people. passion. pride.

annual report
2019

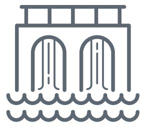
nalcor energy

people.

passion.

pride.

2019 brought milestones and accomplishments throughout all areas of the company. Employees demonstrated their commitment to the organization, and pride for their roles, their colleagues, the company and their communities.



Lower Churchill Project

The lower Churchill River is a significant hydroelectric resource in North America with a combined capacity of more than 3,000 megawatts of power from Muskrat Falls and Gull Island. The Muskrat Falls hydroelectric generating facility over the Labrador Island Link (LIL) will deliver clean, renewable, long-term power throughout the Northeastern region of North America. The proposed Gull Island Project is one of the undeveloped hydroelectric resources remaining in North America.

Newfoundland and Labrador Hydro

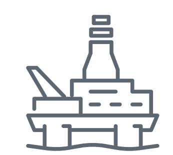
Hydro manages Newfoundland and Labrador's electricity system. Through our generation, transmission and distribution operations, we're committed to meeting the needs of our customers and providing residents, businesses and communities across the province with safe, reliable power.

Churchill Falls

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

Energy Marketing

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



Oil and Gas

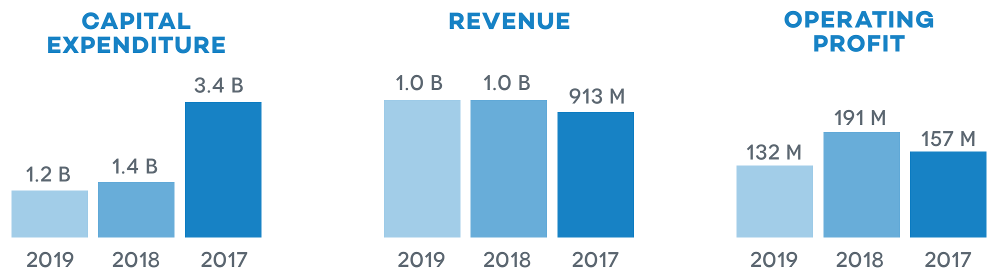
Nalcor is a partner in the development of the Newfoundland and Labrador offshore, including the Hebron oil field, White Rose Growth Project and Hibernia Southern Extension. With a multi-year exploration strategy, Nalcor is systematically finding and quantifying the province's oil and gas resource potential to facilitate new exploration investments.

Bull Arm

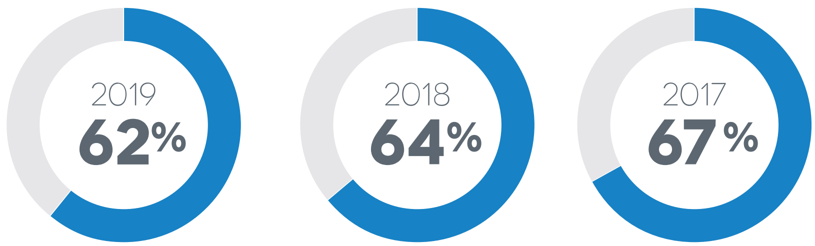
The Bull Arm Fabrication Site is Atlantic Canada's largest fabrication site. The Site's magnitude, diversity of infrastructure and strategic location offer a unique opportunity for fabrication, concrete construction, deep water commissioning, marine operations and supply servicing.

2019 achievements

FINANCIAL



DEBT TO CAPITAL



TOTAL ASSETS

MUSKRAT FALLS PROJECT

OVER 99% COMPLETE
Overall Project Construction

OVER 98% COMPLETE
Generation

OVER 99% COMPLETE
Transmission

Approximately **92%** of the 2019 workforce were Newfoundlanders and Labradorians

Received Health and Safety Distinction Award from Building Trades Unions

Transmitted power from Churchill Falls, Labrador over the Labrador-Island Link (LIL) to the island for the first time

Created the reservoir

17.5+ MILLION HRS worked without a lost-time injury

33+ MONTHS worked without a lost-time injury

SUSTAINABILITY & ENVIRONMENT

Committed to fulfilling the requirements of the Sustainable Electricity Company Designation

Sustainable Electricity Company™ | Canadian Electricity Association

Launched stakeholder database

PEOPLE

Welcomed co-op students in the Electricity Human Resources Canada Empowering Futures program

Continuing to advance in our gender equity targets

COMMUNITY

Hundreds of employees donated time to local organizations across the province

Assisting local organizations with donations of everything from design work to snow groomers.

Our annual holiday donation focused on easing the burden for those facing food insecurity.

HYDRO

CAPITAL UPGRADES FOR LONG-TERM RELIABILITY

- **An Overhaul for Bay d'Espoir's Biggest Unit**
- **Wabush Terminal Station Upgrades**
- **Breaker Replacement**
- **Wood Pole Line Management**

Peak customer demand without any supply issues

A Safety Milestone at Bay d'Espoir

OIL & GAS

8 NEW oil and gas companies entered our offshore

Over **$4 billion** in exploration work commitments within the last 5 years.

Produced approximately
10,000 barrels/day

Produced approximately 22.6% of our estimated reserves which has yielded **$1.3 billion** (December 2019)

Independent evaluated nominal value: **$2.8 billion** (December 31, 2019

BULL ARM

For the first time in its history, the Bull Arm Fabrication Site housed two drilling rigs simultaneously

x2

CHURCHILL FALLS

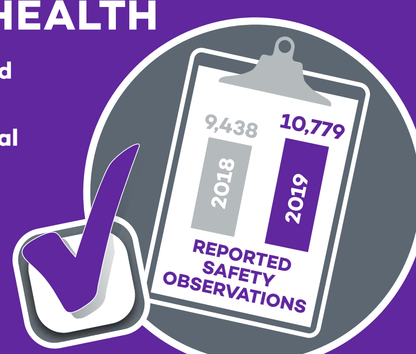
10 consecutive years of surpassing 95% of our environmental targets and milestones.

SAFETY & HEALTH

CEA Presidents Award

Introduced new Mental Health Strategy

11.8% increase in safety observations submitted to our SWOP database.



ENERGY MARKETING

95% OF AVAILABLE RECAPTURE ENERGY DELIVERED TO MARKET

message from the chair

Brendan Paddick, Chair, Board of Directors

On behalf of the Board of Directors, I thank my fellow Board Members, our CEO, Executive, and the thousands of employees and contractors who have contributed to Nalcor's significant progress and achievements of 2019.

When the current Nalcor Board of Directors was appointed in late 2016, following a comprehensive search lead by the Independent Appointments Commission, all directors accepted the appointment recognizing the significant challenges that lay ahead for the Company. Onboarding an entirely new slate of corporate directors at once is not an everyday occurrence, and as such the learning curve was steep. But as my board colleagues and I got to know both the business of Nalcor and each other better, we grew confident that we collectively possessed the diverse skills and expertise required to support our CEO, Stan Marshall, and his executive team through what would ultimately be a period of tumultuous change. Mr. Marshall had recently come out of retirement to take the helm at Nalcor Energy and to put his 40 plus years of experience to work on managing the Muskrat Falls Project. As proud and passionate Newfoundlanders and Labradorians, our board members also felt it was incumbent on them to give back to a place which had given so much to them, in the hopes that we, along with Stan, could make a positive difference.

As I look back on the significant achievements of 2019, I also reflect on the last three years and the significant progress that has been made. After a corporate restructuring in 2016, Nalcor Energy was more clearly separated from its regulated utility, Newfoundland and Labrador Hydro (Hydro), to better position both the unregulated and regulated sides of the business for both short- and longer-term success. Hydro's focus was now 'solely' on its core mandate – to provide safe, least-cost, reliable electricity – while the remaining business focused on completing the Muskrat Falls Project; seeking opportunities to maximize revenue in electricity markets; managing its Oil and Gas assets; and, planning for the long-term when the current Churchill Falls power contract expires in 2041.

Since that time, substantial progress has been made across all facets of the company. At the end of 2019, construction on the Muskrat Falls Project was essentially complete for both Power Generation and Power Supply. Efforts had commenced towards commissioning some $10 billion in electricity assets, increasing assets under management to in excess of $19 billion. A skilled team within Nalcor Energy Power Supply, supported by their experienced colleagues at Hydro, began preparing to integrate these new assets into the provincial and North American electricity grid. Hydro successfully achieved steady improvements in reliability, made significant capital improvements, and continued to record increased customer satisfaction.

These achievements would not have been possible without the steady hand, wise counsel, and unwavering commitment of CEO Stan Marshall. On behalf of the Board of Directors, we thank Stan and the ~1,600 men and women who support him in achieving our corporate objectives. As I have said before, it is one thing to effectively manage and operate a diverse and complex organization during challenging times, but it is a whole other thing to do so under the additional demands of external processes such as a public inquiry, a forensic audit, the PUB reference question and the spin-off of a major oil and gas operating division, to name a few. As a board, we have consistently applied five key principles to guide all of our decisions in overseeing Nalcor and its many subsidiary companies. This foundation for sound governance includes (i) setting a clear **vision** (including establishing objectives, goals, strategies, and plans), (ii) **managing enterprise risk** (iii) enforcing strong **financial** controls and cost discipline, (iv) ensuring forward-looking **human resource** assessment and capacity-building, and (v) acting as brand ambassadors that shape a progressive and high-performing **corporate culture**.

We also made a collective commitment to providing best-in-class transparency and accountability. To that end, we have adopted a series of new disclosures in this annual report that, while perhaps unique to Crown corporations, are considered best practices for public companies. Contained in this report you will observe new disclosure focused on Nalcor's corporate structure, its operating subsidiaries, the governance of these subsidiaries, and the composition of its various boards of directors. You will also see that the current Nalcor board of directors has established four

standing committees of the board including the Audit Committee (chaired by David Oake), the Governance Committee (chaired by John Green), the Human Resources and Compensation Committee (chaired by Mark MacLeod) and the Safety, Health, Environment and Community Committee (chaired by Christopher Hickman). To ensure independence and good governance, we have established standing committees of both the NL Hydro and CFLCo boards. Subsequent to year-end, the Nalcor and NL Hydro boards struck a joint special committee to assess, consider, and implement the various findings and recommendations of both the Public Inquiry and PUB Reference Question reports.

Again, to provide full transparency and accountability, we have also added new disclosure pertaining to directors' attendance and compensation. Although this disclosure is quite extensive and is presented on a director-by-director basis, it only captures attendance for formal board and committee meetings. As such, it does not include an account of time invested in director education (site visits, educational sessions, tutorials, etc.), meeting preparation, special committee or ad-hoc meetings, travel, or meetings with management, advisors, regulators, judicial authorities, auditors or the shareholder.

I wish to acknowledge each member of the Nalcor board and its various subsidiary boards for discharging their fiduciary duty in a responsible and disciplined manner. Not for only raising their hands to serve, but for offering diverse and challenging perspectives, ideas and opinions. Thanks to my fellow directors for their steadfast commitment to Nalcor, its employees, our shareholder and the people of the Province who they serve.

Brendan Paddick
Chair, Board of Directors

message from the ceo

Stan Marshall, President and CEO

In another challenging year where the Muskrat Falls Project remained centre stage, Nalcor again in 2019, delivered on its commitment of reliable service to its customers and safety for its employees.

After more than seven years of effort by thousands of skilled men and women, construction of the Muskrat Falls Project is essentially complete. All dams are operational and the reservoir is full. The transmission lines were energized and electricity transmitted from Churchill Falls to the island. Our efforts are now focused on the installation and commissioning of the remaining equipment and software. Like other aspects of the Project this is proving to be challenging.

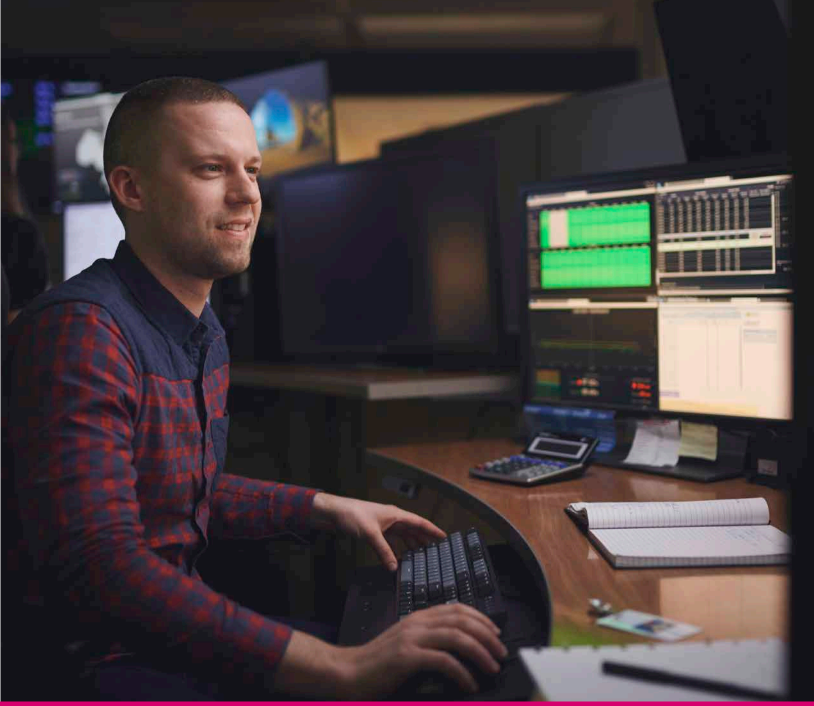
After two years, the Commission of Inquiry Respecting the Muskrat Falls Project concluded in 2019 after a forensic audit and a year of public hearings. Nalcor cooperated fully with the Inquiry submitting over four million documents, making a number of presentations and providing numerous witnesses. Nalcor and Hydro were also principal participants in the hearings by the Board of Commissioners of Public Utilities into options to reduce the impact of the Muskrat Falls Project on electricity rates in the Province. The recommendations contained in the reports from these proceedings will need careful consideration by Nalcor management and discussion with our Board of Directors and Shareholder.

As part of our continuing commitment to reliability, Hydro made substantial investments in our provincial electricity infrastructure consistent with its long-term plan. In November, it filed an update to the Reliability and Resource Adequacy Study which Hydro submitted to the Board of Commissioners of Public Utilities in 2018. This study looks at Hydro's long term plans for service and considers a wide range of scenarios over the 10 year planning period 2020-2029. This process will continue into 2020.

