IAS 17 and requires a lessee to recognize a right-of-use asset and a lease liability at lease commencement for all leases, except for short-term leases and leases of low value assets.

In contrast to lessee accounting, the IFRS 16 lessor accounting requirements remain largely unchanged from IAS 17, which continue to require a lessor to classify a lease as either an operating lease or a finance lease.

IFRS 16 is effective for reporting periods beginning on or after January 1, 2019 with early application permitted (as long as IFRS 15 is also applied). Management has elected to adopt the standard as of the effective date.

A lessee can apply IFRS 16 either by a full retrospective approach or a modified retrospective approach. Management intends to apply the modified approach, as a result there is no requirement to restate comparative information, the cumulative effect of initially applying IFRS 16 will be presented as an adjustment to opening retained earnings. Management anticipates the application of IFRS 16 will not have a material impact on the amounts and disclosures reported in Nalcor's consolidated financial statements and are finalizing their assessment.

4.5 IFRS 9 – Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortized cost or at FVTOCI, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The amendments are effective for annual periods beginning on or after January 1, 2019 with earlier application permitted. The application of these amendments to IFRS 9 will not have a material impact on Nalcor's annual audited consolidated financial statements.

4.6 IAS 19 – Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after January 1, 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of Nalcor.

4.7 IAS 28 – Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures.

The amendments should be applied retrospectively and are effective from January 1, 2019, with early application permitted. The application of these amendments to IAS 28 will not have a material impact on Nalcor's annual audited consolidated financial statements.

4.8 IAS 23 – Borrowing Costs (Amendments to IAS 23)

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments (January 1, 2019), with early application permitted. Since Nalcor's current practice is in line with these amendments, Nalcor does not expect any effect on its annual audited consolidated financial statements.

4.9 IFRS 11 – Joint Arrangements (Amendments to IFRS 11)

The amendment to IFRS 11 clarifies that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

The amendments are effective for annual periods beginning on or after January 1, 2019 with earlier application permitted. These amendments are currently not applicable to Nalcor but may apply to future transactions.

4.10 IAS 1 – Presentation of Financial Statements and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors (Amendments to IAS 1 and IAS 8)

The IASB issued amendments to IAS 1 and IAS 8 to align the definition of 'material' across the standards and to clarify certain aspects of the definition and to include the concept of 'obscuring information'.

The new definition states that "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity".

The amendments are effective for annual periods beginning on or after January 1, 2020 with earlier application permitted. The amendments are intended to improve the understanding of the existing requirements rather than to significantly impact Nalcor's materiality judgments.

5. DISCONTINUED OPERATIONS

Effective September 30, 2018, the Offshore Development segment, which includes Oil and Gas and Bull Arm Fabrication, represented a discontinued operation, based on the expectation that the whole segment would be distributed to the Province. Subsequent to this date, the Province announced the structure of the transaction, which resulted in the existing Oil and Gas operations, specifically existing interests in offshore developments, remaining with Nalcor, which led to Oil and Gas no longer meeting the criteria of a discontinued operation. Bull Arm Fabrication was classified as a disposal group held for distribution as it is expected to be distributed to the Province within one year from the date of classification. With Bull Arm Fabrication being classified as a discontinued operation, the company is no longer presented in the segment note. The results of Bull Arm Fabrication for the year are presented below:

For the year ended December 31 (millions of Canadian dollars)	**2018**	2017
Revenue	-	49
Expenses	**2**	2
(Loss) profit for the year from discontinued operations	**(2)**	47

The major classes of assets and liabilities of Bull Arm Fabrication classified as held for distribution as at December 31, 2018, are as follows:

As at December 31 (millions of Canadian dollars)	**2018**
ASSETS	
Other long-term assets	**1**
Assets for distribution to shareholder	**1**
LIABILITIES	
Trade and other payables	**1**
Liabilities directly associated with the assets for distribution to shareholder	**1**
Net assets held for distribution to shareholder	-

The net cash flows of Bull Arm Fabrication are, as follows:

For the year ended December 31 (millions of Canadian dollars)	**2018**	2017
Operating activities	**(1)**	45
Investing activities	-	1
Financing activities	-	(47)
Net decrease in cash and cash equivalents	**(1)**	(1)

6. CASH AND CASH EQUIVALENTS

As at December 31, 2018 and 2017, cash and cash equivalents consisted entirely of cash.

7. TRADE AND OTHER RECEIVABLES

As at December 31 (millions of Canadian dollars)		2018	2017
			(Restated - Note 4.2)
Trade receivables		**354**	174
Advances	(a)	**25**	78
Other receivables	(b)	**72**	135
Allowance for doubtful accounts		**(17)**	(17)
		434	370

(a) Advances relate to the current portion of long-term advances to suppliers in relation to construction of the Lower Churchill Project.

(b) Other receivables are comprised primarily of harmonized sales tax (HST) as well as interest on long-term investments.

As at December 31 (millions of Canadian dollars)	2018	2017
0-60 days	**425**	340
60+ days	**9**	30
	434	370

As at December 31 (millions of Canadian dollars)	2018	2017
Allowance for doubtful accounts, beginning of the year	**(17)**	(16)
Amounts provided for during the year	-	(1)
Allowance for doubtful accounts, end of the year	**(17)**	(17)

As at December 31, 2018, trade and other receivables included balances of $30.9 million (2017 - $14.7 million) denominated in United States Dollars (USD).

8. INVENTORIES

As at December 31 (millions of Canadian dollars)	2018	2017
		(Restated - Note 4.2)
Materials and other	**61**	65
No. 6 fuel	**48**	48
Diesel fuel	**4**	4
Other fuel	**5**	4
Construction aggregates	**3**	3
	121	124

The amount of inventory recognized as an expense during the year was $193.2 million (2017 - $234.1 million) and is included in operating costs and fuels.

9. PROPERTY, PLANT AND EQUIPMENT

(millions of Canadian dollars)	Generation Plant	Transmission and Distribution	Petroleum and Natural Gas Properties	Other	Construction in Progress	Total
Cost						
Balance at January 1, 2017	1,785	869	1,315	442	8,003	12,414
Additions	-	1	123	22	3,227	3,373
Disposals	(3)	(4)	(13)	(4)	-	(24)
Transfers	69	335	-	26	(430)	-
Decommissioning liabilities and revisions	(1)	-	2	-	-	1
Other adjustments	-	-	-	(2)	(2)	(4)
Balance at December 31, 2017	1,850	1,201	1,427	484	10,798	15,760
Additions	**4**	**-**	**65**	**1**	**1,320**	**1,390**
Disposals	**(11)**	**(9)**	**-**	**(3)**	**-**	**(23)**
Transfers	**90**	**107**	**-**	**21**	**(219)**	**(1)**
Decommissioning liabilities and revisions	**-**	**(1)**	**(3)**	**-**	**-**	**(4)**
Other adjustments	**(1)**	**-**	**-**	**-**	**(2)**	**(3)**
Balance at December 31, 2018	**1,932**	**1,298**	**1,489**	**503**	**11,897**	**17,119**
Depreciation, depletion and impairment						
Balance at January 1, 2017	458	162	212	165	-	997
Depreciation and depletion	53	27	57	15	-	152
Disposals	(2)	(1)	-	(2)	-	(5)
Impairment	-	-	-	-	51	51
Balance at December 31, 2017	509	188	269	178	51	1,195
Depreciation and depletion	**54**	**34**	**72**	**16**	**-**	**176**
Disposals	**(8)**	**(2)**	**-**	**(1)**	**-**	**(11)**
Impairment	**-**	**-**	**-**	**-**	**4**	**4**
Balance at December 31, 2018	**555**	**220**	**341**	**193**	**55**	**1,364**
Carrying value						
Balance at January 1, 2017	1,327	707	1,103	277	8,003	11,417
Balance at December 31, 2017	1,341	1,013	1,158	306	10,747	14,565
Balance at December 31, 2018	**1,377**	**1,078**	**1,148**	**310**	**11,842**	**15,755**

Capitalized interest for the year ended December 31, 2018, was $294.9 million (December 31, 2017 - $268.0 million) related to assets under development.

As at December 31, 2018, construction in progress included $140.3 million (2017 - $140.3 million) of capitalized Gull Island Project costs. This is subsequent to an impairment of $nil as at December 31, 2018 (2017 - $50.6 million) of the Gull Island Project relating to older costs, previously capitalized, which Management has assessed as no longer having future economic benefit towards the project.

10. INTANGIBLE ASSETS

(millions of Canadian dollars)	Computer Software	Feasibility Studies	Seismic Data Acquisitions	Intellectual Property	Assets Under Development	Total
Cost						
Balance at January 1, 2017	18	2	69	2	6	97
Additions	-	-	37	-	14	51
Balance at December 31, 2017	18	2	106	2	20	148
Additions	-	-	-	-	**9**	**9**
Transfers	**22**	-	-	-	**(21)**	**1**
Balance at December 31, 2018	**40**	**2**	**106**	**2**	**8**	**158**
Amortization and impairment						
Balance at January 1, 2017	9	1	11	-	-	21
Amortization	2	-	14	-	-	16
Impairment	-	-	81	-	-	81
Balance at December 31, 2017	11	1	106	-	-	118
Amortization	**4**	-	-	-	-	**4**
Impairment	-	-	-	**2**	-	**2**
Balance at December 31, 2018	**15**	**1**	**106**	**2**	-	**124**
Carrying value						
Balance at January 1, 2017	9	1	58	2	6	76
Balance at December 31, 2017	7	1	-	2	20	30
Balance at December 31, 2018	**25**	**1**	-	-	**8**	**34**

As at December 31, 2018, intangible assets included an impairment expense of $nil (2017 - $81.0 million) related to seismic and geoscientific data acquisition costs previously capitalized as Management assessed the costs as having no short or medium term future economic benefit to Nalcor.