Finally, I recognize the significant safety milestones achieved within our organization this past year. At the end of 2019 the Muskrat Falls Project reached 33 months without a lost time injury and was awarded the Health and Safety Award from the Building Trades Unions. On the operations side, Hydro and CFLco, received the Canadian Electricity Association Presidents Award for Safety. These awards are well deserved recognition but awards are not the objective. Our objective is that for each and every person to go home safe at the end of the day.

As we head into 2020, we face additional challenges stemming from the COVID-19 pandemic which is negatively impacting our society, our communities and our business. Our dedicated employees will continue to work on behalf of the people of the Province as we implement protocols to allow them to do so safely. I thank all our employees for their continued support. Thank you to our Board of Directors and to our diverse business and community partners.

Stan Marshall
President and CEO

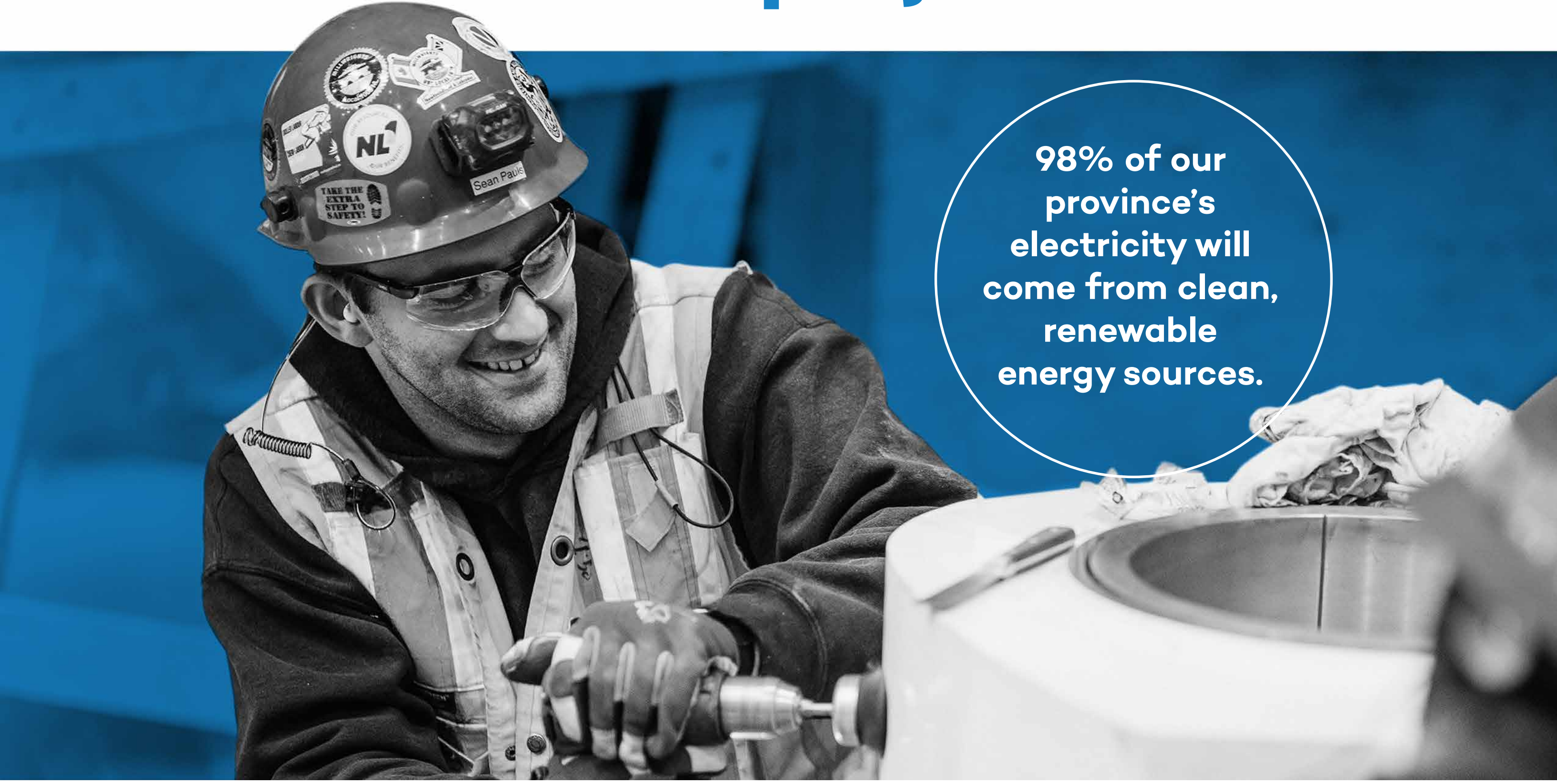


“Thanks to our 1600 dedicated employees, 2019 was a successful year for Nalcor during one of the most challenging periods in our history.”

Stan Marshall

BUSINESS EXCELLENCE

muskrat falls project



OVER 99% COMPLETE

Overall Project Construction

OVER 98% COMPLETE

Generation

OVER 99% COMPLETE

Transmission

Reducing our Carbon Footprint

With the completion of the Muskrat Falls Project, Newfoundland and Labrador will be a leader in clean energy. It is estimated that power from the project can displace three to four megatonnes of carbon dioxide annually from thermal generating facilities.

This will reduce greenhouse gas emissions and the carbon footprint throughout Northeastern Canada and the United States – equivalent to taking almost one million cars off the road for one year.

The Power of People

Thanks to the hard work and dedication of everyone on the project team, we achieved several major milestones in 2019 and construction is now more than 99 per cent complete. All dams are in operation, the reservoir has been created, all required concrete has been poured and we successfully delivered electricity from Labrador to the island over the Labrador-Island Link (LIL).

There will be enough clean energy from Muskrat Falls to make a significant annual reduction in greenhouse gas emissions. It's like taking almost one million cars off the road for one year.

Early in the year, the North Dam was completed by Barnard Pennecon and put into operation. Built over two construction seasons, approximately 243,000m^3 of concrete was poured to build the 450m long and 39m high structure.

In early August, with the North Dam in operation, we started raising the water level in the reservoir, and by early September we reached the final operating level of around 39m.

In the powerhouse, two of the four turbine and generator units were installed. With these two units in place, Andritz Hydro is completing its work in preparation for turning Unit 1 to generate first power. Work continues with the assembly and installation of the third and fourth turbine and generator units.

Barnard Pennecon, contracted to complete the civil works, made significant progress completing all of the remaining concrete in the powerhouse and the spillway. With the last concrete poured in 2019, a total of 680,000m^3 of concrete was placed to build the generation facility.

All of our 2019 accomplishments are a result of a tremendous team effort from our skilled workers, contractors, Trades NL and our engineering and construction management teams.

Approximately 92% of the 2019 workforce were Newfoundlanders and Labradorians

Created the reservoir

Received Health and Safety Distinction Award from Building Trades Unions

Transmitted power from Churchill Falls, Labrador over the Labrador-Island Link (LIL). to the island for the first time

Building a Reliable Transmission System

The LIL was taken offline in mid-2019 to advance the development and commissioning of the software required to operate the LIL across two lines (bipole). In 2018 and early 2019, the LIL operated over one transmission line (monopole) as an interim step so we could deliver surplus recapture power from Churchill Falls to the island. This electricity powered homes across the island and reduced the amount of power required from the Holyrood plant. It also provided a savings to Hydro customers as it reduced the amount of oil required to run the Holyrood plant.

Providing a high-quality, reliable transmission system remains our top priority. The province's transmission system is currently undergoing its largest change in decades so, it is important we take the necessary time to ensure the new assets are safely and reliably integrated into our electricity system while minimizing potential impacts to customers.

Getting the Job Done Safely Together

Safety is a critical measure of success for us. Since we started construction on the Muskrat Falls Project in 2012, tens of thousands of skilled workers from across the province and country have worked together to build the second-largest hydro facility in Atlantic Canada.

Our highest priority has always been safety. Not a minute, hour or day goes by where safety is not top-of-mind and in the forefront of each and every activity. Our project team, contractors, union partners and skilled labour force all share the same dedication to safety and demonstrate that commitment by working safely every day.

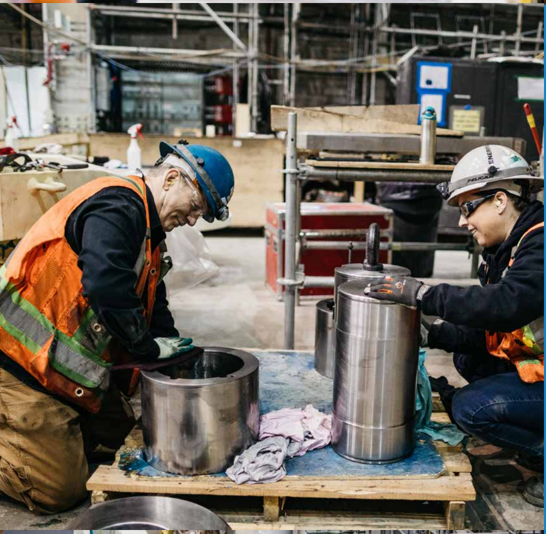
In April, the Muskrat Falls Project received Canada's Building Trades Unions' (CBTU) prestigious Health and Safety Distinction Award. This award recognizes the contributions of industry for their demonstrated commitment to support, build and transform the lives of Canadians through leadership development, skill growth, positive community impact, personal accountability or health and safety.

One of the safety success factors recognized by this award was the number of hours worked by our team without a lost-time injury (LTI). At the end of 2019, our team worked more than 17.5 million hours and 33 months without a LTI. This is a tremendous feat for a large-scale construction project with our team working in various locations throughout the province.

We recognize we must not waver on our commitment to safety. Late in the year, we initiated a safety stand down and stopped work on the generation project to reiterate this commitment. Following a review of our safety protocols with our contractors, work was restarted. We are dedicated to safety and taking this action was necessary to reset our focus.

Our team remains diligent in our commitment to safety as this is essential in ensuring each and every one of our workers goes home safely.




17.5+

MILLION HRS

worked without a lost-time injury

33+

MONTHS

worked without a lost-time injury





BUSINESS EXCELLENCE

hydro

newfoundland labrador hydro
a nalcor energy company

ENERGY YOU CAN COUNT ON

At Hydro, we know the people of Newfoundland and Labrador are counting on us to provide reliable electricity, day in and day out, while also carefully managing the cost of providing that service. We are on a journey of improvement, and we are proud of the role we play in our province. All of our employees – located in every corner of this province – understand why we are here, and all are working towards the same goal.

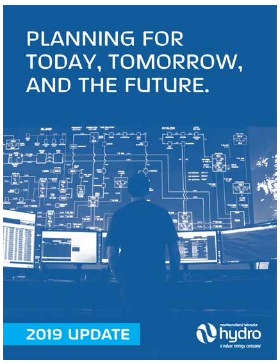
Together, we continue to work diligently to ensure we meet our customers' expectations by making the required investments in the system and carefully managing costs. As a public utility owned by the people of the province, we take this responsibility very seriously.

In 2019, the Island Interconnected System saw a historical peak customer demand of 1,784 MW. Hydro served customers through that peak, and all year round, with reliable power.

Our generation assets continue to perform well and are ready to reliably serve customers. We are also pursuing opportunities to increase efficiency, streamline processes and find quality improvements that benefit our customers. Hydro was successful in working with Nalcor Energy Marketing in 2019 to secure imports over the Maritime Link to economically offset Holyrood fuel consumption. This resulted in significant benefits for customers on the Island Interconnected System.

In 2019, the Island Interconnected System saw a historical peak customer demand of 1,784 MW. Hydro served customers through that peak, and all year round, with reliable power.

Planning for Today, Tomorrow and the Future



We are always planning to ensure we can deliver reliable electricity to our customers – Newfoundland Power, industrial customers, direct commercial and residential customers.

In November, Hydro filed its 2019 annual update to the comprehensive Reliability and Resource Adequacy Study filed with the Board of Commissioners of Public Utilities in 2018.

The study addresses our long-term approach to providing continued least-cost reliable service. It considers a wide range of possible scenarios (12 cases in total) over a 10-year planning period from 2020-2029.

We are committed to a comprehensive approach to planning, including ongoing consultation and public engagement.
Our preference is to take a conservative approach to long-term planning. Therefore, system needs must be well understood, and all options carefully considered. Hydro looks forward to continuing through this process with the Board of Commissioners of Public Utilities in 2020.

Involving Our Customers

As we continue to plan for the future and make decisions that meet the expectations of our customers, we are actively seeking input from electricity consumers in the province.

Through our Electricty Feedback Panel, customers provide opinions and feedback by participating in online surveys on a variety of subjects. In 2019, Hydro used the panel to gain insight and information from customers on topics such as: the type of information customers would like to hear more about; how best to communicate with customers; and thoughts on electric vehicle adoption in the province. Currently, there are more than 650 Newfoundlanders and Labradorians who signed up to participate in the panel. Consumers are encouraged to sign up at ElectricityFeedbackNL.com.

Clean Energy for Electric Vehicle Owners

As more and more Canadians are choosing to drive electric vehicles, Hydro is working with provincial and federal governments to implement the province's first fast-charging network.

Enabling electric vehicle owners to travel long distances across the island portion of the province will remove one of the largest barriers to ownership for consumers, and will also provide an opportunity for savings in fuel and maintenance costs. Increased domestic ownership of electric vehicles will also help to reduce carbon emissions and support electrification efforts in the province.

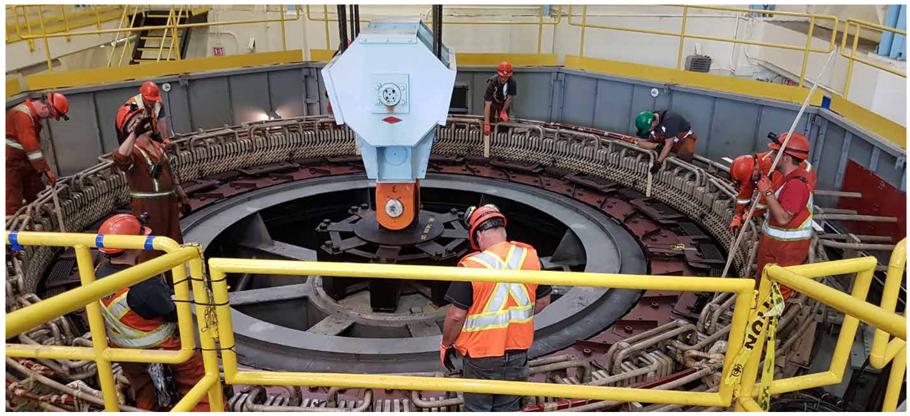
An electric vehicle fast-charging network will have several benefits for Newfoundland and Labrador. Hydro is excited to advance this initiative, support a greener future for our province and provide clean, renewable, road-trip ready energy.

CAPITAL UPGRADES FOR LONG-TERM RELIABILITY

Hydro completed important capital projects in 2019 to ensure the province's key electricity assets are in reliable operating condition now and into the future.

An Overhaul for Bay d'Espoir's Biggest Unit

Unit 7 was originally commissioned in 1977 and, at 154 MW, it's the largest of all seven generating units at the Bay d'Espoir hydroelectric generating facility. The scheduled work conducted this year was part of Hydro's planned preventative maintenance program to ensure the long-term reliability of the unit and the power plant as a whole. The overhaul involved disassembling the turbine and generator, inspecting, cleaning, performance testing, refurbishing and doing corrective work on various components.



Crews spent several months in 2019 completing major refurbishment of Unit 7 at the Bay d'Espoir Hydroelectric Generating Facility.

Wabush Terminal Station Upgrades

In 2019, Hydro began significant capital improvements at the terminal station in Wabush, a vital part of our electrical system in Labrador, and critical in providing electricity to the residents, businesses and major industrial customers in the region. Most of the station assets are original equipment installed in the mid-1960s and requiring refurbishment. Capital upgrades will continue in 2020, and will provide greater flexibility and improve the reliability of power supply to Labrador West, as well as ensure a safe and reliable working environment for Hydro employees.

Breaker Replacement

Hydro has continued to conduct a multi-year program to replace or refurbish aging breakers. Ten breaker replacements in total were completed and energized, successfully and safely, which helps ensure our terminal stations are operating reliably to deliver power to our customers in 2019.

Wood Pole Line Management

Every year, Hydro inspects and treats more than 2,500 wooden transmission line poles as part of our early detection program. This includes treating deteriorated poles and other power line components to avoid safety and reliability issues as well as identifying poles in the early stages of decay so that corrective action can be taken.

With nearly 26,000 poles spanning approximately 2,500 kilometres of wooden transmission lines across Newfoundland and Labrador, our wood pole line management plan helps optimize the service life of lines, saves costs by deferring rebuilds and avoids unplanned outages that could result from damaged structures.

Heat Pump Rebate Program: Savings and Comfort

For most of us, heating makes up the better part of our electricity bill. When the right heat pump is chosen, installed properly and operated correctly, it's possible to make your home more comfortable and to save money.

In October 2019, a new Heat Pump Rebate Program was launched to improve the affordability of upgrading home heating equipment. Funded by the Government of Newfoundland and Labrador, and administered by Hydro, the program offered heat pump rebates of $1,000 to qualified homeowners in Newfoundland and Labrador. By the end of 2019, more than 700 rebates had been approved or issued to customers throughout the province, helping to reduce their electricity bills and improve their home comfort level, just in time for winter.

2017 General Rate Application Concludes

In September 2019, electricity rate changes for all customers were approved by the Board of Commissioners of Public Utilities. This approval marked the conclusion of Hydro's most recent General Rate Application (GRA), which was originally filed in 2017.

The resulting new electricity rates went into effect on October 1, 2019. Hydro continues to rely heavily on oil to generate electricity for customers on the island. Increasing fuel costs for the Holyrood Generating Plant, combined with an increase in the expected volume of oil used to reliably operate the province's electricity system, were the primary drivers of the rate change for customers on the island. In Labrador, increased customer usage and growth resulted in a rate decrease for most residential customers on the interconnected system in Upper Lake Melville and Labrador West.

HYDRO GENERATION
10 YEARS
WITHOUT A
LOST-TIME
SAFETY INCIDENT

A Safety Milestone at Bay d'Espoir

In May 2019, the team in Bay d'Espoir and the rest of our hydraulic generation workforce surpassed a significant safety milestone: 10 years of zero lost-time injuries. This accomplishment has required a relentless focus on the part of Hydro employees and underscores their ongoing commitment to keeping each other safe on the job.

Lending a Hand to Our Nova Scotian Neighbours

When fiercely strong winds from the remnants of Hurricane Dorian battered parts of our province in 2019, Hydro's line crews and many other employees answered the call. They responded in very harsh conditions, working safely to restore service to customers in many parts of Newfoundland and Labrador. In addition to their efforts at home, eight of our powerline technicians travelled to Cape Breton on the heels of the storm, where they spent several days helping Nova Scotia Power with their restoration efforts.

Always ready and willing, our employees work hard every day to provide safe, reliable power across the province. They are the first to rise to the occasion when our customers and neighbours need it most.

Thanks to Randy Dollimont, Murray Anderson, Joey Walsh, Jordan McKenna, Brandon Genge, Brandon Rose, Justin M. Lowe, Ross Alyward and everyone involved for being the energy we all count on.

BUSINESS EXCELLENCE

churchill falls

Every year, on average, we produce 34 billion kilowatt hours of energy—enough to run 10,000 North American homes for 365 years.

The 735 kilovolt transmission lines span 1,829 m (6,000 feet) over the Churchill River

The Churchill Falls Generating Station is one of the world's largest underground hydroelectric powerhouses, with 11 turbines generating 5,428 MW. For nearly half a century, it has safely produced and delivered clean, renewable energy. Our diverse and dedicated employees, along with their commitment to safety and operational excellence, are what drives our success and ensures the continued delivery of safe and reliable power from this world-class facility.

Through our comprehensive long-term maintenance plans and capital programs, we continue to ensure our assets – from turbines to powerlines – remain strong and reliable. Each year, we successfully and safely execute various refurbishments, replacements and upgrades to infrastructure. In 2019, we completed significant modernization of Generating Unit 3 and completed year two of a 10-year project to replace insulators and hardware components along our transmission system. We successfully completed our annual maintenance and capital refurbishment plan which resulted in a Guaranteed Winter Availability Contract (GWAC) season reaching 98.66 per cent performance, surpassing our target of 92.5 per cent.

In addition to operational excellence, we recognize the importance and value of being an environmental leader. Our operations are environmentally governed by ISO 14001 Certified Environmental Management Systems, and this past year marked 10 consecutive years of surpassing 95 per cent of our environmental targets and milestones.

10 CONSECUTIVE YEARS OF SURPASSING

95%

of our environmental targets and milestones.

The Line Maintenance Department

COMPLETED PHASE 1

of live line work training.

December 31, 2019

Churchill Food Co.

DISCONTINUED THE USE

of single-use plastic bags.

The Power of Community – Building a Greener Tomorrow

Waste Diversion Initiatives

Until two years ago, after a local volunteer group retired from collecting recyclable beverage containers in Churchill Falls, residents were left with no way to recycle without making a nearly 300km trip to Wabush or Happy Valley-Goose Bay. To help residents optimize their waste collection schedule and incorporate beverage container recyclables, we established a curbside collection program.

In 2019, we expanded the program to include mixed paper and cardboard. The program's implementation included replacing community and workplace single garbage receptacles with multi-stream units, acquiring and installing fibre balers, and providing operational training. In addition to recycling initiatives, we also partnered with Multi-Materials Stewardship Board (MMSB) to encourage backyard composting in the community.

Churchill Falls is now the only community in Labrador with a curbside recycling program. By recycling aluminum and plastic beverage containers, as well as mixed paper and cardboard, Churchill Falls is recycling the products with the highest greenhouse gas savings.

Our expanded recycling program and waste reduction initiatives will have a significant impact on the environmental sustainability of our community, including prolonging the life of the landfill.

BUSINESS EXCELLENCE

offshore development

OIL AND GAS | BULL ARM

Natasha Hanlon accepting the 2019 President's Award (Community) from President and CEO Stan Marshall. From organizing Christmas families, leading beach clean ups and cooking meals at Ronald McDonald house, Natasha continuously shows her commitment and passion to support the communities we live and work in.

A Passionate, Diversified Team

Our team of approximately 30 people is driven by a passion for the industry, our province and the communities in which we live. With a wide range of global experience spanning multiple corporations, our diversified team brings deep industry knowledge and vast perspectives.

Over the past 10 years, our team has worked diligently to build strong, collaborative working relationships with current and future operators as well as the broader industry.

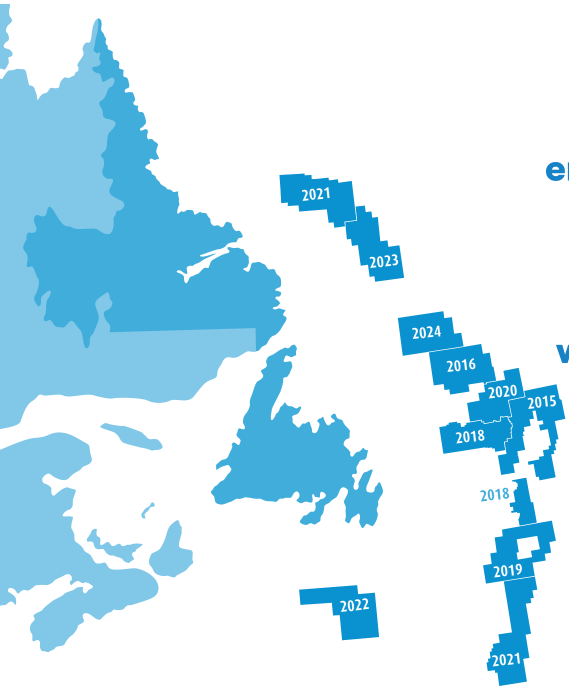
Rigorous exploration, best practices and technical innovation are applied to evaluate every square kilometre of our offshore basins to find new oil and gas resources for our province.

As a direct result of the exploration strategy, Newfoundland and Labrador is poised for growth. New basins in frontier areas have been mapped and delineated. Play types that have never before been seen in our offshore are being imaged.

Guided by *Advance 2030 – A Plan for Growth in the Newfoundland and Labrador Oil and Gas Industry*, our employees continue to enhance our understanding of our resources, and drive activity throughout the industry.

By focusing on attracting new investments, maximizing returns through equity investments and enhancing local supply chain opportunities by leveraging existing capabilities, we are positioning this province as a globally preferred location for oil and gas development.

Ultimately, we are building a strong future for the people of this province.



8 new oil and gas companies have entered our offshore

Over $4 BILLION in exploration work commitments within the last 5 years.

Our employees continue to enhance our understanding of our resources, and drive activity throughout the industry.

Our company produced approximately
10,000 BARRELS/DAY

We've produced approximately 22.6% of our estimated reserves which has yielded
$1.3 BILLION
(December 2019)

Independent evaluated nominal value:
$2.8 BILLION
(December 2019)

2019 TOTAL REVENUES

Oil Production
$303.1 MILLION

Geoscience Data
$3.8 MILLION

x2

For the first time in its history, the Bull Arm Fabrication Site housed two drilling rigs simultaneously

New Oil and Gas Company Established

Newfoundland and Labrador's natural resource-based economy is on the verge of a new era in frontier oil exploration and development. Enriched by recent discoveries, proven production, robust industrial and supply servicing capabilities and most importantly, the skills and talent of our people, our province's resources are attracting the attention of the global industry.

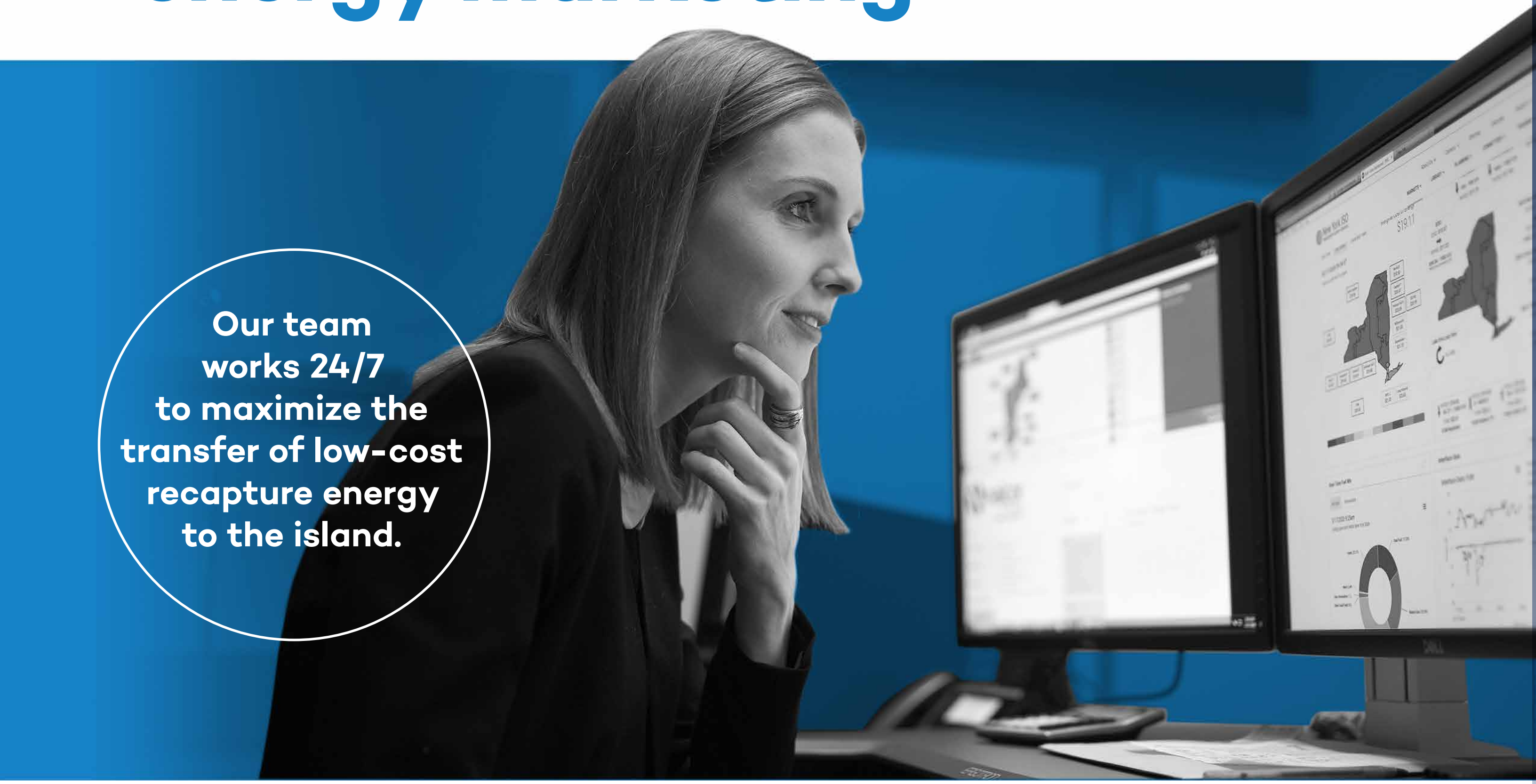
To further enhance this potential, the establishment of a new Crown corporation focused solely on oil and gas activities was announced in March 2019 by the Government of Newfoundland and Labrador.