11. INVESTMENTS

As at December 31 (millions of Canadian dollars)	Year of Maturity	**2018**	2017
Muskrat Falls			
$75.0 million Floating Rate Deposit Note, with interest paid at the one-month Canadian Dollar Offered Rate (CDOR) plus 0.20%.	2019	**59**	61
$483.8 million Amortizing Floating Rate Deposit Note, with interest paid at the one-month CDOR plus 0.20%.	2019	**39**	266
$725.7 million Amortizing Fixed Rate Deposit Note, with interest paid at a rate of 1.679% per annum.	2019	**58**	400
Labrador Transco			
$75.0 million Floating Rate Deposit Note, with interest paid at the one-month CDOR plus 0.20%.	2019	**16**	14
$483.8 million Amortizing Floating Rate Deposit Note, with interest paid at the one-month CDOR plus 0.20%.	2019	**8**	62
$725.7 million Amortizing Fixed Rate Deposit Note, with interest paid at a rate of 1.679% per annum.	2019	**12**	94
LIL			
$75.0 million Floating Rate Deposit Note, with interest paid at the one-month CDOR plus 0.20%.	2019	**75**	75
$182.9 million Amortizing Floating Rate Deposit Note, with interest paid at the one-month CDOR plus 0.20%.	2019	**8**	91
$548.6 million Amortizing Fixed Rate Deposit Note, with interest paid at a rate of 1.644% per annum.	2019	**23**	273
Churchill Falls			
$14.5 million Short-Term Bearer Deposit Note, with interest paid at a rate of 1.52% per annum.	2018	-	14
$18.4 million Redeemable Guaranteed Investment Certificate (GIC), with interest paid at a rate of 1.40% per annum.	2019	**18**	18
$15.5 million Redeemable GIC, with interest paid at a rate of 1.46% per annum.	2019	**16**	16
Nalcor			
$130.0 million Long Term Redeemable GIC, with interest paid at a rate of 3.00% per annum.	2021	**130**	-
Total investments		**462**	1,384
Less: redemptions to be received within the next year[1]		**(332)**	(1,052)
		130	332

[1]Redemptions to be received within one year have been reclassified to short-term investments.

12. OTHER LONG-TERM ASSETS

As at December 31 (millions of Canadian dollars)		2018	2017
			(Restated - Note 4.1)
Investment property		-	1
Investment in joint arrangement		**1**	1
Long-term receivables	(a)	**1**	-
Long-term prepayments		**7**	1
Reserve fund	(b)	**12**	-
Sinking funds	(c)	**202**	194
Other		**1**	1
Other long-term assets		**224**	198
Less: current portion		**(2)**	(2)
		222	196

(a) As at December 31, 2018, long-term receivables include $0.9 million (2017 - $nil) related to long-term advances to suppliers in relation to construction of the Lower Churchill Project. The current portion of $25.0 million (2017 - $77.6 million) is included in trade and other receivables. The non-current portion of receivables associated with customer payment plans and the long-term portion of employee purchase programs as at December 31, 2018 is $0.2 million (2017 - $0.3 million).

(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. Churchill Falls invested $17.0 million in each of 2007, 2008 and 2009 and $8.0 million in each of 2010, 2011 and 2012. In December 2018, $18.8 million was invested (2017 - $22.5 million withdrawn) into the fund as part of the Shareholder's Agreement to re-establish the $75.0 million withdrawn in recent years. Nalcor has recorded its 65.8% proportionate share of the amount invested $12.4 million (2017 - $14.8 million withdrawn). As per the terms of the Shareholders' Agreement, these funds will be replaced over a five year period.

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.

Nalcor's proportionate share of the reserve fund consists of the following:

As at December 31 (millions of Canadian dollars)	2018	2017
Reserve fund, beginning of the year	-	15
Principal contributions (withdrawals)	**12**	(15)
Reserve fund, end of the year	**12**	-

Nalcor's proportionate share of reserve fund contributions for the next four years are as follows:

(millions of Canadian dollars)	2019	2020	2021	2022
Reserve fund contributions	12	12	6	6

(c) As at December 31, 2018, sinking funds include $164.4 million (2017 - $156.4 million) related to repayment of Hydro's long-term debt and $38.0 million (2017 - $37.3 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 2019 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 2.57% to 6.82% (2017 - 2.57% to 6.82%).

In addition, other sinking funds are held to fund the annual payments to the Innu Nation as required under the UCRA.

The sinking funds consist of the following:

As at December 31 (millions of Canadian dollars)	**2018**	2017
		(Restated - Note 4.1)
Sinking funds, beginning of the year	**194**	260
Contributions	**7**	7
Earnings	**13**	13
Disposals and maturities	**(2)**	(97)
Change in sinking fund investments in own debentures	**(10)**	11
Sinking funds, end of the year	**202**	194
Less: current portion	**(2)**	(2)
	200	192

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

(millions of Canadian dollars)	2019	2020	2021	2022	2023
Sinking fund instalments	7	7	7	7	7

13. REGULATORY DEFERRALS

(millions of Canadian dollars)		January 1 2018	Reclass and Disposition	Regulatory Activity	**December 31 2018**	Remaining Recovery Settlement Period (years)
Regulatory asset deferrals						
2018 cost deferral	(a)	-	-	19	**19**	n/a
Deferred energy conservation costs	(b)	9	-	-	**9**	n/a
Deferred foreign exchange on fuel	(c)	(1)	-	1	**-**	n/a
Deferred lease costs	(d)	4	-	(1)	**3**	2.4
Energy supply deferrals	(e)	52	-	25	**77**	n/a
Foreign exchange losses	(f)	52	-	(2)	**50**	23.0
Phase Two hearing costs	(g)	1	-	-	**1**	n/a
		117	-	42	**159**	
Regulatory liability deferrals						
Deferred specifically assigned industrial revenue	(h)	-	-	(1)	**(1)**	n/a
Insurance amortization and proceeds	(i)	(3)	-	1	**(2)**	n/a
Labrador refund	(j)	(1)	-	-	**(1)**	1.0
Rate stabilization plan (RSP)	(k)	(75)	3	4	**(68)**	n/a
Other	(p)	-	-	1	**1**	n/a
		(79)	3	5	**(71)**	

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

The following table shows Hydro's regulatory deferrals, which 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 the profit for the year ended December 31, 2018 would have decreased by $45.6 million (2017 - a decrease of $91.1 million).

For the year ended December 31 (millions of Canadian dollars)		**2018**	2017
RSP amortization		**(10)**	(53)
RSP fuel deferral		**2**	(19)
RSP interest		**4**	9
Rural rate adjustment		**-**	(3)
Total RSP activity	(k)	**(4)**	(66)
2014 cost deferral	(l)	**-**	1
2015 cost deferral	(m)	**-**	(3)
2016 cost deferral	(n)	**-**	(4)
2018 cost deferral	(a)	**(19)**	-
Amortization of deferred foreign exchange losses	(f)	**2**	2
Deferred energy conservation costs	(b)	**-**	(1)
Deferred foreign exchange on fuel	(c)	**(1)**	1
Deferred lease costs	(d)	**1**	1
Deferred specifically assigned industrial revenue	(h)	**1**	-
Energy supply deferrals	(e)	**(25)**	(21)
Insurance amortization and proceeds	(i)	**(1)**	(1)
Other	(o,p,q,r)	**-**	-
		(46)	(91)

(a) 2018 Cost Deferral

In Board Order No. P.U. 48 (2018), the Board approved the 2018 cost deferral of $18.5 million (2017 - $nil) related to the differential in the 2018 depreciation, loss on retirement and removal costs associated with the proposed change in depreciation methodology as outlined in a general rate application settlement agreement.

(b) Deferred Energy Conservation Costs

In 2018, Hydro deferred $1.5 million (2017 - $1.5 million) in the Energy Conservation Costs regulatory asset associated with an electrical conservation program for residential, industrial, and commercial sectors. In addition, as per Board Order No. P.U. 22 (2017), Hydro recovered $1.2 million (2017 – $0.5 million) of the balance through a rate rider.

(c) Deferred Foreign Exchange on Fuel

Hydro purchases a significant amount of fuel for Holyrood Thermal Generating Station (HTGS) in USD. The RSP allows Hydro to defer variances in fuel prices (including foreign exchange fluctuations). During 2018, Hydro recognized in regulatory assets, foreign exchange losses on fuel purchases of $1.1 million (2017 - $0.4 million gain).

(d) Deferred Lease Costs

In Board Order No. P.U. 17 (2016), Board Order No. P.U. 23 (2016) and Board Order No. P.U. 49 (2016) the Board approved the amortization of diesel units at HTGS over a period of five years. In 2018, Hydro recorded amortization of $1.3 million (2017 - $1.3 million) of the deferred lease costs.

(e) Energy Supply Deferrals

Pursuant to Board Order No. P.U. 22 (2017), the Board approved the deferral of Energy Supply deferrals which includes the Energy Supply, Holyrood Conversion and Isolated Systems Supply deferral. The recovery of the deferral is subject to future Board order. In 2018, Hydro recorded a net increase to the deferral of $25.3 million (2017 - $21.3 million).

(f) 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 2018, the amortization of $2.2 million (2017 - $2.2 million) reduced regulatory assets.

(g) Phase Two Hearing Costs

Pursuant to Board Order No. P.U. 13 (2016), Hydro received approval to defer consulting fees, salary transfers and overtime relating to Phase Two of the investigation into the reliability and adequacy of power on the Island Interconnected system after the interconnection with the Muskrat Falls generating station. As a result, Hydro recorded a net increase to the regulatory asset of $0.1 million (2017 - $0.3 million).