Existing equity interests in offshore developments will remain within Nalcor but will be managed by the new entity. New exploration activities, along with future investment in offshore developments and the Bull Arm Site, will also rest with the newly established Crown corporation.

On January 1, 2020, all employees from Nalcor Energy – Oil and Gas and Bull Arm Fabrication transitioned to the new Crown corporation.

BUSINESS EXCELLENCE

energy marketing



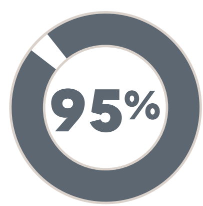
Nalcor's energy trading team is continuously pursuing opportunities to optimize the value of the province's surplus electricity by participating in energy markets in eastern Canada and the United States.

In 2019, 95 per cent of available recapture energy from the Churchill Falls Generating Station was delivered to market. This provided 1.189 terawatt hours of energy to customers in New York, New England, Ontario and the Maritimes, and in addition to other energy trading activity realized revenues of $36 million.

Our team also works 24/7 alongside Hydro's energy production team to maximize the transfer of low-cost recapture energy to the island for Hydro customers. In the first half of 2019, we transferred approximately 215 gigawatt hours of low-cost energy from Churchill Falls to the island via the Labrador-Island Link (LIL).

We continue to work with our industry counterparts and Hydro to make energy purchases over the Maritime Link when it presents cost savings.

Last year, using our market knowledge and capabilities, we imported approximately 232 GWh of lower-cost energy from various regions across eastern Canada and the northeastern United States for the benefit of Newfoundland and Labrador's electricity customers. This energy provided through the Maritime Link displaced fuel at the Holyrood Thermal Generating Station (HTGS).



of available energy sold to markets in New York, New England, Ontario and the Maritimes.

Preparing for Muskrat Falls

In advance of the in-service of the Labrador-Island Link (LIL) and the Muskrat Falls Generating Facility, our Energy Trading team will continue to work with Hydro to procure off-island energy to displace energy production from the Holyrood Thermal Generating Station (HTGS), and to optimize the value of the province's storage and production assets.

As the Muskrat Falls Project assets come online, the volume of exports our team manages will nearly triple from recent historic levels.

The switchyard at Soldiers Pond

people.

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

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


LAURA
Loyde
HArry
Herb
Jack.

passion.

ENVIRONMENTAL protection is a global effort, and we are passionate about developing and managing the natural environment in which we work every day. We are committed to any opportunity to be proactive in the reduction of our carbon footprint and in the protection of wildlife that live in areas where we operate.

Giving back to our communities is a critical part of who we are as employees and as a company. Through our Community Investment Program (CIP), Nalcor and Hydro support registered not-for-profit organizations with donations, volunteer hours and in-kind work and contributions. From St. John's to Churchill Falls, Happy Valley-Goose Bay to Port Aux Basques, we are delighted to work with and support organizations across our province.

Our archaeology partners work to identify any archaeological sites which may be present with the Muskrat Falls Project footprint.

pride.

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

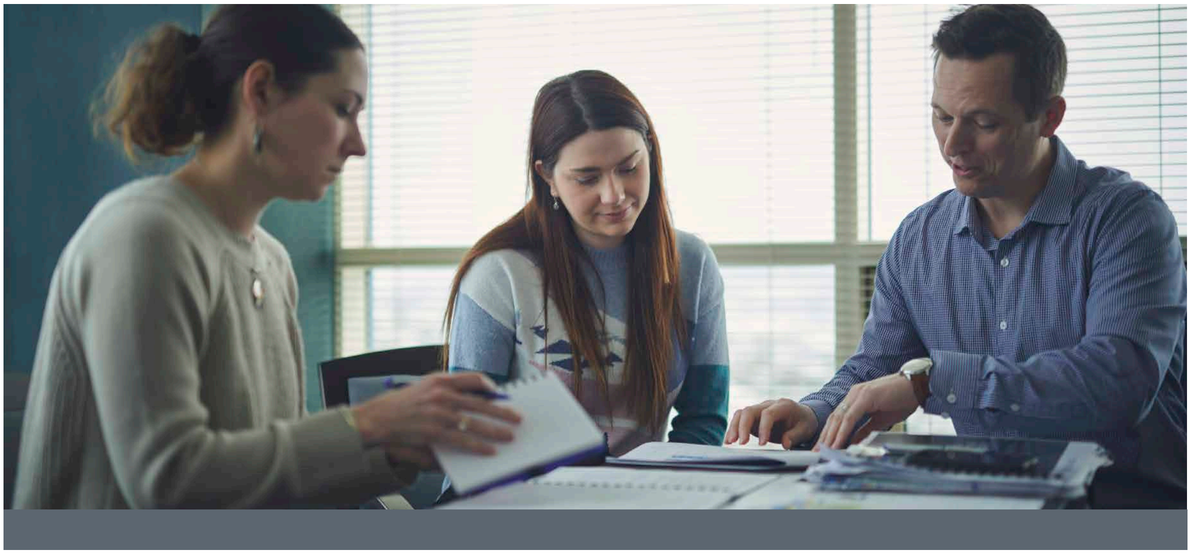
In spring 2019, the Muskrat Falls Project reached a significant safety milestone by surpassing two years without a lost-time injury (LTI). This acknowledgement is a true testament to our employees and partners who prioritize safety on our work sites every single day.

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

Workers touching up concrete on the Muskrat Falls Hydroelectric Generating Facility.

safety & health

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



Mental Health Matters

As part of our commitment to create a safe and supportive work environment for all employees, a new Mental Health Strategy and Psychological Health and Safety Policy were launched in 2019. Our employee benefits package was also enhanced to include even more mental health supports and benefits, including increased coverage for sessions with a licensed psychologist, social worker or registered counselling therapist.

We continue to look for new ways and partnerships to help advance our support for psychological wellness and mental health throughout our company.

Safety Summit

Dr. Susan Biali Haas joined us as the keynote speaker at our 2019 Safety Summit. Dr. Biali Haas is a mental health advocate and strategist with more than 20 years of focus on the principles of healthy living, stress management, burnout prevention, mental health and positive psychology. The summit also included sessions about Managing Change, the 40-10-50 concept of controlling distractions and a presentation from one of our own employees about their personal mental health journey and the stigma surrounding mental health.

continuous improvement

injury prevention

mental health

> "When it comes to safety, each of us has a role to play – from the leadership team and Board of Directors, to middle management and frontline supervisors, to our union leadership and all of our employees – we all play a role in creating a safe work environment for one another."

– Mike Roberts, Senior Vice-President, Corporate Services and Chief Human Resources Officer

Electrical Safety Training for First Responders

Safety and Health Advisor, Gus Loder.

As part of our commitment to safety, our Safety, Health and Environment (SHE) advisors provide outreach and training to various stakeholders in our communities. Gus Loder, SHE Advisor for Transmission and Rural Operations (TRO) West/East, and others on the Safety and Health team, have delivered the electrical safety course to community and regional fire departments throughout the province for a number of years. In July, for the very first time, we provided training to the new recruits at the Fire and Emergency Services Fire School.

This training is important for emergency first responders who can often encounter electrical hazards on the job. The course arms responders with awareness and knowledge of the electrical distribution system, the associated dangers and how to safely respond to incidents that involve energized lines and equipment.

CEA President's Award for Safety

Every day, we strive to create a culture where each person actively cares for their own safety, and the safety of those they work with, to ensure everyone goes home safely. We work diligently to maintain these standards throughout our company.

In recognition of our unwavering commitment to safety, Nalcor was awarded the 2019 CEA President's Award for Safety Excellence in Generation in Group 2. This prestigious recognition is reserved for corporate utilities that achieve the top ranking in Total Recordable Injury Frequency (TRIF) among comparable utilities, and is a testament to our employees' commitment to safety.

11.8% increase in submissions to our Safe Workplace Observation Program

Working Together to Keep Everyone Safe

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

Members of the CSAC work hard to keep our employees safe.

While the primary responsibility for the development and implementation of safety and health-related policies and programs rests with the Safety and Health department, we work in partnership with our union locals through the Corporate Safety Advisory Committee (CSAC).

The CSAC brings together leadership, supervisors, employees and union representatives from across the entire company to provide strategic advice and guidance on the safety and health of our employees. The committee continues to play a key role in our improved safety and health management and performance as a company.

Safety in the Community

The Association for Workplace Tragedy Family Support, known as Threads of Life, is a Canadian registered charity dedicated to supporting families after a workplace fatality, life-altering injury or occupational disease.

Steps for Life, their annual flagship fundraiser, is a 5km walk that raises funds for important programs inside the organization and helps provide support to families who have gone through a workplace tragedy. Our Safety and Health department and their families have participated in this walk for many years. The team is already collaborating on preparations for next year's event.

Members of our Safety and Health teams participated in the Steps for Life Walk again this year to raise funds for our local Threads for Life chapter.

community

GIVING BACK to our communities is a critical part of who we are as employees and as a company. Through our Community Investment Program (CIP), Nalcor and Hydro support registered not-for-profit organizations with donations, volunteer hours and in-kind work and contributions. From St. John's to Churchill Falls, Happy Valley-Goose Bay to Port Aux Basques, we are delighted to work with and support organizations across the province.

Members of the Nalcor safety and HR team volunteered at Ronald McDonald House during Acts of Kindness Week.

Supporting our Communities

While we support a variety of organizations, our main areas of support are: youth leadership and anti-bullying initiatives; diversity and inclusion; science, technology, engineering and math (STEM) education; health and safety and environmental education.

Acts of Kindness Week

Each year, we take one week and make giving back our focus. "Get Out and Give" resonated with employees across the province and we volunteered at more than a dozen organizations. In Churchill Falls, they marked the week with a corporate donation of a fire truck to the community of Port Hope Simpson.

Darren Mills, Fire Chief and Jean Healey, Fire and Security Officer at Churchill Falls provided a full day of training to firefighters at Port Hope Simpson after donating a fire truck to the community.

WE INVEST IN COMMUNITIES ACROSS OUR PROVINCE THROUGH:

Employee volunteerism

In-kind donations

Monetary donations

nalcor energy
COMMUNITY INVESTMENT
PROGRAM

Ronald McDonald House

We once again led walks and raised funds for the annual Red Shoe Crew Walk for Families, helping raise a grand total of $256,000.

Kids Eat Smart Foundation

In regions across the province, we supported school breakfast programs to help provide children with the energy they need to start their day right.

Jimmy Pratt Memorial Soup Kitchen

For three years, our employees have dedicated one morning a month to preparing and serving hot meals, provided by Nalcor and Hydro, to the patrons of Jimmy Pratt Outreach Centre in downtown St. John's.

Delivering meals for Meals on Wheels.

Celebrating Pink Shirt Day.

Helping Kids Eat Smart during Acts of Kindness Week.

The Canadian Red Cross

In 2019, we continued our partnership with the Canadian Red Cross, supporting Pink Day, Beyond the Hurt training and Healthy Youth Relationship programs, enabling them to bring training and resources to more than 25,000 children, youth and community members across the province.

Choices for Youth – Momma Moments Program

In 2019, our sponsorship helped support 86 mothers and 110 children in St. John's and CBS through the Momma Moments Program – a peer-to-peer, support-based group for young parents or pregnant mothers often facing social isolation, financial demands and limited social and family support.

YWCA Women of Distinction Awards

We continued our support of the Women of Distinction Awards. The awards celebrate the achievements, and recognize the leadership, of women who contribute to the development and well-being of other women, and others to learn, achieve and participate.

Helping Women Pursue Careers in Trades and Technology

AT HYDRO, we strive to create a work environment that represents the communities in which we live and work. We believe a diverse workforce is key to our success in meeting our customers' expectations.

That's why we are proud to continue our partnership with organizations like the Women in Resource Development Council (WRDC) – supporting initiatives that raise awareness of the boundless career opportunities available to women in the fields of trades and technology.

In 2019, we were honoured to participate in Techsploration, a program that helps grade nine girls explore careers in science, technology, engineering and math (STEM). A team of Hydro employees mentored a group of students from St. Peter's Junior High in Mount Pearl. For two months, mentors provided insight and organized interactive learning activities to help participants explore the many exciting careers available in the electricity industry.

While those students are still considering their career path, we know that many who are ready to embark on training and education in their fields can find it financially challenging. Through the 2019 Women in Trades & Technology Scholarship Program, Hydro and WRDC awarded six $1,500 scholarships to women from across the province.

The scholarships were designed to help ease the financial challenges that full-time, female students can face during their first-year studies in trades and technology programs.

Gillian Melay – Recruitment Coordinator with Hydro HR (far left) awards two Trades & Technology Scholarships for Women at the CNA campus in Seal Cove.

Hydro employees Julie Quirke, Meghan Couves and Samantha Tobin led a group of students on a tour of the Holyrood Thermal Generating Plant as part of the 2019 Techsploration program.