(h) Deferred Specifically Assigned Industrial Revenue

In Board Order No. P.U. 7 (2018), Hydro was ordered to establish a deferral account, commencing April 1, 2018, to track the difference between the approved specifically assigned charges used to derive interim rates and the amount that would be charged if the proposed methodology in the general rate application is approved. During 2018, Hydro deferred $0.5 million (2017 - $nil).

(i) 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 2018, Hydro recorded a decrease to regulatory liabilities resulting from amortization of $0.6 million (2017 - $0.5 million) related to the assets.

(j) Labrador Refund

Pursuant to Board Order No. P.U. 22 (2017), during 2017 Hydro refunded Labrador Industrial Transmission customers' excess revenues relating to the period of 2014 to 2017. The Board also ordered that Hydro apply a rate reduction for a 30-

month period to address excess revenues relating to Hydro's rural customers on the Labrador Interconnected System. In 2018, Hydro recorded amortization of excess revenues which resulted in a decrease to profit of $0.2 million (2017 – $0.5 million).

(k) 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 and load and associated interest. Additionally, the RSP also includes costs associated with the island interconnected and isolated systems. 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. On March 14, 2018, the PUB issued Board Order P.U. 7 (2018) which approved interim rates for Island Industrial and Labrador Industrial customers effective April 1, 2018. On May 28, 2018, the PUB issued Board Order P.U. 15 (2018). The order approved interim rates to be charged to Newfoundland Power commencing on July 1, 2018.

During 2018, Hydro recorded a net decrease in regulatory liabilities of $7.2 million (2017 - decrease of $269.4 million) resulting in an RSP ending balance for 2018 of $67.0 million (2017 - $74.2 million). The decrease in the RSP is primarily caused by the RSP surplus payout and the normal operation of the RSP. As per Board Order No. P.U. 36 (2016), the RSP was reduced by $3.4 million (2017 - $130.8 million) relating to the refund of the utility surplus balance. The reduction was comprised of a $3.2 million (2017 - $128.8 million) refund to customers and $0.2 million (2017 - $2.0 million) in administrative costs. The remaining portion of the utility surplus balance of $9.9 million (2017 - $12.6 million) is expected to be applied against the current balance of the RSP upon approval by the Board. The normal operation of the RSP resulted in an increase to net income of $3.8 million (2017 – $66.2 million).

(l) 2014 Cost Deferral

In Board Order No. P.U. 22 (2017), the Board approved $37.7 million of the $38.7 million 2014 cost deferral, resulting in a loss in 2017 of $1.0 million and the disposition of the deferral balance from the RSP. There was no additional activity in 2018.

(m) 2015 Cost Deferral

In Board Order No. P.U. 22 (2017), the Board approved $27.7 million of the 2015 cost deferral, resulting in a gain in 2017 of $3.2 million and the disposition of the deferral balance from the RSP. There was no additional activity in 2018.

(n) 2016 Cost Deferral

The 2016 cost deferral of $32.4 million consisted of energy supply costs of $31.0 million and other costs of $1.4 million. As a result of Board Order No. P.U. 22 (2017), $31.0 million was re-classified to the energy supply deferral. The Board also approved other 2016 costs of $5.0 million, which resulted in an increase in profit or loss of $3.6 million in 2017, and the disposition of the deferral balance from the RSP. There was no additional activity in 2018.

(o) Asset Disposal

As per Board Order No. P.U. 49 (2016), the Board Ordered that Hydro recognize a regulatory asset of $0.4 million related to the Sunnyside transformer that was disposed of in 2014. Hydro is required to recover the deferred asset in rate base and amortize the asset for 22.4 years commencing in 2015. Hydro is required to exclude the new Sunnyside transformer from rate base until the Sunnyside Transformer Original Asset Deferral has been fully amortized.

(p) 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 $0.3 million (2017 - $0.4 million) are deferred as a regulatory liability.

(q) 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 2018, Hydro recorded $0.2 million (2017 - $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 2018 Hydro also recorded a decrease of $0.2 million (2017 - $0.1 million) to other comprehensive income to recognize the amount that was reclassified to profit or loss.

(r) Hearing Costs

As per Board Order No. P.U. 49 (2016), the Board approved $0.8 million in hearing costs to be deferred and amortized over a three year period commencing 2015. In 2017, Hydro recorded amortization of $0.3 million. There was no additional activity in 2018.

14. TRADE AND OTHER PAYABLES

As at December 31 (millions of Canadian dollars)	**2018**	2017
Trade payables and accruals	**369**	491
Accrued interest payable	**55**	55
Rent and royalty payable	**4**	4
Other payables	**58**	34
	486	584

As at December 31, 2018, trade and other payables included balances of $3.4 million (2017 - $23.5 million) denominated in USD and $2.6 million (2017 - $0.9 million) denominated in Euros.

15. DEBT

15.1 Short-term Borrowings

Nalcor maintains a $250.0 million CAD or USD equivalent committed revolving term credit facility with its banker, with a maturity date of January 31, 2020. There were no amounts drawn on this facility as at December 31, 2018 (2017 - $nil), however $8.3 million of the borrowing limit has been used to issue 11 irrevocable letters of credit (2017 - $34.3 million to issue 15 irrevocable letters of credit). 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.

The 11 letters of credit are on behalf of Energy Marketing and relate to power purchases and sale contracts with various independent system operators, transmission providers and bilateral counterparties. The two letters of credit totalling $25.7 million on behalf of Oil and Gas from 2017 were cancelled and matured during the year. One irrevocable letter of credit for $0.8 million from 2017 as bid security for a Request for Proposal (RFP) for the supply of energy expired in December 2018 and was not renewed.

On March 14, 2018 Nalcor repaid the $225.0 million promissory note to the Province. This loan was set to mature on March 30, 2018 and carried an interest rate of 1.845% per annum.

Hydro maintains a $200.0 million CAD or USD equivalent committed revolving term credit facility with a maturity date of July 27, 2020. As at December 31, 2018, there were no amounts drawn on the facility (2017 - $nil). 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. The facility also provides coverage for overdrafts on Hydro's bank accounts, with interest calculated at the Prime Rate.

In addition, Hydro utilized its $300.0 million government guaranteed promissory note program to fulfil its short-term funding requirements. As at December 31, 2018, there was a $189.0 million promissory note outstanding with a maturity date of January 3, 2019 bearing an interest rate of 1.77% per annum (2017 - $144.0 million bearing an interest rate of 1.13% per annum). Upon maturity, the promissory note was reissued.

The following table represents the value of short-term borrowings at December 31, 2018 and December 31, 2017:

As at (millions of Canadian dollars)	**2018**	2017
Promissory notes - borrowed from the Province	-	225
Promissory notes - borrowed from external markets	**189**	144
	189	369

Churchill Falls maintains a $10.0 million CAD or USD equivalent unsecured demand operating credit facility with its primary banker. Advances may take the form of 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, 2018 (2017 - $nil).

Churchill Falls has issued three irrevocable letters of credit totalling $2.0 million (2017 - $2.0 million), $1.0 million of which does not impact the borrowing limit of the operating facility (2017 - $1.0 million). The letters of credit ensure satisfactory management of its waste management system and compliance with a certificate of approval for the transportation of special and hazardous wastes, granted by the Provincial Department of Environment and Conservation.

Oil and Gas maintains a $30.0 million CAD or USD equivalent unsecured credit facility with its banker and as at December 31, 2018, there were no amounts drawn on this facility (2017 - $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. However, $23.3 million of the borrowing limit has been used to issue two irrevocable letters of credit (2017 - $5.4 million). On August 1, 2018 Oil and Gas issued an irrevocable letter of credit in the amount of $18.4 million to a counterparty to ensure compliance with regulations relating to petroleum and natural gas exploration and production activities. On August 25, 2018 an irrevocable letter of credit in the amount of $0.5 million issued by Oil and Gas was not renewed as it was no longer required.

Energy Marketing maintains a $20.0 million CAD or USD equivalent demand operating credit facility with its banker, and as at December 31, 2018, there were no amounts drawn on this facility (2017 - $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. $8.5 million of the borrowing limit has been used to issue three irrevocable letters of credit (2017 - $nil).

As at December 31, 2018, Nalcor, on behalf of Energy Marketing, has issued an unconditional guarantee in the amount of $15.0 million (2017 - $10.0 million) in order to guarantee amounts under a power purchase and sale contract with a bilateral counterparty.

15.2 Long-term Debt

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

As at December 31 (millions of Canadian dollars)	Face Value	Coupon Rate %	Year of Issue	Year of Maturity	**2018**	2017
Hydro						
Y*	300	8.40	1996	2026	**296**	295
AB*	300	6.65	2001	2031	**305**	305
AD*	125	5.70	2003	2033	**124**	124
AF	500	3.60	2014/2017	2045	**480**	480
1A	600	3.70	2017/2018	2048	**641**	330
LIL LP						
Tranche A	725	3.76	2013	2033	**726**	726
Tranche B	600	3.86	2013	2045	**600**	600
Tranche C	1,075	3.85	2013	2053	**1,075**	1,075
Tranche 1-10	105	1.14-1.75	2017	2020-2025	**105**	105
Tranche 11-20	105	1.84-2.37	2017	2025-2030	**105**	105
Tranche 21-30	105	2.41-2.64	2017	2030-2035	**105**	105
Tranche 31-40	105	2.66-2.80	2017	2035-2040	**105**	105
Tranche 41-50	105	2.81-2.86	2017	2040-2045	**105**	105
Tranche 51-60	105	2.84-2.86	2017	2045-2050	**105**	105
Tranche 61-70	105	2.85	2017	2050-2055	**105**	105
Tranche 71-74	315	2.85	2017	2055-2057	**316**	316
Lab Transco/Muskrat Falls						
Tranche A	650	3.63	2013	2029	**650**	650
Tranche B	675	3.83	2013	2037	**675**	675
Tranche C	1,275	3.86	2013	2048	**1,275**	1,275
Tranche 1-10	205	1.14-1.75	2017	2020-2025	**205**	205
Tranche 11-20	224	1.84-2.37	2017	2025-2030	**224**	224
Tranche 21-30	253	2.41-2.64	2017	2030-2035	**253**	253
Tranche 31-40	288	2.66-2.80	2017	2035-2040	**289**	289
Tranche 41-50	331	2.81-2.86	2017	2040-2045	**331**	331
Tranche 51-60	381	2.84-2.86	2017	2045-2050	**382**	382
Tranche 61-64	168	2.85	2017	2050-2052	**168**	168
Total	9,725				**9,750**	9,438
Less: Sinking fund investments in own debentures					**(55)**	(45)
					9,695	9,393
Less: maturities of debt within one year					**(7)**	(7)
					9,688	9,386

*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. 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 charged by the Province for the year ended December 31, 2018 was $6.9 million (December 31, 2017 - $4.1 million).

On March 14, 2018, Hydro issued new long-term debt, Series 1A, with a face value of $300.0 million (December 20, 2017 - $300.0 million issued). The Province of Newfoundland and Labrador issued debt specifically on Hydro's behalf and lent the proceeds to Hydro. The debt matures on October 17, 2048 with a coupon rate of 3.70% paid semi-annually.

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 method. The return on the units is classified as a finance expense. All finance expenses associated with the units have been capitalized.

As at December 31 (millions of Canadian dollars)	**Units**	**2018**	Units	2017
Class B limited partnership units, beginning of the year	**25**	**491**	25	399
Contributions	-	-	-	55
Accrued interest	-	**42**	-	37
Class B limited partnership units, end of the year	**25**	**533**	25	491

17. DEFERRED CREDITS

Deferred credits consist of funding from the Province, deferred energy sales to Emera NL and deferred lease revenue related to Menihek lease assets for the sale of energy to Hydro-Québec.

As at December 31, 2018 (millions of Canadian dollars)	Government Funding	Oil and Gas Other	Deferred Energy Sales	Deferred Lease Revenue	Total
Deferred credits, beginning of the year	1	1	1,733	18	1,753
Additions	1	-	15	10	26
Amortization	(1)	-	-	-	(1)
Deferred credits, end of the year	1	1	1,748	28	1,778
Less: current portion	(1)	-	-	-	(1)
	-	1	1,748	28	1,777

Nalcor has received funding from the Province for wind feasibility studies in Labrador. The funding is recognized as other revenue when the related expenditures are incurred.

Nalcor has also received funding from the Province towards two Oil and Gas initiatives. The first is the Petroleum Exploration Enhancement Program (PEEP) which is designed to boost new petroleum exploration in Western Newfoundland through acquisition and assessment of seismic data. The second is the Offshore Geoscience Data Project (OGDP) which is designed to encourage new offshore petroleum exploration in Newfoundland and Labrador through the acquisition and assessment of seismic data. The funding is recognized as other revenue when the related expenditures are incurred. Deferred credits other includes oil inventory held at the Newfoundland Transshipment site.

Nalcor has recorded deferred energy sales of $1,748.2 million (2017 - $1,732.9 million) which equals the construction costs to date incurred by Emera related to the Maritime Link. Nalcor has determined that it controls the Maritime Link asset for financial reporting purposes, and as such, has recorded the costs as a component of property, plant and equipment under construction.

Deferred lease revenue includes deferred lease revenue related to the Menihek plant.

18. DEFERRED CONTRIBUTIONS

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.

As at December 31 (millions of Canadian dollars)	**2018**	2017
Deferred contributions, beginning of the year	**23**	12
Additions	**6**	12
Amortization	**(1)**	(1)
Deferred contributions, end of the year	**28**	23
Less: current portion	**(2)**	(1)
	26	22

19. DECOMMISSIONING LIABILITIES

Nalcor has recognized liabilities associated with the retirement of portions of the Holyrood Thermal Generating Station (HTGS), disposal of Polychlorinated Biphenyls (PCB) and decommissioning liabilities resulting from its net ownership interests in petroleum and natural gas properties and related well sites.

The reconciliation of beginning and ending carrying amounts of decommissioning liabilities as at December 31, 2018 and December 31, 2017 are as follows:

As at December 31 (millions of Canadian dollars)	**2018**	2017
Decommissioning liabilities, beginning of the year	**86**	83
Liabilities settled	**-**	(1)
Accretion	**4**	3
Revisions	**(4)**	1
Decommissioning liabilities, end of the year	**86**	86

The total estimated undiscounted cash flows required to settle the HTGS obligations as at December 31, 2018 are $15.2 million (2017 - $15.2 million). Payments to settle the liability are expected to occur between 2020 and 2023. 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 2.3% (2017 – 2.6%). Nalcor has recorded $13.9 million (2017 - $13.5 million) related to HTGS obligations.

The total estimated undiscounted cash flows required to settle the PCB obligations as at December 31, 2018 are $1.1 million (2017 - $1.8 million). Payments to settle the liability are expected to occur between 2019 and 2025. The fair value of the decommissioning liabilities was determined using the present value of future cash flows discounted at Hydro's and Churchill Falls' credit adjusted risk free rates of 2.5% to 2.9%, respectively, (2017 - 2.8% to 3.2%). Nalcor has recorded $0.9 million (2017 - $1.5 million) related to PCB obligations.

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, 2018 are $143.6 million (2017 - $131.3 million). Payments to settle the liabilities are expected to occur between 2032 and 2036. The fair value of the decommissioning liabilities was determined using the present value of future cash flows discounted at rates ranging from 4.0% to 4.3% (December 31, 2017 – 3.9% to 4.2%).

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.

20. LONG-TERM PAYABLES

As at December 31, 2018, long-term payables consist of a payable to the Innu Nation under the UCRA, a payable to the Innu Nation under the Impact and Benefits Agreement (IBA) and a payable to the NunatuKavut Community Council under the Community Development Agreement (CDA).

As at December 31 (millions of Canadian dollars)	**2018**	2017
Long-term payables, beginning of the year	**61**	65
Payments	**(9)**	(7)
Additions and revisions	**(1)**	(1)
Accretion	**3**	4
Long-term payables, end of the year	**54**	61
Less: current portion	**(9)**	(9)
	45	52

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, 2018, $2.4 million (2017 - $2.4 million) of the amount is current and is recorded in trade and other payables. Nalcor has sinking funds in the amount of $38.0 million (2017 - $37.3 million) to fund these future obligations. The present value of the remaining payments using a discount rate of 4.4% (2017 - 4.1%) is $36.2 million (2017 - $36.3 million).

Under the IBA, Nalcor is required to make annual implementation payments to the Innu Nation that commenced upon sanction of the Muskrat Falls hydroelectric plant. The Muskrat Falls hydroelectric plant was sanctioned in December 2012 and the first IBA payment was made at that time. The IBA requires annual payments of $5.0 million escalating by an annual consumer price index from sanction until the earlier of first commercial power or ten years. The present value of the remaining payments using a discount rate of 2.9% (2017 - 2.9%) is $8.5 million (2017 - $13.2 million). The current portion of the payable at December 31, 2018 is $5.0 million (2017 - $5.0 million) and is recorded in trade and other payables.

Under the CDA signed on December 1, 2017, Nalcor is required to pay the NunatuKavut Community Council for the obligations as outlined in the agreement. The current portion of the payable as at December 31, 2018 is $1.5 million (2017 - $1.5 million) and is recorded in trade and other payables. The fair value of the remaining payments approximates its carrying value.

21. EMPLOYEE FUTURE BENEFITS

21.1 Pension Plan

Employees participate in the Province's Public Service Pension Plan, a multi-employer defined benefit plan. The employer's contributions of $13.2 million (2017 - $13.1 million) are expensed as incurred.

21.2 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 2018, cash payments to beneficiaries for its unfunded other employee future benefits were $3.3 million (2017 - $4.5 million). An actuarial valuation was performed as at December 31, 2018.

As at December 31 (millions of Canadian dollars)	**2018**	2017
Accrued benefit obligation, beginning of the year	**126**	117
Current service cost	**6**	5
Interest cost	**5**	5
Benefits paid	**(3)**	(4)
Actuarial (gain) loss	**(11)**	3
Accrued benefit obligation, end of the year	**123**	126

For the year ended December 31 (millions of Canadian dollars)	**2018**	2017
Component of benefit cost		
Current service cost	**6**	5
Interest cost	**5**	5
Total benefit expense for the year	**11**	10

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

	2018	2017
Discount rate - benefit cost	**3.55%**	3.90%
Discount rate - accrued benefit obligation	**3.90%**	3.55%
Rate of compensation increase	**3.50%**	3.50%

Assumed healthcare trend rates:

	2018	2017
Initial health care expense trend rate	**5.85%**	6.00%
Cost trend decline to	**4.50%**	4.50%
Year that rate reaches the rate it is assumed to remain at	**2028**	2028

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

Increase (millions of Canadian dollars)	**2018**	2017
Current service and interest cost	**2.5**	2.5
Accrued benefit obligation	**20.1**	21.4

Decrease (millions of Canadian dollars)	**2018**	2017
Current service and interest cost	**(1.8)**	(1.8)
Accrued benefit obligation	**(15.3)**	(16.2)

22. SHAREHOLDER'S EQUITY

22.1 Share Capital

As at December 31 (millions of Canadian dollars)	**2018**	2017
Common shares of par value $1 each		
Authorized - unlimited		
Issued and outstanding - 122,500,000	**123**	123

22.2 Shareholder Contributions

As at December 31 (millions of Canadian dollars)	**2018**	2017
Total shareholder contributions	**4,224**	3,693

During 2018, Nalcor's shareholder contributed capital in the amount of $529.4 million (2017 - $832.3 million) in relation to Nalcor's capital expenditures.

During 2018, the Churchill Falls (Labrador) Corporation Trust (the Trust) contributed capital in the amount of $1.3 million (2017 - $0.2 million).