Holiday Giving

Food insecurity is a growing issue in Newfoundland and Labrador. It is often felt most acutely in the winter, especially during the holiday season. With donations to Bridges to Hope, Stella's Circle and food banks in Carbonear, Paradise and CBS, we were able to help ease the burden for hundreds of families over the holidays.

Bridges to Hope is a St. John's-based organization which runs a food pantry, community kitchen, education and outreach, and a children's snack program for clients in the northeast Avalon region. In addition to non-perishable staples, Bridges to Hope also provides fresh, homemade meals including bread, soups, stews, and roasted chickens to more than 10,000 clients each year.

GIVING BACK IN LABRADOR

Since 2017, Nalcor has supported the Labrador Wellness Centre in Happy Valley-Goose Bay. Operated by the YMCA, the centre will include a health and wellness area, an indoor track and a 60-space childcare centre. Currently under construction, the centre is scheduled to open in 2021.

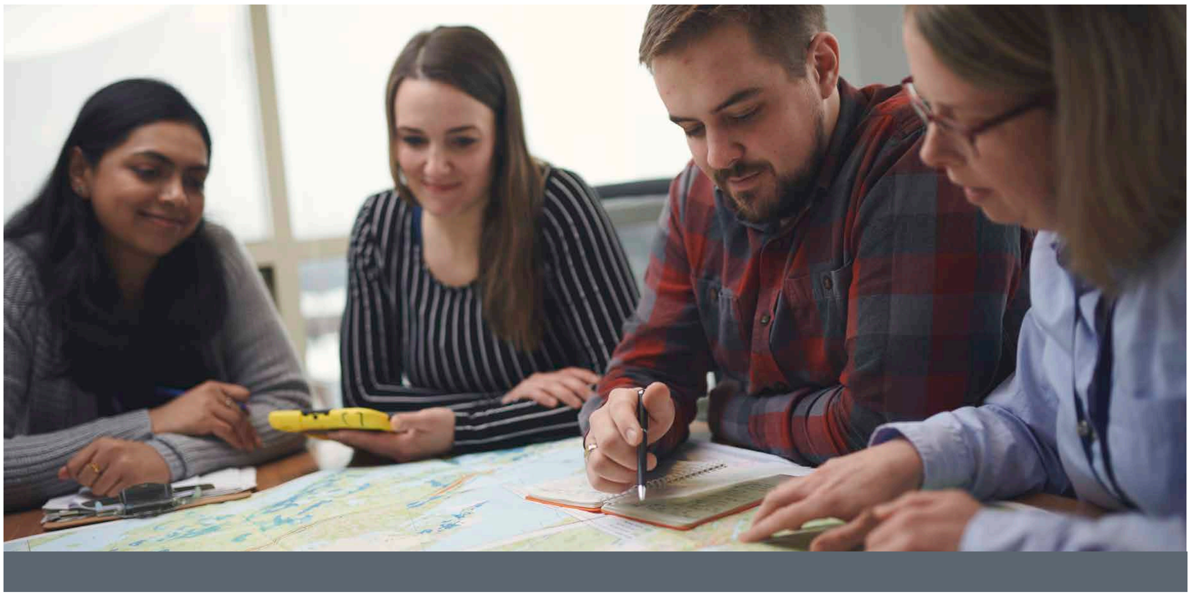
Throughout Labrador, we support various community initiatives, including the Nain Christmas Voucher program, the CBC Labrador Turkey Drive, the Labrador Friendship Centre and many others. We are also proud to continue our sponsorship of the 2019 Labrador Winter Games which highlight both traditional and modern events important to the lives of Labradorians.

Grand River Snowmobile Club

Through the Churchill Falls CIP, we are able to support corporate initiatives as well as community groups with donations and in-kind contributions. In 2019, one of those contributions was a used snow groomer, enabling the Grand River Snowmobile Club to continue the development of a system of national standard snowmobile trails in the Upper Lake Melville area.

environment

ENVIRONMENTAL PROTECTION is a global effort, and we are passionate about developing and managing the natural environment in which we work every day. We are committed to any opportunity to be proactive – whether it be in the reduction of our carbon footprint, or the protection of wildlife that live in the areas in which we operate.



A Small Change, With A Big Impact in Bay d'Espoir

In 2019, new greaseless bushings were installed in multiple units at the Bay d'Espoir Generating Station.

The new Thor-Plas Blue installation is a self-lubricating bushing which is built to withstand operating procedures up to 45 Mpa.

This engineered thermoplastic offers a low wear, greaseless alternative to the bronze wicket bushings that were previously used at the site. These bronze bushings had to be lubricated with wicket gate grease on a regular basis to control speed and prevent wicket binding.

This small change has allowed the bushing process to operate wet or dry and eliminates the cost, maintenance and pollution risk associated with the greased bushings.

Top: The bushings at Bay d'Espoir machined and ready for installation.

Bottom: New bushings being installed at Bay d'Espoir Generating Station.

AVIFAUNA

Protecting our environment and wildlife is important to us. We strive to be stewards of the environment in which we operate, and diligently work to mitigate risk to birds that live and breed in these areas.

Menihek Raven Relocation

Nalcor employee Chris Belanger successfully identified and relocated a raven's nest at our Menihek site this past May.

After observing a nest in an area that was scheduled to undergo repairs the following week, he reached out to our environment department for guidance, and followed our Standard Operating Procedure, a guide put in place by our environment team for just this type of situation.

In consultation with one of our environmental specialists, and with the provincial government's approval, Chris successfully relocated the nest and the raven to a new location that was a safe distance from any operating equipment.

It is employees like Chris who make us proud – working every day to ensure our work environments are safe for themselves, their co-workers and any wildlife who may find themselves on our sites.

Migratory Bird Management

We have extensive transmission and distribution lines that require regular maintenance and vegetation management. In 2019, we worked on improving aspects of our existing Migratory Bird Program.

We updated wording in our contracts to ensure protection of migratory birds in the field and confirmed that review of our migratory bird protection measures are included in our compliance audits. We also ensured nesting season notices went out to all of our personnel, increasing awareness of these birds on our work sites.

Our existing Procedure for Nesting Birds in Vegetated Areas was revised and put into practice to give better protection to birds. In the fall, we met with the Canadian Wildlife Service (CWS) to discuss our Migratory Bird Program and collaborate on data sharing, as our daily operations give us access to many remote areas that are ideal for gathering bird and habitat information.

Based on feedback from CWS, we are currently making appropriate revisions to our nesting bird procedure, and we hired a consultant to complete a training program with field personnel.

Helping Storm Petrels

In 2019, we made a concerted effort to reduce the impact of our terminal station infrastructure on Leach's Storm Petrels (*Oceanodroma leucorhoa*), specifically at our Soldiers Pond Terminal Station site.

These little seabirds are attracted to lights and can be led astray during the end of the breeding season when they migrate to their offshore wintering grounds, especially on foggy nights.

Our employees took several steps to reduce potential disorientation at the Soldiers Pond Terminal Station. Any unnecessary lighting was decreased to reduce upward glow. They also carried out searches for stranded birds to release them back to the ocean.

Following the success at the Soldiers Pond Terminal Station, the Holyrood Thermal Generating Station teamed up with CWS to implement a similar procedure over the past year. This included monitoring and tracking Storm Petrel activity. A total of 64 Storm Petrels were rescued and released in Witless Bay.

Environmental Emergency Testing

In August, an Environmental Emergency Response Plan (EERP) test took place at Soldiers Pond Terminal Station. The test evaluates the level of awareness of the EERP and expands upon the knowledge of potential spill sources and associated hazards and highlights potential reporting requirements.

It also helped assess spill response capabilities at the site – specifically with regard to the bulk diesel tank that stores fuel for the emergency diesel generator.

The EERP test highlighted areas for improvement and identified that the effective containment of fuel spills in a gravel area can be challenging. It also highlighted potential improvements for spill kit contents and presented questions regarding contaminated site clean-ups that are important for us as lessons learned.

EERP tests are important to our operational sites, especially where environmental impacts could be present. By conducting controlled tests, we are able to properly prepare for a real-life scenario.

Nine-year-old Environmental Award Winner

THIS YEAR marked the 10th Annual Environmental Stewardship Award recognizing the environmental efforts of a Churchill Falls resident. While many deserving residents were nominated, the 2019 recipient is extra special. At just nine years old, Alena Park is not only the youngest citizen of Churchill Falls to win, but her passion for environmental protection and sustainability surpasses many adults.

In her spare time, Alena can be found collecting litter around town or using discarded clothing to make outfits for her Beanie Boo collection. She insists that her family uses reusable straws and avoids single-use plastics whenever possible.

Alena is the daughter of Ivan Park, Electrician, at the Churchill Falls Generating Station. Ivan, wife Tammy, and Alena have been residents since 2013.

> “We only have one earth, and if this earth isn’t healthy, we don’t have another healthy place to live.”
>
> – Alena Park

people

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

Hydro employee Jamie Curtis championed the installation of rainbow benches at the entrance of the Holyrood plant.

Celebrating Diversity and Inclusion

As part of our commitment to diversity and inclusion (D&I), we recognize a variety of initiatives throughout the year that focus on raising awareness about diverse groups and celebrating D&I. Some of these D&I calendar days include Multiculturalism Day, National Indigenous Peoples Day and International Day of Persons with Disabilities.

Empowering our Future Workforce

In 2018, as part of our long-standing commitment to provide meaningful work opportunities for co-op students, we began participating in the Electricity Human Resources Canada (EHRC) Empowering Futures program, a work-integrated learning program for students in the electricity industry. The program provides support for employing students in science, technology, engineering, arts and mathematics (STEAM), as well as business roles, including a focus on students from under-represented groups.

This past year, we fully integrated the Empowering Futures program application process into our co-op program. Eighteen students benefited from this program and gained insights and experience in the energy industry.

Two of our students participated in an Empowering Futures testimonial video to explain what their experience meant to them, which can be found on the EHRC YouTube channel.

Diversity & Inclusion

> “The panel members were incredible and were role models in bringing their whole selves. We truly could not have asked for better advocates on this topic…it made me so proud to work here.”
>
> – Jennifer Williams, President, Newfoundland and Labrador Hydro
> D&I Council Chair

Pride Across the Province

In July, we celebrated Pride Week in communities throughout the province. We raised the Pride flag at Hydro Place and other regional offices and rainbow benches were proudly installed at both Hydro Place and the Holyrood plant. The company also partnered with Eric G. Lambert School’s Gay-Straight Alliance group on a community initiative in Churchill Falls to paint rainbow picnic tables. The picnic tables were placed throughout the community and will remain as a demonstration of support for the LGBTQ2S+ community that continues beyond Pride Week.

Bring Your Whole Self to Work

In 2019, Nalcor and Hydro profiled the theme “Bring Your Whole Self to Work” throughout various D&I events and initiatives.

Held in October, our second annual D&I Day featured two guest speakers and focused on the importance of fostering an environment in which employees feel comfortable bringing all aspects of their identity to work.

Our end-of-year D&I panel event in December, hosted by the D&I Champions Committee and Women’s Leadership Network, featured a panel of our employees who self-identify as members of various diverse groups. They shared their perspectives on what it means to bring your whole self to work, and what this concept means to them in the context of their personal backgrounds. We believe hearing and learning from our peers will help us grow and raise awareness.

Gender Equity Targets

In 2019, we continued our efforts to attract and retain women in leadership, operations and engineering positions, and supported their advancement in these roles. Fostering a work environment that supports women in under-represented roles is crucial to the success of our organization.

Top: Kate Flynn completed her work term through the Empowering Futures Program.

Bottom: Gemma Hickey provides an informative session to employees during our second D&I Day.

GENDER EQUITY TARGETS

In 2017, Nalcor set gender equity targets to increase the representation of women in leadership positions in which they are under-represented.

OCCUPATIONAL GROUP	WOMEN 2016	2017	2018	2019	TARGETS
Executive	15%	15%	24%	30%	30%
Management	27%	32%	33%	34%	35%
Engineers (Including Engineers in Training)	24%	21%	21%	22%	30%
Technicians and Technologists	5%	6%	6%	7%	10%
Field Supervisors	3%	5%	5%	5%	6%
Skilled Trades (Including Apprentices)	2%	4%	6%	6%	10%
Manual Workers	16%	16%	17%	19%	20%

*Notes: Includes Nalcor Energy and subsidiaries representation as of December 2019.

sustainability

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

Committed to a Sustainable Future

In 2019, we continued our commitment to sustainability, especially when it comes to standing by our Sustainable Electricity Company designation with the Canadian Electricity Association.

We published our second annual Corporate Sustainability Report, highlighting our efforts throughout the year and our ongoing commitment to work toward a more sustainable future – for our company and our province.

A Stakeholder Engagement Database was launched in the fall as a way to consistently document our stakeholder interactions. We have also issued and awarded a request for proposals for an updated Materiality Assessment. This stakeholder engagement process enables us to gather information on the relative importance of specific environmental, social and governance issues to our stakeholders. Every five years we will update this to ensure our targets and objectives continue to be focused on the issues that are a priority to our internal and external stakeholders.