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 Oil and Gas and the Lower Churchill Project. Therefore, Nalcor's primary objective when managing capital is to ensure ready access to capital at a reasonable cost, to minimize its cost of capital within the confines of established risk parameters, and to safeguard Nalcor's ability to continue as a going concern.

The capital managed by Nalcor is comprised of debt (long-term debentures, promissory notes, bank credit facilities and Class B limited partnership units) and equity (share capital, shareholder contributions, reserves and retained earnings).

A summary of the consolidated capital structure is outlined below:

As at December 31 (millions of Canadian dollars)	2018		2017 (Restated - Notes 4.1 & 4.2)	
Debt				
Sinking funds (Hydro portion only)	**(164)**		(156)	
Short-term borrowings	**189**		369	
Current portion of long-term debt	**7**		7	
Long-term debt	**9,688**		9,386	
Class B limited partnership units	**533**		491	
	10,253	**64%**	10,097	67%
Equity				
Share capital	**123**		123	
Shareholder contributions	**4,224**		3,693	
Reserves	**(89)**		(108)	
Retained earnings	**1,499**		1,319	
	5,757	**36%**	5,027	33%
Total Debt and Equity	**16,010**	**100%**	15,124	100%

Nalcor's committed operating facility has covenants restricting the issuance of debt such that the unconsolidated debt to total capitalization ratio cannot exceed 70.0%. The covenants further stipulate that the debt service coverage ratio should at all times be greater than 1.5 on an unconsolidated basis. As at December 31, 2018, 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 by the PUB. Hydro's committed operating facility has a covenant restricting the issuance of debt such that consolidated debt to total capitalization ratio cannot exceed 85%. As at December 31, 2018, 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. The current limit is set at $300.0 million and $189.0 million is outstanding as at December 31, 2018 (2017 - $144.0 million). Issuance of short term borrowings and long-term debt by Hydro is further restricted by Bill C-24, an amendment to the Newfoundland and Labrador Hydro Act of 1975. The Bill effectively limits Hydro's total borrowings, which includes both short-term and long-term debt, to $2.1 billion at any point in time.

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 funding to address long-term capital funding requirements, requires approval from the Province and the PUB.

23.2 Oil and Gas

Oil and Gas' objective when managing capital is to maintain the ability to fund operating costs and expenditures related to development and production assets, on a timely basis. Oil and Gas maintains an unsecured demand credit facility, which is used to finance operations in the short-term. Long-term capital includes share capital, shareholder contributions and retained earnings. Unless Oil and Gas enters into new development projects, future requirements for capital are expected to decline as construction on existing joint venture projects decreases. During this time, it is expected that Oil and Gas' cash flow from operations will be sufficient to fund its capital needs. Additional requirements will be funded through Oil and Gas' credit facility.

23.3 Energy Marketing

Energy Marketing's objective when managing capital is to maintain its ability to continue as a going concern. Energy Marketing's capital consists of shareholder's equity, specifically, share capital, reserves 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.

23.4 Bull Arm

Bull Arm Fabrication's objective when managing capital is to maintain its ability to continue as a going concern. The focus of the capital management policy is to provide flexibility to ensure cash continues to be available to satisfy capital requirements. Prior to January 2009, net earnings received were payable to the Province. From January 2009 to December 2012, earnings were retained by Bull Arm Fabrication. In 2013, Bull Arm Fabrication implemented its Board approved dividend policy of paying dividends to Nalcor when, together, cash and short-term investment balances exceed $1.0 million.

23.5 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.

23.6 Muskrat Falls

Capital includes share capital, shareholder contributions, and long-term debt. The Company's objectives for managing capital are to maintain its ability to continue as a going concern and to ensure timely payment of its contractual obligations as they relate to the construction of the Muskrat Falls hydroelectric facility. Muskrat Falls' future requirements for capital are expected to increase commensurate with progress on the construction. During this time, it is expected that proceeds from the Muskrat/LTA Construction Facility and shareholder contributions will be sufficient to fund the development of the Muskrat Falls hydroelectric facility. The Province of Newfoundland and Labrador, has provided guarantees of equity support in relation to the construction of the Muskrat Falls hydroelectric facility. These guarantees, together with the proceeds from long-term debt, will ensure sufficient funds are available to finance construction.

23.7 LCP Transmission

The capital structure of the LIL LP is comprised of partner capital (issued units, cash calls and deficit) and long-term debt. The capital structure is adjusted through the amount of distributions paid to the Partners as well as capital contributions.

LIL LP's objective when managing capital is to fund the construction of the LIL while providing its partners a required return. The Partnership's requirements for capital in the future are expected to increase, coincident with the development of the LIL. The focus of the capital management policy is to provide flexibility to ensure cash continues to be available to satisfy capital requirements. Managing cash calls from the limited partners is a key aspect of ensuring the availability of funding to develop the LIL. The Province of Newfoundland and Labrador has provided guarantees to ensure partner contributions in relation to the construction of the LIL. These partner contributions, together with the proceeds from long-term debt, will be sufficient to fund the development and construction of the LIL.

The capital structure of Labrador Transco includes share capital, shareholder contributions, and long-term debt. The Company's objectives for managing capital are to maintain its ability to continue as a going concern and to ensure timely payment of its contractual obligations as they relate to the construction of the LTA. The Province of Newfoundland and Labrador, has provided guarantees of equity support in relation to the construction of the LTA. These guarantees, together with the proceeds from long-term debt will ensure sufficient funds are available to finance construction.

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.

24. REVENUE

For the year ended December 31 (millions of Canadian dollars)	**2018**	2017
		(Restated - Note 4.2)
Electricity sales	**678**	616
GWAC revenue	**24**	24
Petroleum and natural gas sales	**310**	211
Royalty expense	**(18)**	(10)
Total energy sales	**994**	841
Government funding	**-**	1
Preferred dividends	**3**	2
Other	**21**	20
Total other revenue	**24**	23

25. OPERATING COSTS

For the year ended December 31 (millions of Canadian dollars)	**2018**	2017
Salaries and benefits	**139**	134
Maintenance and materials	**35**	39
Professional services	**23**	15
Travel and transportation	**8**	7
Insurance	**6**	6
Rental and royalty	**4**	4
Other operating costs	**3**	3
Advertising, donations and community involvement	**2**	10
	220	218

26. PRODUCTION, MARKETING AND TRANSPORTATION COSTS

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

For the year ended December 31 (millions of Canadian dollars)	**2018**	2017
		(Restated - Note 4.2)
Project operating costs	**33**	16
Processing and marketing	**6**	9
Transportation and transshipment	**6**	5
	45	30

27. TRANSMISSION RENTAL AND MARKET FEES

Transmission rental and market fees are related to the sale and transmission of energy to export markets.

For the year ended December 31 (millions of Canadian dollars)	**2018**	2017
Transmission rental	**24**	24
Market fees	**1**	1
	25	25

28. NET FINANCE EXPENSE

For the year ended December 31 (millions of Canadian dollars)	**2018**	2017
Finance income		
Interest on sinking fund	**13**	13
Interest on investments	**16**	13
Interest on restricted cash	**17**	14
Other interest income	**5**	5
	51	45
Finance expense		
Long-term debt	**355**	314
Class B limited partnership units	**42**	37
Debt guarantee fee	**21**	13
Accretion	**6**	7
Other	**5**	8
	429	379
Interest capitalized during construction	**(295)**	(268)
	134	111
Net finance expense	**83**	66

29. OTHER EXPENSE

For the year ended December 31 (millions of Canadian dollars)	**2018**	2017
Settlement of commodity swap contracts	**20**	2
Settlement of foreign exchange forward contracts	**1**	(1)
Financial transmission rights income and amortization	**(1)**	(1)
Cash flow hedge ineffectiveness	**-**	1
Loss on disposal of property, plant and equipment	**12**	20
Unrealized foreign exchange gain	**(2)**	-
Realized foreign exchange (gain) loss	**(2)**	2
Other	**1**	-
Other expense	**29**	23

30. ACCUMULATED OTHER COMPREHENSIVE INCOME

The components of, and changes in, accumulated other comprehensive loss are as follows:

Items that may or have been reclassified to profit or loss:

(millions of Canadian dollars)	**2018**	2017
Employee future benefits, beginning of the year	**(30)**	(27)
Net actuarial gain (loss) on defined benefit plans	**11**	(3)
Employee future benefits, end of the year	**(19)**	(30)

(millions of Canadian dollars)	**2018**	2017
		(Restated - Note 4.1)
Cash flow hedges, beginning of the year	**(78)**	(13)
Fair value loss during the year	**(16)**	(66)
Amounts reclassified to profit or loss	**24**	1
Cash flow hedges, end of the year	**(70)**	(78)

31. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

31.1 Fair Value

The estimated fair values of financial instruments as at December 31, 2018 and December 31, 2017 are based on relevant market prices and information available at the time. Fair value estimates are based on valuation techniques which are significantly affected by the assumptions used including the amount and timing of future cash flows and discount rates reflecting various degrees of risk. As such, the fair value estimates below are not necessarily indicative of the amounts that Nalcor might receive or incur in actual market transactions.

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

Establishing Fair Value

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

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

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

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

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value. For assets and liabilities that are recognized at fair value on a recurring basis, Nalcor determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. There were no transfers between Level 1, 2 and 3 during the years ended December 31, 2018 and December 31, 2017.

	Level	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
As at (millions of Canadian dollars)		**December 31, 2018**		December 31, 2017	
				(Restated - Note 4.1)	
Financial assets					
Derivative assets	**2,3**	**1**	**1**	**3**	**3**
Sinking funds - investments in Hydro debt issue	**2**	**55**	**63**	**45**	**56**
Sinking funds - other investments	**2**	**202**	**235**	**194**	**231**
Long-term investments	**1,2**	**130**	**130**	**332**	**332**
Reserve fund	**2**	**12**	**12**	-	-
Long-term receivables	**2**	**1**	**1**	-	-
Financial liabilities					
Derivative liabilities	**2**	**1**	**1**	**8**	**8**
Long-term debt including amount due within one year (before sinking funds)	**2**	**9,750**	**10,708**	**9,438**	**10,500**
Class B limited partnership units	**3**	**533**	**533**	**491**	**491**
Long-term payables	**2**	**45**	**51**	**52**	**56**

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 financial transmission rights and Class B limited partnership units.

Financial transmission rights are purchased contracts used to mitigate risk associated with congestion in export markets. The following table summarizes quantitative information about the valuation techniques and unobservable inputs used in the fair value measurement of financial transmission rights as at December 31, 2018.

(millions of Canadian dollars)	Carrying Value	Valuation Techniques	Significant Unobservable Input(s)	Range
Derivative asset (Financial transmission rights)	0.8	Modelled pricing	Price, seasonality and market factors	-10% to +17%

Methodologies for calculating the fair values of financial transmission rights are determined by using underlying contractual data as well as observable and unobservable inputs. Fair value methodologies are reviewed by Management on a quarterly basis to assess the reasonability of the assumptions made and models are adjusted as necessary for significant expected changes in fair value due to changes in key inputs. As at December 31, 2018, the effect of using reasonably possible alternative assumptions regarding the unobservable implied volatilities may have resulted in -$140,000 to $82,000 change in the carrying value of the financial transmission rights.

The Class B limited partnership units are carried at amortized cost calculated using the effective interest method. The effective interest rate of 8.5% (2017 – 8.5%) is defined in the Newfoundland and Labrador Development Agreement as Emera NL's rate of return on equity (RROE), and is equal to the rate approved by the PUB for privately-owned regulated electrical utilities. Due to the unobservable nature of the effective interest rate and cash flows associated with the units, the fair value is assumed to approximate carrying value and the instruments have therefore been classified as Level 3.

The table below sets forth a summary of changes in fair value of the Class B limited partnership units given a one percent change in the discount rate while holding other variables constant:

(millions of Canadian dollars)	1% Increase	1% Decrease
Class B limited partnership units	(16.4)	16.0

31.2 Risk Management

Nalcor is exposed to certain credit, liquidity and market price 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.

<u>Credit Risk</u>

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, 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 annual audited Consolidated Statement of Financial Position at the reporting date.

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 AA- (Standard and Poor's). 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.

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 (%)
	2018		2017	
Provincial governments	**A -to A+**	**45.32%**	A- to A+	46.14%
Provincially owned utilities	**A- to A+**	**54.68%**	A- to A+	53.86%
		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 (%)
	2018		2017	
Provincial governments	**A- to A+**	**38.57%**	A- to A+	-
Provincially owned utilities	**A- to A+**	**8.91%**	A- to A+	-
Schedule 1 Canadian banks	**AA- to AAA**	**14.15%**	AA- to AAA	-
Schedule 1 Canadian banks	**A- to A+**	**38.37%**	A- to A+	-
		100.00%		-

As at December 31, 2017, the reserve fund balance was fully withdrawn.

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 credit exposures according to issuer type and credit rating for the long-term investments:

	Issuer Credit Rating	**Fair Value of Portfolio (%)**	Issuer Credit Rating	Fair Value of Portfolio (%)
	2018		2017	
Provincially owned utilities	**A- to A+**	**0.02%**	A- to A+	0.01%
Schedule 1 Canadian Banks	**A- to A+**	**99.98%**	A- to A+	99.99%
		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 at December 31, 2018.

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 (2017 - $250.0 million) committed revolving term credit facility, with a maturity date of January 31, 2020. There were no amounts drawn on this facility at December 31, 2018 (2017 - $nil). In addition, Hydro has access to a $300.0 million (2017 - $300.0 million) promissory note program and a $200.0 million (2017 - $200.0 million) committed revolving term credit facility. Oil and Gas and Churchill Falls also maintain demand operating facilities of $30.0 million (2017 - $30.0 million) and $10.0 million (2017 - $10.0 million), respectively. Churchill Falls maintains a $22.5 million minimum cash balance (2017 - $22.0 million). Energy Marketing maintains a demand operating facility of $20.0 million (2017 - $20.0 million).

Liquidity risk for Muskrat Falls and Labrador Transco is considered to be minimal, as both companies can access the funds drawn down from the MF/LTA construction facility for the payment of construction costs as well as interest payments. The LIL LP has access to the funds drawn down from the LIL construction facility for the payment of construction costs as well as interest payments.

Long-term liquidity risk for Hydro is managed by the issuance of a portfolio of debentures with maturity dates ranging from 2026 to 2048. Sinking funds have been established for these issues, with the exception of the issues maturing in 2045 and 2048. 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 contractual maturities of Nalcor's financial liabilities, including principal and interest as at December 31, 2018:

(millions of Canadian dollars)	< 1 Year	1-3 Years	3-5 Years	> 5 Years	Total
Trade and other payables	486	-	-	-	486
Short-term borrowings	189	-	-	-	189
Long-term debt (including sinking funds)	364	1,011	1,104	15,312	17,791
Class B partnership units	-	93	164	2,637	2,894
Long-term payables	6	9	3	36	54
	1,045	1,113	1,271	17,985	21,414

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 diesel fuel, electricity, No. 6 fuel and oil. These exposures are addressed as part of the Financial Risk Management Strategy.

Interest Rates

Changes in prevailing interest rates will impact the fair value of financial assets and liabilities classified as FVTPL or FVTOCI, which includes Nalcor's cash and cash equivalents, restricted cash, short-term investments, long-term investments, and the reserve fund. Expected future cash flows associated with those financial instruments can also be impacted. The impact of a 0.5% change in interest rates on the annual audited Consolidated Statement of Profit and Comprehensive Income (Loss) associated with cash and cash equivalents and short-term investments was negligible throughout 2018 due to the short time period to maturity.

The impact of interest rates on the expected future cash outflows related to short-term borrowings (which includes promissory notes and BAs issued under Nalcor's credit lines) and long-term debt are managed within the corporate financing strategy whereby floating rate debt exposures and interest rate scenarios are forecasted and evaluated. A diversified portfolio of fixed and floating rate debt is maintained and managed with a view to an acceptable risk profile. Key quantitative parameters for interest rate risk management includes the percentage of floating rate debt in the total debt portfolio, coupled with an examination of the weighted average term to maturity of the entire debt portfolio. By setting clear guidelines in respect to these quantitative parameters, Nalcor attempts to minimize the likelihood of a material impact on profit or loss resulting from an unexpected change in interest rates.

In May 2017, Muskrat Falls entered into three bond forward contracts, jointly with Labrador Transco, to hedge the interest rate risk on the forecasted issue of the additional long-term debt. Muskrat Falls' prorated share of these contracts was $1.4 billion. These contracts were designated as part of a cash flow hedging relationship and the resulting change in fair value of $52.0 million was recorded in other comprehensive income (loss) with the ineffective portion of $0.9 million recognized immediately in other expense. The amortization of the other comprehensive loss related to the effective portion of the cash flow hedge is capitalized in line with treatment of the interest expense related to the long-term debt that it is hedging, until the Muskrat Falls hydroelectric facility is ready for its intended use. At that point, amortization on the remainder of the effective portion will be recognized in profit or loss over the same period as the related debt instruments mature. The total amount amortized in 2018 including the previous cash flow hedge initiated in December 2013 was $3.1 million (2017 - $1.4 million).

Foreign Currency and Commodity Exposure

Nalcor's primary exposure to both foreign exchange and commodity price risk arises from its purchases of No. 6 fuel for consumption at the HTGS, capital purchases, USD denominated electricity sales and the sale of crude oil. For the purchase of No.6 fuel, these risks are mitigated through the operation of the RSP. Exposures to USD denominated electricity sales are addressed in accordance with the Board-approved Financial Risk Management Policy. Tactics include the use of forward rate agreements and fixed price commodity swaps.

The table below shows the impact of a 0.5% change in foreign exchange rates on trade and other receivables and trade and other payables as at December 31, 2018:

(millions of Canadian dollars)	0.5% Decrease	0.5% Increase
Trade and other receivables	(1.5)	1.5
Trade and other payables	(0.3)	0.3

During 2018, total energy sales denominated in USD were $42.0 million (2017 - $35.3 million). To mitigate foreign exchange risk and commodity price risk on these sales, Energy Marketing used foreign currency forward contracts and fixed price commodity swaps, respectively.

As at December 31, 2018, Energy Marketing had no remaining foreign currency forward contracts, as they matured during the first half of the year. As these contracts have all been designated as hedging instruments, changes in fair value have been recorded in other comprehensive income (loss). During 2018, there were no realized gains from foreign exchange forward contracts included in other expense (December 31, 2017 - $0.4 million gain) and no unrealized gains (December 31, 2017 - $0.3 million gain) remain in other comprehensive income (loss). As at December 31, 2018, the fair value of the foreign exchange forward contract liability presented on the annual audited Statement of Financial Position was $nil (December 31, 2017 - $0.2 million asset).

As at December 31, 2018 Energy Marketing had no remaining commodity price swaps, as they matured during the first half of the year. During 2018, $0.4 million in realized losses (2017 - $nil) have been included in other expense related to these contracts and no unrealized gains (2017 - $1.3 million unrealized losses) remain in other comprehensive income (loss). As at December 31, 2018, the fair value of the commodity price swap presented on the annual audited Statement of Financial Position was $nil (December 31, 2017 - $1.3 million liability).

During 2018, additional financial transmission rights with notional values of $1.5 million were purchased to mitigate risk on congestion for the remainder of 2018 and a significant portion of 2019. As the rights have not been designated as hedging instruments, changes in fair value have been recorded in other expense.