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

APPROVED Sustainable Electricity Company™ | Canadian Electricity Association

Safety and Health

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

Business Excellence

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

Environment

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

People

- Diversity and Inclusion
- Employee Engagement
- Attraction and Retention

Community

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

Years ended December 31	**2019**	2018	2017	2016	2015
INSTALLED GENERATING CAPACITY (rated megawatts)					
Churchill Falls	**5,428**	5,428	5,428	5,428	5,428
Hydro - Hydraulic					
Hydraulic	**956**	956	956	956	956
Thermal	**741**	741	741	741	741
Diesel	**66**	67	67	66	66
Menihek	**19**	19	19	19	19
Total	**7,210**	7,211	7,211	7,210	7,210
ELECTRIC ENERGY GENERATED, NET (gigawatt hours GWh)					
Churchill Falls	**34,982**	35,598	30,927	33,806	33,470
Hydro					
Hydraulic	**4,525**	4,944	4,507	4,380	4,823
Thermal	**1,259**	1,118	1,725	1,740	1,500
Diesel	**51**	52	50	53	52
Menihek	**46**	49	45	46	46
Total	**40,863**	41,761	37,254	40,025	39,891
ELECTRIC ENERGY SALES (GWh)					
Churchill Falls Export	**28,944**	28,970	28,970	27,995	28,692
Hydro					
Utility	**5,926**	5,839	5,895	5,845	6,072
Rural	**1,148**	1,151	1,104	1,068	1,070
Industrial	**2,437**	2,080	2,340	2,267	2,207
Export	**1,319**	1,562	1,594	1,627	1,569
Menihek Export	**46**	49	45	45	45
Total	**39,820**	39,651	39,948	38,847	39,655
TRANSMISSION LINES (kilometres)					
Churchill Falls					
735 kV	**608**	608	608	608	608
230 kV	**-**	-	-	471	471
Hydro					
230 kV	**2,267**	2,267	2,267	1,609	1,609
138 kV	**1,500**	1,500	1,500	1,500	1,500
69 kV	**634**	634	634	634	634
Menihek					
69 kV	**39**	39	39	39	39
Total	**5,048**	5,048	5,048	4,861	4,861
PEAK ELECTRICITY DEMAND (megawatts)					
Churchill Falls	**5,636**	5,531	5,611	5,670	5,610
Hydro System	**1,651**	1,503	1,540	1,521	1,550
Island System	**1,784**	1,640	1,714	1,673	1,705
PETROLEUM AND NATURAL GAS PROPERTIES					
Oil Production (Thousands Barrels of Oil Equivalent (BOE)/day)					
White Rose Growth Lands	**0.38**	0.80	1.38	0.86	0.98
Hibernia Southern Extension	**4.10**	5.05	7.38	5.22	0.46
Hebron	**5.47**	3.02	1.10	-	-
Remaining Reserves (Proven and Probable) (Millions BOE)					
White Rose Growth Lands	**7.59**	7.36	8.43	5.66	2.85
Hibernia Southern Extension	**12.10**	15.25	18.20	23.53	24.98
Hebron	**34.20**	35.49	36.03	34.35	33.17
STAFFING LEVELS					
Full-time equivalents	**1,592**	1,566	1,528	1,490	1,460

FINANCIAL STATISTICS

Years ended December 31 (millions of dollars)	2019	2018	2017	2016	2015
OPERATING RESULTS					
Continuing operations					
Revenue					
Energy sales	**1,016**	1,005	854	779	761
Other revenue	**22**	24	23	24	30
	1,038	1,029	877	803	791
Expenses					
Fuels and power purchased	**319**	276	301	229	254
Operating costs	**230**	220	218	206	243
Production, marketing and transportation costs	**36**	42	30	26	12
Transmission rental	**26**	25	25	22	22
Depreciation, depletion, amortization and impairment	**197**	189	300	135	159
Exploration and evaluation	**33**	29	1	2	1
Net finance expense	**92**	83	66	72	74
Other expense (income)	**14**	29	23	(4)	1
Regulatory adjustments	**(36)**	(46)	(91)	(1)	58
	911	847	873	687	824
Profit (loss) for the year from continuing operations	**127**	182	4	116	(33)
Discontinued operations					
(Loss) profit for the year from discontinued operations	**(1)**	(2)	47	20	17
Profit (loss) for the year	**126**	180	51	136	(16)
SEGMENT EARNINGS[1]					
Continuing operations					
Hydro	**27**	30	36	16	(27)
Hydro Regulated	30	28	36	19	(26)
Hydro Non-Regulated	(3)	2	-	(3)	(1)
Power Development	**(1)**	(2)	(53)	(1)	(1)
Muskrat Falls	(1)	(2)	(2)	(1)	(1)
Other - Power Development	-	-	(51)	-	-
Power Supply	**24**	58	43	62	63
LCP Transmission	(13)	2	(1)	1	(2)
Churchill Falls	35	32	33	41	45
Energy Trading	-	23	15	17	21
Other - Power Supply	2	1	(4)	3	(1)
Offshore Development	**96**	125	(3)	58	(49)
Oil and Gas	96	125	(3)	58	(49)
Corporate	**(19)**	(29)	(19)	(19)	(19)
Profit (loss) for the year from continuing operations	**127**	182	4	116	(33)
Discontinued operations					
Offshore Development	**(1)**	(2)	47	20	17
Bull Arm Fabrication	(1)	(2)	47	20	17
Profit (loss) for the year	**126**	180	51	136	(16)
FINANCIAL POSITION					
Total current assets	**2,042**	2,493	2,751	2,098	3,395
Total current liabilities	**718**	687	970	1,750	1,339
Net working capital	**1,324**	1,806	1,781	348	2,056
Property, plant and equipment, cost	**18,330**	17,119	15,760	12,414	9,202
Accumulated depreciation, depletion and impairment	**1,532**	1,364	1,195	997	877
Property, plant and equipment, net	**16,798**	15,755	14,565	11,417	8,325
Sinking funds (long-term portion)	**209**	200	192	230	282
Long-term investments	**100**	130	332	34	91
Regulatory deferrals (net)	**110**	88	38	(184)	(186)
Other assets	**69**	56	34	120	85
Long-term debt	**9,649**	9,688	9,386	5,873	6,008
Other liabilities	**2,706**	2,590	2,529	1,828	1,170
Shareholder's equity	**6,255**	5,757	5,027	4,264	3,475
CAPITAL EXPENDITURES[2]	**1,223**	1,399	3,424	3,286	2,790

[1] The operating structure as at December 31, 2019 is comprised of five business segments. Offshore Development is comprised of Oil and Gas and Bull Arm Fabrication, of which Bull Arm Fabrication represents a discontinued operation. The designation of segments is based on a combination of regulatory status and management accountability.

[2] Capital expenditures includes tangible and intangible expenditures.

(listed as at Dec. 31, 2019)

NALCOR ENERGY BOARD OF DIRECTORS

BRENDAN PADDICK
Chairperson
CEO, Columbus Capital Corp.

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

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

CHRISTOPHER HICKMAN [1, 4]
CEO, Marco Group of Companies

JACK HILLYARD [1, 3]
Retired BMO Executive

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

STAN MARSHALL
President and CEO, Nalcor Energy

DEBBIE MOLLOY [1, 3, 4]
President and CEO, WSCC, Northwest Territories and Nunavut

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

DR. EDNA TURPIN [2, 4]
Psychologist/Corporate Director

1/ Audit Committee 2/ Corporate Governance Committee 3/Human Resources and Compensation Committee 4/ Safety, Health, Environment and Community Committee

NALCOR ENERGY OFFICERS

STAN MARSHALL
President and CEO, Nalcor Energy

GILBERT BENNETT
Executive Vice President, Power Development

JIM HAYNES
Executive Vice President, Power Supply

JIM KEATING
Executive Vice President, Corporate Services and
Offshore Development

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

ROBERT HENDERSON
Vice President, Transition to Operations

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

CARLA RUSSELL
General Manager, Finance*

AUBURN WARREN
General Manager, Financal and Risk Management

MEREDITH BAKER
Assistant Corporate Secretary

*As of publication date, Executive Vice President, Finance and Chief Financial Officer.

NEWFOUNDLAND AND LABRADOR HYDRO BOARD OF DIRECTORS

JOHN GREEN Q.C.
Chairperson
Lawyer, McInnes Cooper

STAN MARSHALL
President and CEO, Nalcor Energy

DONNA BREWER
Retired Deputy Minister of Finance

CHRIS LOOMIS
Professor (Retired), Memorial University of Newfoundland and Labrador

BRENDAN PADDICK
CEO, Columbus Capital Corp.

DAVID OAKE
President, Invenio Consulting Inc.

FRASER EDISON
President and CEO, Rutter Inc.

JOHN MALLAM
Retired Newfoundland and Labrador Hydro Executive

WILLIAM NIPPARD
Director of Operations, Qulliq Energy Corp.

BRIAN WALSH
Retired FortisTCI Executive

NEWFOUNDLAND AND LABRADOR HYDRO OFFICERS

STAN MARSHALL
Chief Executive Officer

DAWN DALLEY
Vice President, Regulatory Affairs and Corporate Service*

TERRY GARDINER
Vice President, Engineering and Technology

LISA HUTCHENS
Vice President, Financial Services

MICHAEL LADHA
Legal Counsel and Assistant Corporate Secretary

RONALD LEBLANC
Vice President, Operations and NLSO

JENNIFER WILLIAMS
President

GEOFF YOUNG
Corporate Secretary and General Counsel

* As of publication date, no longer an officer with the company (effective February 5, 2020).

(listed as at Dec. 31, 2019)

BRENDAN PADDICK
(Independent)
Board Chair

Brendan Paddick, founder and former chairman and chief executive officer of Columbus International Inc., a diversified telecommunications company, holds a Bachelor of Commerce and a Master of Business Administration from Memorial University of Newfoundland. Brendan has extensive capital markets, corporate governance, major capital project and international business experience.

BOARDS AND COMMITTEES AS MEMBER	2017	2018	2019
Nalcor Energy Board and AGM	9 of 9	10 of 10	10 of 10
Newfoundland and Labrador Hydro Board	6* of 7	7 of 7**	8 of 8
Nalcor Energy - Oil and Gas Inc. Board	3 of 3	4 of 4	8 of 8
LIL Operating Corporation Board	3 of 3	2 of 2	2 of 2
LIL Holding Corporation Board	1*** of 1	2 of 2	2 of 2
Labrador Transmission Corporation Board	N/A	3 of 3	2 of 2
LCP Group Meeting	3 of 3	3 of 3	3 of 3
CFLCo Board	4 of 4	5 of 5	4 of 4
Total of Meetings Attended as Member	29 of 30	36 of 36	39 of 39

**Attended Newfoundland and Labrador Hydro Board as non-member.*
***Joined Newfoundland and Labrador Hydro Board as member after third meeting was held.*
****Joined LIL Holding Corporation Board as member after second meeting was held.*

BOARDS AND COMMITTEES AS NON-MEMBER	2017	2018	2019
Nalcor Energy Governance Committee	1 of 4	1 of 4	0 of 2
Nalcor Energy HR & Compensation Committee	3 of 5	6 of 8	2 of 6
Nalcor Energy Audit Committee	6 of 7	5 of 6	4 of 6
Nalcor Energy SHEC Committee	0 of 3	2 of 3	0 of 3
Lower Churchill Management Corporation Board	2 of 2	2 of 2	2 of 2
Muskrat Falls Corporation Board	4 of 4	2 of 2	2 of 2
Labrador Transmission Corporation Board	4 of 4	N/A	N/A
LIL General Partner Corporation Board	4 of 4	3 of 3	2 of 2
Nalcor Energy - Bull Arm Fabrication Inc. Board	0 of 2	1 of 3	1 of 2
Nalcor Energy Marketing Corporation Board	1 of 2	1 of 2	2 of 3
CFLCo Audit Committee	2 of 5	2 of 4	0 of 5
Total of Meetings Attended as Non-member	27 of 42	25 of 37	15 of 33
Total of Meetings Attended	56 of 74	61 of 73	54 of 72

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

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

STAN MARSHALL
President and CEO

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

Stan has held many senior executive positions throughout his career. His time with Fortis spanned 35 years and he was at the helm as President and CEO for more than 18 years.

Stan served as the Chairman of FortisBC Holdings Inc. (formerly, Terasen Inc.). He was a Director of Fortis Properties Corporation as well as a Director at FortisAlberta Inc., and FortisBC Inc. He has been Independent Director at Enerflex Ltd. since 2011 and he is Chair of its Human Resource Committee. He served as the Chief Executive Officer of Fortis Inc., Chairman of Central Hudson Gas & Electric Corp., Independent Director of Toromont Industries Ltd., Director of the Conference Board of Canada, Director of Maritime Electric Company, Limited, FortisOntario Inc., Belize Electricity Limited and also held Director roles with CH Energy Group and Caribbean Utilities Co. Ltd. Stan also served as the President at Fortis Turks and Caicos and was the Chief Operating Officer of Fortis Inc. He joined Newfoundland Power Inc., in 1979.

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

BOARDS AND COMMITTEES AS MEMBER	2017	2018	2019
Nalcor Energy Board and AGM	9 of 9	10 of 10	10 of 10
Newfoundland and Labrador Hydro Board	7 of 7	7 of 7	8 of 8
Labrador Transmission Corporation Board	4 of 4	3 of 3	2 of 2
Lower Churchill Management Corporation Board	2 of 2	2 of 2	2 of 2
Muskrat Falls Corporation Board	4 of 4	2 of 2	2 of 2
LIL General Partner Corporation Board	4 of 4	3 of 3	2 of 2
LCP Group Meeting	3 of 3	3 of 3	3 of 3
Nalcor Energy - Bull Arm Fabrication Inc. Board	2 of 2	2 of 3	2 of 2
Nalcor Energy Marketing Corporation Board	2 of 2	2 of 2	1* of 3
CFLCo Board	4 of 4	5 of 5	4 of 4
Nalcor Energy - Oil and Gas Inc. Board	3 of 3	4 of 4	8 of 8
Total of Meetings Attended	44 of 44	43 of 44	44 of 46

Attended first meeting then resigned.