During 2018, total oil sales denominated in USD were $234.8 million (2017 - $168.6 million). To mitigate foreign exchange risk and commodity price risk on these sales, Oil and Gas used foreign currency forward contracts and fixed price commodity swaps, respectively.

As at December 31, 2018, Oil and Gas had no commodity price swaps, as they matured during the final quarter. As the contracts have been designated as hedging instruments, changes in fair value have been recorded in other comprehensive income (loss). During 2018, $19.7 million in realized losses (2017 - $1.9 million in losses) have been included in other expense and $nil in unrealized losses (2017 - $7.1 million in unrealized losses) remain in other comprehensive income (loss).

As at December 31, 2018, Oil and Gas had one foreign exchange forward contract remaining with a notional value of $8.6 million USD, and an average fixed price of $1.27 CAD per USD. As the contracts have been designated as hedging instruments, changes in fair value have been recorded in other comprehensive income (loss). During 2018, $1.4 million in realized losses (2017 - $0.7 million in gains) have been included in other expense and $0.8 million in unrealized losses (2017 - $2.5 million in unrealized gains) remain in other comprehensive income (loss).

Bull Arm Fabrication is not currently exposed to foreign exchange risk as the short term sublease is denominated in Canadian currency.

The components of change impacting the carrying value of derivative assets and liabilities for the years ended December 31, 2018 and 2017 are as follows:

(millions of Canadian dollars)	**Commodity and forward contracts Level II**	**Other derivatives Level III**
Balance at January 1, 2018	**(5)**	-
Purchases	-	**2**
	(5)	**2**
Changes to profit		
Amortization	-	**(2)**
Total	-	**(2)**
Changes in other comprehensive income		
Mark-to-market	**(16)**	-
Settlements realized in profit or loss	**21**	-
Total	**5**	-
Balance at December 31, 2018	-	-
Balance at January 1, 2017	(5)	1
Purchases	-	1
	(5)	2
Changes to profit		
Amortization	-	(2)
Total	-	(2)
Changes in other comprehensive loss		
Mark-to-market	-	-
Settlements realized in profit or loss	-	-
Balance at December 31, 2017	(5)	-

32. RELATED PARTY TRANSACTIONS

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

Related Party	Relationship
The Province	100% shareholder of Nalcor
Churchill Falls	Joint arrangement of Hydro
Hydro-Québec	34.2% shareholder of Churchill Falls
Twin Falls	Joint venture of Churchill Falls
Churchill Falls (Labrador) Corporation Trust (The Trust)	Created by the Province with Churchill Falls as the beneficiary
LIL LP	Partnership in which Nalcor holds 75 Class A Partnership Units, 1 Class C Partnership Unit and 1 General Partner Unit
PUB	Agency of the Province

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. Outstanding balances due to or from related parties are non-interest bearing with no set terms of repayment, unless otherwise stated.

(a) Hydro is required to incur the costs of operations, hearings and application costs of the PUB, including costs of any experts and consultants engaged by the PUB. During 2018, Hydro incurred $1.9 million (2017 - $1.8 million) in costs related to the PUB and has included $0.7 million (2017 - $3.0 million) in trade and other payables.

(b) The Hydro debt guarantee fee for 2018 was $6.9 million (2017 - $4.1 million). It was paid to the Province on March 29, 2018.

(c) For the year ended December 31, 2018, Hydro has purchased $28.4 million (2017 - $26.3 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 2018 of $38.1 million (2017 - $nil).

(d) Hydro recorded $2.0 million (2017 - $1.8 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, 2018, there is a balance of $0.4 million (2017 - $0.6 million) outstanding in trade and other receivables.

(e) During 2018, Churchill Falls generated revenue from Hydro-Québec of $94.8 million (2017 - $94.6 million) and Nalcor has recognized its share of $62.4 million (2017 - $62.2 million).

(f) Under the terms of the Churchill Falls (Labrador) Corporation Limited (Lease) Act, 1961 (the Lease) and amendments thereto, Churchill Falls is required to pay the Province an annual rental of 8% of the consolidated net profits before income taxes and an annual royalty of $0.50 per horsepower year generated, as defined in the Lease. At December 31, 2018, $6.7 million (2017 - $6.4 million) was payable to the Province. Nalcor has recognized its share of $4.4 million (2017 - $4.2 million).

(g) On February 3, 2010, the Province established the Trust with Churchill Falls as the beneficiary. The purpose of the Trust is to fund the external costs and expenses incurred in relation to the motion filed by Churchill Falls seeking a modification to the pricing terms of the 1969 Power Contract. To date, $5.8 million (2017 - $5.6 million) has been received and $1.8 million (2017 - $nil) has been accrued as receivable from the Trust. Nalcor has recognized its share of $3.8 million (2017 - $3.7 million) as received and $1.2 million (2017 - $nil) accrued as receivable from the Trust.

(h) As at December 31, 2018, Churchill Falls capacity penalty payable was $0.4 million (2017 - $0.4 million), of which Nalcor has recorded its share of $0.3 million (2017 - $0.3 million). The capacity penalty relates to the supply of power to Hydro-Québec. Churchill Falls did not incur a capacity penalty in 2018 (2017 - $nil).

(i) For the year ended December 31, 2018, Oil and Gas expensed $18.0 million (2017 - $10.3 million) to the Province for royalties on its oil and gas operations.

(j) On March 14, 2018, Hydro issued new long-term debt, Series 1A, with a face value of $300.0 million (2017 - $300.0 million). The Province of Newfoundland and Labrador issued debt specifically on Hydro's behalf and lent the proceeds to Hydro.

(k) On March 14, 2018, Nalcor repaid the $225.0 million promissory note to the Province.

(l) During 2018, Nalcor's shareholder contributed capital in the amount of $529.4 million (2017 - $832.3 million) in relation to capital expenditures.

32.1 Key Management Personnel

Compensation for key management personnel, which Nalcor defines as its executives who have the primary authority and responsibility in planning, directing and controlling the activities of the entity, includes compensation for senior executives. Salaries and employee benefits include base salaries, performance contract payments, vehicle allowances and contributions to employee benefit plans. Post-employment benefits include contributions to the Province's Public Service Pension Plan.

For the year ended December 31 (millions of Canadian dollars)	**2018**	2017
Salaries and employee benefits	**7**	6
Post-employment benefits	**1**	-
	8	6

33. COMMITMENTS AND CONTINGENCIES

(a) Nalcor and its subsidiaries have received claims instituted by various companies and individuals with respect to power delivery claims and other miscellaneous matters. Although the outcome of such matters cannot be predicted with certainty, Management believes Nalcor's exposure to such claims and litigation, to the extent not covered by insurance or otherwise provided for, is not expected to materially affect its financial position or results of operations. Nalcor possesses certain securities that protect it against financial liability associated with liens and claims made by subcontractors and suppliers.

(b) Outstanding commitments for capital projects, excluding those related to Oil and Gas, total approximately $0.4 billion as at December 31, 2018 (December 31, 2017 - $1.0 billion). LCP prefunded equity requirements associated with the additional debt issues in Muskrat Falls and LCP Transmission total approximately $0.5 billion as at December 31, 2018 (December 31, 2017 - $1.0 billion).

(c) Nalcor and its subsidiaries have issued 19 irrevocable letters of credit with a total value of $42.1 million as per Note 15.1.

(d) LCP has the following sinking fund instalments due for the next five years:

(millions of Canadian dollars)	2019	2020	2021	2022	2023
Sinking fund instalments	-	64.0	128.0	128.0	128.0

(e) Oil and Gas has the following commitments as a result of its joint venture partnerships:

(millions of Canadian dollars)	Operating	Capital	Total Commitments
2019	22.9	-	22.9
2020	9.9	-	9.9
2021	10.0	-	10.0
2022	8.7	-	8.7
2023	5.9	-	5.9

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

Type	Rating	Effective Date	Term
Hydroelectric	3 MW	1995	25 years
Hydroelectric	4 MW	1998	25 years
Cogeneration	15 MW	2003	20 years
Wind	390 kW	2004	15 years
Wind	27 MW	2008	20 years
Wind	27 MW	2009	20 years
Wind	300 kW	2010	Continual
Hydroelectric	175 kW	2017	15 years
Biomass	450 kW	2018	1 year post in-service of Muskrat Falls in-service date

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

(millions of Canadian dollars)	2019	2020	2021	2022	2023
Power purchases	32.5	32.9	32.5	32.1	32.1

(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 2016, Hydro also entered into two new Capacity Assistance Agreements, one with Praxair and a second agreement with Vale for the purchase of relief power. The agreements with Vale and Praxair have a supply period defined as December 1 to March 31 for each contract year, concluded March 2018. In November 2017, Hydro entered into a revised agreement with CBPP that expires the earlier of April 30, 2022 or the commissioning of the Muskrat Falls plant. Payment for services will be dependent on the successful provision of capacity assistance for the winter period by Vale, CBPP and Praxair. In December 2018, Hydro entered into a revised agreement with Vale that expires in March of 2019; the agreement with Praxair was not renewed.

(h) Hydro holds firm transmission rights with Hydro Québec TransÉnergie which concludes in 2024.

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

2019	$21.1 million
2020	$21.4 million
2021	$21.6 million
2022	$21.8 million
2023	$22.0 million

(i) As part of the LIL PFA, LIL LP has pledged its current and future assets as security to the Collateral Agent. Under the terms and conditions of the IT PFA, LIL LP has also provided a guarantee of the IT's payment obligations to the Collateral Agent for the benefit of the LIL Funding Trust. LIL Holdco has pledged the escrow account, where pre-funded equity contributions have been deposited, as security to the Collateral Agent.

(j) As part of the MF/LTA PFA, Muskrat Falls and Labrador Transco have pledged its present and future assets as security to the Collateral Agent.