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

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

(listed as at Dec. 31, 2019)

GEOFF GOODYEAR
(Independent)

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

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

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

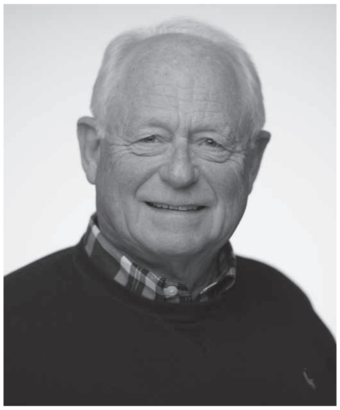
BOARDS AND COMMITTEES AS MEMBER	2017	2018	2019
Nalcor Energy Board	3* of 8	9 of 9	9 of 9
Nalcor Energy SHEC Committee	N/A	3 of 3	3 of 3
Nalcor Energy Governance Committee	N/A	4 of 4	2 of 2
Nalcor Energy Audit Committee	N/A	N/A	2** of 6
LCP Group Meeting	1* of 3	3 of 3	3 of 3
LIL Operating Corporation Board	N/A	2 of 2	2 of 2
LIL General Partner Corporation Board	N/A	3 of 3	2 of 2
CFLCo Board	N/A	N/A	4 of 4
CFLCo SHE Committee	N/A	N/A	2 of 2
Total of Meetings Attended	4 of 11	24 of 24	29 of 33

**Appointed to Nalcor Energy Board after fifth meeting was held.*
***Appointed to Nalcor Energy Audit Committee after the fourth meeting was held.*

REMUNERATION FOR BOARDS	Nalcor	Bull Arm	CFLCo	NL Hydro
	NIL	N/A	$4,250	N/A

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

JOHN GREEN, Q.C.
(Independent)



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

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

BOARDS AND COMMITTEES AS MEMBER	2017	2018	2019
Nalcor Energy Board	7 of 8	9 of 9	9 of 9
Nalcor Energy Governance Committee	4 of 4	4 of 4	2 of 2
Newfoundland and Labrador Hydro Board *(Board Chair)*	7 of 7	7 of 7	8 of 8
CFLCo Board	4 of 4	5 of 5	4 of 4
CFLCo Audit Committee	5 of 5	4 of 4	5 of 5
CFLCo SHE Committee	N/A	1 of 1	N/A
Nalcor Energy Marketing Corporation Board	2 of 2	2 of 2	3 of 3
LCP Group Meeting	3 of 3	3 of 3	3 of 3
LIL General Partner Corporation Board	3 of 4	3 of 3	2 of 2
Total of Meetings Attended as Member	35 of 37	38 of 38	36 of 36

COMMITTEES AS NON-MEMBER	2017	2018	2019
Newfoundland and Labrador Hydro Audit Committee	N/A	3 of 3	5 of 6
Newfoundland and Labrador Hydro Governance Committee	N/A	N/A	3 of 3
Total of Meetings Attended as Non-member	N/A	3 of 3	8 of 9

Total of Meetings Attended	35 of 37	41 of 41	44 of 45

REMUNERATION FOR BOARDS	Nalcor	Bull Arm	CFLCo	NL Hydro
	NIL	N/A	$15,390	$21,310

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

(listed as at Dec. 31, 2019)

CHRISTOPHER HICKMAN
(Independent)

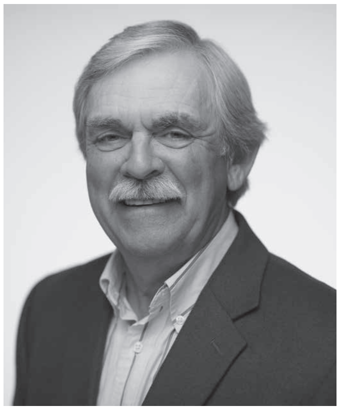
Christopher Hickman, Marco Chair and CEO, leads the entire Marco team and provides strategic direction for the company. He has received numerous awards over the years for business leadership and acumen. In 2011, he was inducted into the Top 50 CEO Hall of Fame by Atlantic Business Magazine – an honour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

BOARDS AND COMMITTEES AS MEMBER	2017	2018	2019
Nalcor Energy Board	7 of 8	4 of 9	5 of 9
Nalcor Energy Audit Committee	5 of 7	4 of 6	5 of 6
Nalcor Energy SHEC Committee	3 of 3	3 of 3	3 of 3
LCP Group Meeting	3 of 3	1 of 3	3 of 3
LIL Operating Corporation Board	3 of 3	2 of 2	1 of 2
Muskrat Falls Corporation Board	3 of 4	2 of 2	1 of 2
Total of Meetings Attended	24 of 28	16 of 25	18 of 25

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

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

J. J. (JACK) HILLYARD
(Independent)



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

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

BOARDS AND COMMITTEES AS MEMBER	2017	2018	2019
Nalcor Energy Board	7 of 8	6 of 9	8 of 9
Nalcor Energy Audit Committee	6 of 7	6 of 6	6 of 6
Nalcor Energy HR & Compensation Committee	5 of 5	8 of 8	6 of 6
Nalcor Energy Marketing Corporation Board	N/A	N/A	1* of 3
LCP Group Meeting	3 of 3	2 of 3	2 of 3
LIL Holding Corporation Board	2 of 3	1 of 2	1 of 2
Muskrat Falls Corporation Board	4 of 4	1 of 2	1 of 2
Total of Meetings Attended	27 of 30	24 of 30	25 of 31

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

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

LIL - Labrador Island Link, **LCP** - Lower Churchill Project

(listed as at Dec. 31, 2019)

MARK MACLEOD
(Independent)

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

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

BOARDS AND COMMITTEES AS MEMBER	2017	2018	2019
Nalcor Energy Board	6 of 8	9 of 9	9 of 9
Nalcor Energy Governance Committee	3 of 4	4 of 4	2 of 2
Nalcor Energy HR & Compensation Committee	5 of 5	8 of 8	6 of 6
LCP Group Meeting	2 of 3	3 of 3	3 of 3
Nalcor Energy - Oil and Gas Inc. Board	2 of 3	4 of 4	8 of 8
Nalcor Energy - Bull Arm Fabrication Inc. Board	2 of 2	3 of 3	2 of 2
Total of Meetings Attended	20 of 25	31 of 31	30 of 30

REMUNERATION FOR BOARDS	Nalcor	Bull Arm	CFLCo	NL Hydro
	NIL	$840	N/A	N/A

DEBBIE MOLLOY
(Independent)

Debbie Molloy is an executive leader with 25 years of experience in government, healthcare, energy and hospitality sectors. She has worked in both the public and private sectors and brings a broad understanding of the challenges and opportunities facing today's competitive, fast paced work environment. Her career path has allowed her to develop expertise in the areas of leadership, organizational effectiveness, talent management and employee relations.

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

BOARDS AND COMMITTEES AS MEMBER	2017	2018	2019
Nalcor Energy Board	8 of 8	9 of 9	5 of 8
Nalcor Energy Governance Committee	2 of 4	3 of 4	1* of 2
Nalcor Energy SHEC Committee	2 of 3	2 of 3	3 of 3
Nalcor Energy Audit Committee	N/A	3 of 6**	6 of 6
Nalcor Energy HR & Compensation Committee	N/A	N/A	1 of 6***
LCP Group Meeting	2 of 3	2 of 3	3 of 3
Nalcor Energy - Bull Arm Fabrication Inc. Board	2 of 2	3 of 3	2 of 2
Nalcor Energy Marketing Corporation Board	2 of 2	2 of 2	3 of 3
Total of Meetings Attended	18 of 22	24 of 30	24 of 33

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

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

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

(listed as at Dec. 31, 2019)

DAVID OAKE
(Independent)

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

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

BOARDS AND COMMITTEES AS MEMBER	2017	2018	2019
Nalcor Energy Board	8 of 8	9 of 9	9 of 9
Nalcor Energy Audit Committee	7 of 7	6 of 6	6 of 6
Nalcor HR & Compensation Committee	5 of 5	7 of 8	5 of 6
Newfoundland and Labrador Hydro	N/A	4 of 4	8 of 8
Newfoundland and Labrador Hydro Audit Committee	N/A	3 of 3	6 of 6
Nalcor Energy - Oil and Gas Inc. Board	N/A	N/A	6* of 8
LCP Group Meeting	3 of 3	2 of 3	3 of 3
LIL Operating Corporation Board	3 of 3	1 of 2	2 of 2
Nalcor Energy - Bull Arm Fabrication Inc. Board	2 of 2	3 of 3	2 of 2
CFLCo Board	N/A	N/A	4 of 4
CFLCo Audit Committee	N/A	N/A	5 of 5
Total of Meetings Attended	28 of 28	35 of 38	56 of 59

**Joined Nalcor Energy - Oil and Gas Inc. Board after fourth meeting was held, but attended two meetings as non-member.*

REMUNERATION FOR BOARDS	Nalcor	Bull Arm	CFLCo	NL Hydro
	NIL	$840	$5,000	$10,000

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

DR. EDNA TURPIN, ICD.D
(Independent)

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

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

BOARDS AND COMMITTEES AS MEMBER	2017	2018	2019
Nalcor Energy Board	8 of 8	9 of 9	8 of 9
Nalcor Energy SHEC Committee	3 of 3	2 of 3	3 of 3
Nalcor Energy Governance Committee	N/A	N/A	1* of 2
Nalcor Energy - Bull Arm Fabrication Inc. Board	2 of 2	2 of 3	2 of 2
Nalcor Energy Marketing Corporation Board	N/A	N/A	1** of 3
LCP Group Meeting	3 of 3	2 of 3	3 of 3
LIL General Partner Corporation Board	4 of 4	2 of 3	2 of 2
Muskrat Falls Corporation Board	N/A	1 of 2	2 of 2
Total of Meetings Attended	20 of 20	18 of 23	22 of 26

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

REMUNERATION FOR BOARDS	Nalcor	Bull Arm	CFLCo	NL Hydro
	NIL	$720	N/A	N/A

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

BOARD OF DIRECTORS

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

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

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

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

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

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

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

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

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

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

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

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

The Board also has four standing committees:

1. Audit[1,2]
2. Corporate Governance[1]
3. Human Resources and Compensation
4. Safety, Health, Environment and Community[2]

Nalcor has the following subsidiary companies (in addition to Newfoundland and Labrador Hydro), each with its own Board of Directors (listed as at Dec. 31, 2019).[3]

[1] Newfoundland and Labrador Hydro has its own Audit Committee and Corporate Governance Committee.

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

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

CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED

BRENDAN PADDICK
Chairperson
CEO, Columbus Capital Corp.

DAVID MURRAY
COO, Hydro-Québec and President, Hydro Québec Production

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

JOHN GREEN Q.C.
Lawyer, McInnes Cooper

STAN MARSHALL
President and CEO, Nalcor Energy

BOB WARR
Managing Director, Nor-Lab Limited

GEOFF GOODYEAR
Retired

DAVID OAKE
President, Invenio Consulting Inc.

NALCOR ENERGY – OIL & GAS INC. *

BRENDAN PADDICK
Chairperson
CEO, Columbus Capital Corp.

JUSTIN LADHA
CEO, KMK Capital Inc.

MARK MACLEOD
Formerly President and CEO, C-Core

STAN MARSHALL
President and CEO, Nalcor Energy

DAVID OAKE
President, Invenio Consulting Inc.

NALCOR ENERGY – BULL ARM FABRICATION INC.*

DR. EDNA TURPIN
Chairperson
Psychologist/Corporate Director

MARK MACLEOD
Formerly President and CEO, C-Core

STAN MARSHALL
President and CEO, Nalcor Energy

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

DAVID OAKE
President, Invenio Consulting Inc.

* As of January 1, 2020 this company is no longer a part of the Nalcor Energy subsidiaries as the shares were transferred to the new OilCo Company.

TWIN FALLS POWER CORPORATION LIMITED

ROBERT HULL
President

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

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

DANA POPE
Controller, Finance, CF(L)Co, Power Supply, Nalcor Energy

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

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

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

LOWER CHURCHILL MANAGEMENT CORPORATION

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

GILBERT BENNETT
Executive Vice President, Power Development, Nalcor Energy

STAN MARSHALL
President and CEO, Nalcor Energy

JUNE PERRY
President and CEO, Pilot Communications

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

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

JOHN GREEN Q.C.
Chairperson
Lawyer, McInnes Cooper

LIBBY BURNHAM
Lawyer

STAN MARSHALL
President and CEO, Nalcor Energy

DR. EDNA TURPIN
Psychologist/Corporate Director

GEOFF GOODYEAR
Retired Executive,Universal Helicopters
Newfoundland and Labrador LP

LABRADOR-ISLAND LINK HOLDING CORPORATION

JACK HILLYARD
Chairperson
Retired BMO Executive

SHEILA KELLY-BLACKMORE
Retired Business Person

JIM HAYNES
Executive Vice President, Power Supply, Nalcor Energy and
President and CEO, LIL Holding

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

BRENDAN PADDICK
CEO, Columbus Capital Corp.

LABRADOR-ISLAND LINK OPERATING CORPORATION

BRENDAN PADDICK
Chairperson
CEO, Columbus Capital Corp.

CHRISTOPHER HICKMAN
CEO, Marco Group of Companies

CHRIS LOOMIS
Retired Professor

DAVID OAKE
President, Invenio Consulting Inc.

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

GEOFF GOODYEAR
Retired Executive,Universal Helicopters
Newfoundland and Labrador LP

LABRADOR TRANSMISSION CORPORATION

RONALD COLE
Chairperson
Lawyer, Cole Law Offices

JIM HAYNES
Executive Vice President, Power Supply, Nalcor Energy

STAN MARSHALL
President and CEO, Nalcor Energy

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

BRENDAN PADDICK
CEO, Columbus Capital Corp.