(k) Under the terms of the Newfoundland and Labrador Development Agreement (NLDA), LIL GP has certain responsibilities and provisions of duty with which it must comply in its role as the general partner. Any failure of LIL GP to comply with the NLDA will result in Nalcor indemnifying Emera NL for any losses sustained.

(l) In July 2012, Nalcor entered into the Energy and Capacity Agreement with Emera Inc. (Emera) providing for the sale and delivery of the Nova Scotia Block, 0.986 TWh of energy annually for a term of 35 years which will commence in 2020.

(m) On November 29, 2017, Nalcor signed a CDA with the NunatuKavut Community Council, which came into effect December 1, 2017. The CDA is a six year agreement which provides tangible benefits to South Inuit and communities throughout NunatuKavut. Under the CDA there are contingent liabilities with an estimated value of $1.1 million at December 31, 2018 (2017 - $1.1 million).

(n) Under the IBA, Nalcor is required to make implementation payments to the Innu Nation that commenced upon sanction of the Muskrat Falls hydroelectric 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.

(o) Nalcor and its subsidiaries have entered into various lease agreements for which minimum lease payments cannot be reliably measured, therefore outstanding commitments related to these leases have not been disclosed.

(p) In August 2016, Churchill Falls received judgment from the Québec Superior Court regarding a Motion for Declaratory Judgment filed by Hydro-Québec relating to the interpretation of the 1969 Power Contract between Churchill Falls and Hydro-Québec and the associated Renewal Contract. The Court ruled in favour of Hydro-Québec and the ruling requires Churchill Falls to pay court costs of approximately $0.4 million to Hydro-Québec. Churchill Falls has filed a Notice of Appeal with the Québec Court of Appeal and the appeal hearing was held on December 4, 2018. The decision of the Court of Appeal is expected to be issued in 2019.

34. SUPPLEMENTARY CASH FLOW INFORMATION

For the year ended December 31 (millions of Canadian dollars)	**2018**	2017
		(Restated - Note 4.2)
Trade and other receivables	**(62)**	(83)
Prepayments	**(21)**	(10)
Inventories	**3**	(36)
Trade and other payables	**(88)**	(574)
Changes in non-cash working capital balances	**(168)**	(703)
Related to:		
Operating activities	**(27)**	(84)
Investing activities	**(141)**	(619)
	(168)	(703)

35. SEGMENT INFORMATION

The operating structure as at December 31, 2018 reflects organizational changes that resulted in revised operating segments effective for reporting on April 1, 2018. The revised structure is comprised of five business segments, as compared to the six previously reported. Previously reported segmented information has been presented to conform to the current operating structure. The designation of segments is based on a combination of regulatory status and management accountability. The following summary provides a brief overview of the nature of the operations included in each of the Company's operating segments.

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

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

Power Development – is comprised of the following:

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

Power Supply – is comprised of the following:

- **LCP Transmission** includes the construction and operation of the Labrador Island Link (LIL) and Labrador Transmission Assets (LTA), which consists of transmission lines connecting the Muskrat Falls hydroelectric plant, the Churchill Falls hydroelectric facility, 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 greatest value from Nalcor's participation in export electricity markets. Energy trading activities currently focus on the sale of available excess energy, primarily Recapture, to export markets in eastern Canada and the northeastern United States. Recapture refers to the 300 MW block of electricity which Churchill Falls sells to Hydro to service its Labrador Interconnected customers. In addition, Energy Trading is currently working with Hydro Regulated to procure market energy to displace fuel consumption at (HTGS) prior to the completion of the generating plant at Muskrat Falls. Following the completion of the Muskrat Falls generating plant, Energy Trading will continue to focus on maximizing the value from Nalcor's electricity assets that are surplus to the needs of the Province (this includes surplus energy, capacity, transmission and reservoir storage).
- **Other** includes revenues and costs recovered from Hydro-Québec associated with Nalcor's operation of the Menihek Generating Station, the Maritime Link (which is owned by Emera, but consolidated by Nalcor), administration and community development costs related to Power Supply, and costs associated with the management of LCP construction.

Offshore Development – is comprised of the following:

- **Oil and Gas** activities include Nalcor's share of exploration, development, production, transportation and processing sectors of the oil and gas industry.

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

	Hydro		Power Development		Power Supply				Offshore Development			
(millions of Canadian dollars)	Regulated	Non-Regulated	Muskrat Falls	Other	LCP Transmission	Churchill Falls	Energy Trading	Other	Oil and Gas	Corporate	Inter-Segment	Total
	For the year ended December 31, 2018											
Energy sales	557	34	-	-	-	89	58	-	292	-	(36)	994
Other revenue	7	-	-	-	-	-	1	8	6	-	2	24
Revenue	564	34	-	-	-	89	59	8	298	-	(34)	1,018
Fuels	189	-	-	-	-	-	-	-	-	-	-	189
Power purchased	71	33	-	-	-	-	8	-	-	-	(36)	76
Operating costs	136	-	2	-	2	41	5	7	6	21	-	220
Production, marketing and transportation costs	-	-	-	-	-	-	-	-	45	-	-	45
Transmission rental and market fees	-	-	-	-	-	-	24	-	-	-	1	25
Depreciation, depletion, amortization and impairment	87	-	-	-	-	19	-	-	72	8	-	186
Exploration and evaluation	-	-	-	-	-	-	-	-	29	-	-	29
Net finance expense (income)	87	(1)	-	-	(4)	(1)	-	-	3	(1)	-	83
Other expense (income)	13	-	-	-	-	1	(1)	-	18	(2)	-	29
Preferred dividends	-	-	-	-	-	(3)	-	-	-	-	3	-
Expenses	583	32	2	-	(2)	57	36	7	173	26	(32)	882
(Loss) profit before regulatory adjustments	(19)	2	(2)	-	2	32	23	1	125	(26)	(2)	136
Regulatory adjustments	(47)	-	-	-	-	-	-	-	-	-	1	(46)
Profit (loss) for the year	28	2	(2)	-	2	32	23	1	125	(26)	(3)	182
Capital expenditures*	160	-	710	-	390	43	-	26	65	8	(3)	1,399
Total assets**	2,700	24	6,215	140	5,829	615	8	1,801	1,209	343	(92)	18,792
Total debt***	1,816	-	3,695	-	4,742	-	-	-	-	-	-	10,253

*Capital expenditures (inclusive of property, plant and equipment and intangible assets) include non-cash adjustments of $15.4 million related to the Maritime Link, $41.8 million related to Class B Limited Partnership Unit accrued interest, and $253.1 million of interest capitalized during construction.

**Total assets include $1,750.3 million related to the Maritime Link, $123.8 million related to Class B Limited Partnership Unit accrued interest less $1.0 million related to Bull Arm Fabrication.

***Total debt includes short-term borrowings, long-term debt including current portion less Hydro's sinking funds of $164.4 million, and Class B Limited Partnership Units.

(millions of Canadian dollars)	Hydro		Power Development		Power Supply				Offshore Development			
	Regulated	Non-Regulated	Muskrat Falls	Other	LCP Transmission	Churchill Falls	Energy Trading	Other	Oil and Gas	Corporate	Inter-Segment	Total
	For the year ended December 31, 2017											
Energy sales	506	40	-	-	-	91	47	-	199	-	(42)	841
Other revenue	5	-	-	-	-	1	1	9	7	-	-	23
Revenue	511	40	-	-	-	92	48	9	206	-	(42)	864
Fuels	226	-	-	-	-	-	-	-	-	-	-	226
Power purchased	62	39	-	-	-	-	4	-	-	-	(43)	62
Operating costs	130	1	1	-	3	44	5	13	8	13	-	218
Production, marketing and transportation costs	-	-	-	-	-	-	-	-	30	-	-	30
Transmission rental and market fees	-	-	-	-	-	-	25	-	-	-	-	25
Depreciation, depletion, amortization and impairment****	78	-	-	51	-	18	-	-	152	1	-	300
Exploration and evaluation	-	-	-	-	-	-	-	-	1	-	-	1
Net finance expense (income)	65	-	-	-	(2)	(1)	-	-	3	1	-	66
Other expense	6	-	1	-	-	-	(1)	-	15	1	1	23
Preferred dividends	-	-	-	-	-	(2)	-	-	-	-	2	-
Expenses	567	40	2	51	1	59	33	13	209	16	(40)	951
(Loss) profit before regulatory adjustments	(56)	-	(2)	(51)	(1)	33	15	(4)	(3)	(16)	(2)	(87)
Regulatory adjustments	(92)	-	-	-	-	-	-	-	-	-	1	(91)
Profit (loss) for the year	36	-	(2)	(51)	(1)	33	15	(4)	(3)	(16)	(3)	4
Capital expenditures*	344	-	1,137	-	1,140	46	-	593	161	5	(2)	3,424
Total assets**	2,582	48	5,679	125	5,841	592	23	1,777	1,228	417	(323)	17,989
Total debt***	1,702	-	3,606	-	4,789	-	-	-	-	-	-	10,097

*Capital expenditures (inclusive of property, plant and equipment and intangible assets) include non-cash additions of $588.4 million related to the Maritime Link, $37.2 million related to Class B Limited Partnership Unit accrued interest, and $230.8 million of interest capitalized during construction.

**Total assets include $1,734.9 million related to the Maritime Link and $82.0 million related to Class B Limited Partnership Unit accrued interest less $2.0 million related to Bull Arm Fabrication. Total assets decreased $47.0 million following the adoption of IFRS 9.

***Total debt includes short-term borrowings, long-term debt including current portion less Hydro's sinking funds of $156.0 million (previously reported as $190.2 million prior to the adoption of IFRS 9), and Class B Limited Partnership Units.

**** Included in depreciation, depletion, amortization and impairment is an impairment expense of $50.6 million in Other Power Development related to the Gull Island Project.

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