MUSKRAT FALLS CORPORATION

CHRISTOPHER HICKMAN
Chairperson
CEO, Marco Group of Companies

RICHARD DAW
Chartered Professional Accountant,
Certified Management Consultant

JACK HILLYARD
Retired BMO Executive

STAN MARSHALL
President and CEO, Nalcor Energy

JOHN QUAICOE
Retired Professor

DR. EDNA TURPIN
Psychologist/Corporate Director

NALCOR ENERGY MARKETING CORPORATION

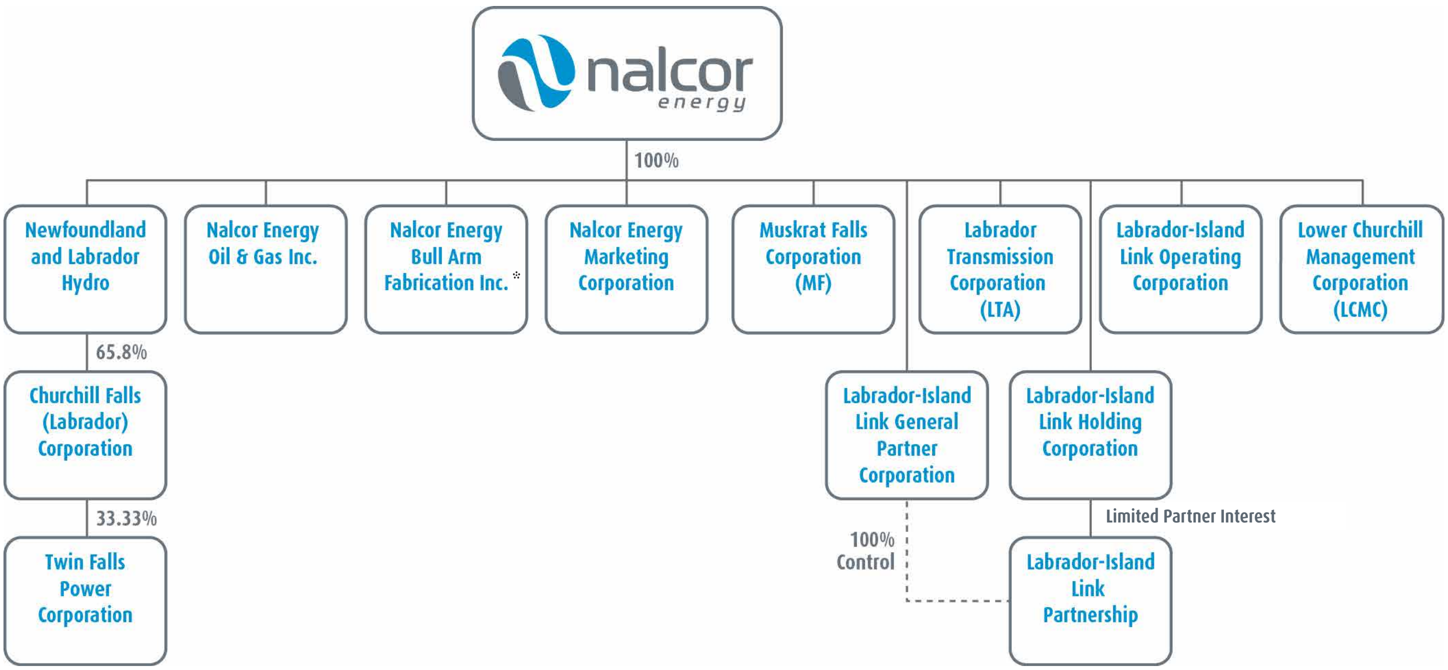
JACK HILLYARD
Chairperson
Retired BMO Executive

GREGORY CONNORS
Lawyer, McInnes Cooper

JOHN GREEN Q.C.
Lawyer, McInnes Cooper

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

DR. EDNA TURPIN
Psychologist/Corporate Director



* As of January 1, 2020 this company is no longer a part of the Nalcor Energy subsidiaries.

AUDIT COMMITTEE

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

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

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

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

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

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

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

CORPORATE GOVERNANCE COMMITTEE

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

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

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

c) Review and recommend a process for Director orientation, assessment and compensation; and

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

HUMAN RESOURCES AND COMPENSATION COMMITTEE

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

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

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

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

d) Review and assess annually corporate performance metrics;

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

f) Review the approach to employment diversity and inclusion;

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

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

SAFETY, HEALTH, ENVIRONMENT AND COMMUNITY COMMITTEE

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

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

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

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

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

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

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

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

POLICY ON INDEPENDENCE OF EXTERNAL AUDITORS

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

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

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

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

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

EXTERNAL AUDITOR'S FEES

The external auditor of Nalcor and its subsidiaries is Deloitte. Deloitte has been the external auditor since 2003. Professional fees incurred in 2019 in connection with audit and audit-related services were $0.9 million (2018 - $1.0 million) and fees related to non-audit services were $0.1 million (2018 - $0.1 million).

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 1

CONTENTS

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Hydro Place. 500 Columbus Drive
P.O. Box 12800. St. John's, NL
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W. nalcorenergy.com

CORPORATE OVERVIEW

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

Nalcor's legal structure as at December 31, 2019 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)[1]	Wholly owned subsidiary
Labrador Transmission Corporation (Labrador Transco)[1]	Wholly owned subsidiary
Labrador-Island Link Holding Corporation (LIL Holdco)[1]	Wholly owned subsidiary
Labrador-Island Link General Partner Corporation (LIL GP)[1]	Wholly owned subsidiary
Labrador-Island Link Operating Corporation (LIL OpCo)[1]	Wholly owned subsidiary
Lower Churchill Management Corporation (LCMC)[1]	Wholly owned subsidiary
Churchill Falls (Labrador) Corporation Limited (Churchill Falls)	65.8% owned joint operation of Hydro
Twin Falls Power Corporation Limited (Twin Falls)	33.3% owned joint venture of Churchill Falls
Labrador-Island Link Limited Partnership (LIL LP)[1]	Limited partnership in which Nalcor, through LIL Holdco, owns 100% of the 75 Class A Partnership Units, 1 Class C Partnership Unit and, through LIL GP, 1 General Partner Unit
Gull Island Power Corporation (GIPCo)	Wholly owned subsidiary (inactive)
Lower Churchill Development Corporation (LCDC)	51% owned subsidiary of Hydro (inactive)

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

The operating structure as at December 31, 2019 is comprised of five business segments. The designation of segments is based on a combination of regulatory status and management accountability. The following summary provides a brief overview of the nature of the operations included in each of the Company's operating segments.

Hydro – is comprised of both regulated and non-regulated activities.
- **Hydro Regulated** activities encompass sales of electricity to customers within the Province that are regulated by the Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB).
- **Hydro Non-Regulated** activities include the sale of power, 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 consist of transmission lines connecting the Muskrat Falls Generating Station, the Churchill Falls Generating Station, and certain portions of the transmission system in Labrador to the island of Newfoundland.
- **Churchill Falls** owns and operates a hydroelectric generating facility which sells electricity to Hydro-Québec and Hydro.
- **Energy Trading** includes energy trading and commercial activities related to securing and optimizing markets to extract the greatest value from Nalcor's existing generation resources through the participation in export electricity markets.

- **Other** includes revenues and costs recovered from Hydro-Québec associated with Nalcor's operation of the Menihek Generating Station, the Maritime Link (which is owned by Emera Inc. (Emera), but consolidated by Nalcor), costs related to Power Supply management and administration, 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** includes Nalcor's share of exploration, development, production, transportation and processing sectors of the oil and gas industry.

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

Discontinued Operations

On March 11, 2019, the Province announced the structure of the new oil and gas Crown corporation, which includes Bull Arm Fabrication as a subsidiary. As a result, Bull Arm Fabrication, which was designated as a discontinued operation as at September 30, 2018, continues to meet the criteria for a discontinued operation and is classified as a disposal group held for distribution. Results of operations have been presented in accordance with *Non-Current Assets Held for Sale and Discontinued Operations – IFRS 5*.

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

Bull Arm Fabrication – includes an industrial fabrication site which is available for sublease to third parties.

Nalcor maintains appropriate systems of internal control and policies and procedures which provide Management with reasonable assurance that assets are safeguarded and its financial information is reliable. The following discussion and analysis includes results as of December 31, 2019. The Management Discussion and Analysis (MD&A) is the responsibility of Management and the Board of Directors carries out its responsibility for review of this disclosure principally through its Audit Committee. This MD&A was reviewed by the Audit Committee and approved by the Board of Directors on February 28, 2020. Subsequent to the approval of the MD&A on February 28, 2020, the impact of the COVID-19 pandemic resulted in its release being delayed. The MD&A was updated to reflect subsequent events and outlook information which occurred during this period. The changes to the MD&A were reviewed by the Audit Committee and approved by the Board of Directors on June 26, 2020.

This MD&A should be read in conjunction with the annual audited consolidated financial statements of Nalcor for the year ended December 31, 2019, which were approved by the Board of Directors on February 28, 2020.

BASIS OF PRESENTATION

Unless otherwise noted, all financial information has been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board and reported in Canadian dollars (CAD).

DISCONTINUED OPERATIONS

Due to Bull Arm Fabrication being classified as a discontinued operation, it is no longer presented in the segment note of the annual audited consolidated financial statements. Nalcor has prepared the results of discontinued operations in accordance with the applicable IFRS standard.

NON-GAAP FINANCIAL MEASURES

Certain financial measures in this MD&A are not prescribed by IFRS as contained within Part I of the Chartered Professional Accountants of Canada Handbook. These non-generally accepted accounting principles (Non-GAAP) financial measures are defined below in the section titled *Non-GAAP Financial Measures*.

FORWARD-LOOKING INFORMATION

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

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

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

SUMMARY OF FINANCIAL HIGHLIGHTS AND RECENT DEVELOPMENTS

FINANCIAL HIGHLIGHTS

Key Profit Drivers

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

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

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

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

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

For the periods ended December 31 (millions of Canadian dollars)	Three months ended 2019	2018	2017	Twelve months ended 2019	2018	2017
Revenue, inclusive of discontinued operations	**288**	265	162	**1,039**	1,029	926
Operating profit[1]	**21**	49	31	**132**	191	157
Profit (loss)	**20**	40	(101)	**126**	180	51
Funds from operations (FFO)[1]	**78**	89	79	**328**	375	358
Earnings before interest, taxes, depreciation, depletion, amortization, impairment and accretion (EBITDA)[1]	**103**	108	93	**415**	452	417
Return on capital employed (ROCE)[1,2]				**4.6%**	5.7%	4.8%
Capital expenditures[3]	**269**	250	673	**1,195**	1,384	2,836
Oil production (thousands of bbls)	**958**	643	757	**3,508**	3,421	3,023
Realized oil price (CAD/bbl)	**83**	71	75	**86**	84	69
Electricity sales (GWh):						
Regulated	**2,051**	2,150	2,076	**7,751**	7,662	7,626
Export sales – Hydro-Québec[4]	**7,282**	7,302	7,302	**28,944**	28,970	28,970
Export deliveries – Hydro-Québec[4]	**8,936**	8,383	7,811	**30,182**	30,959	26,218
Export – other markets	**313**	305	359	**1,319**	1,562	1,594
Realized electricity price – Other Export Markets (CAD/MWh)	**26**	42	37	**27**	38	31

[1]See *Non-GAAP Financial Measures*

[2]Rolling 12 month average

[3]Excluding Maritime Link

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

Profit

Nalcor's profit for the three months ended December 31, 2019 was $20 million, a decrease of $20 million compared to the same period in 2018. Key drivers of the decrease include lower profit in Hydro Regulated due to the approval of a cost deferral in Q4 2018 combined with a loss on rural sales and a write off of a regulatory asset in 2019; an increase in depletion for Oil and Gas, along with higher royalties paid to the Province, as HSE entered a new tier of the royalty regime in 2019; an increase in borrowing and operating costs for LCP Transmission as costs related to the LTA were no longer eligible for capitalization and lower revenue in Energy Trading due to lower realized export market prices. These decreases were partially offset by higher oil sales volumes during the quarter for Hebron and HSE and higher realized oil prices compared to the same period in 2018, as well as an asset write-down in Q4 2018 related to Ramea wind assets.

Nalcor's profit for the year ended December 31, 2019 was $126 million, a decrease of $54 million compared to the same period in 2018. Key drivers of the decrease include higher royalties paid to the Province, as HSE entered a new tier of the royalty regime in 2019; an increase in depletion in Oil and Gas; lower realized export market prices and lower energy volumes available for export by Energy Trading, as a result of Hydro Regulated utilizing excess Recapture energy to service Island requirements in early 2019. Also contributing to the decrease was an increase in borrowing and operating costs for LCP Transmission as costs related to the LTA were no longer eligible for capitalization. These decreases were partially offset by higher oil sales volumes in Oil and Gas and an asset write-down in 2018 related to Ramea wind assets.

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

FFO and EBITDA

FFO for the three months ended December 31, 2019 was $78 million, a decrease of $11 million compared to the same period in 2018. FFO for the year ended December 31, 2019 was $328 million, a decrease of $47 million compared to the same period in 2018.

EBITDA for the three months ended December 31, 2019 was $103 million, a decrease of $5 million compared to the same period in 2018. EBITDA for the year ended December 31, 2019 was $415 million, a decrease of $37 million compared to the same period in 2018. The change in these metrics was primarily driven by a decrease in profit due to drivers noted in the profit analysis above.

ROCE

ROCE for the year ended December 31, 2019 was 4.6%, a decrease of 1.1% compared to the same period in 2018. The decrease was primarily driven by the drivers noted in the profit analysis above and an increase in the average capital employed relating to Muskrat Falls and LCP Transmission.

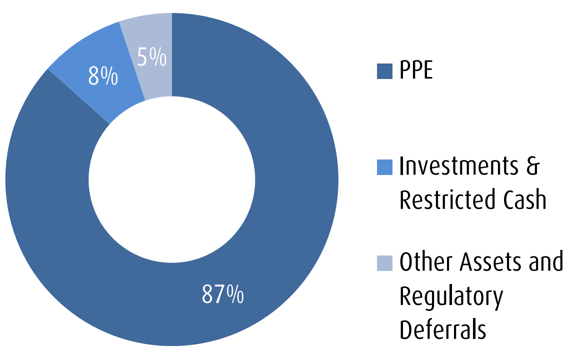
Capital Expenditures

Capital expenditures for the three months ended December 31, 2019, excluding Maritime Link, were $269 million, which was comparable to the same period in 2018. Capital expenditures for the year ended December 31, 2019, excluding Maritime Link were $1,195 million, a decrease of $189 million compared to the same period in 2018. The primary driver of the annual decrease was lower capital expenditures in LCP Transmission and Muskrat Falls due to the wind down of construction as assets near completion, along with lower capital expenditures in Hydro Regulated resulting from a decrease in planned capital spend for 2019.

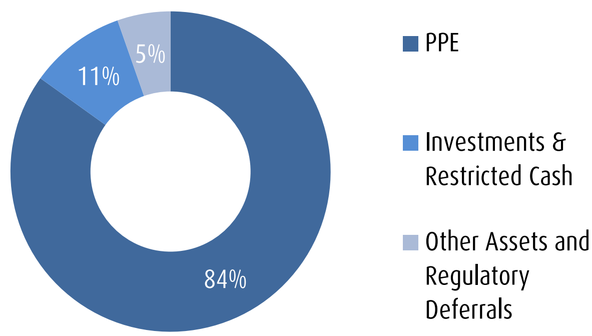
A detailed discussion of the segmented capital expenditures is provided in *Liquidity and Capital Resources*.

Total Assets

December 31, 2019 - $19.3 billion



December 31, 2018 - $18.8 billion



Nalcor's total assets of $19.3 billion as at December 31, 2019 were comparable to $18.8 billion as at December 31, 2018. The composition of the Company's assets as at December 31, 2019 included property, plant and equipment of $16.8 billion (December 31, 2018 - $15.8 billion), investments and restricted cash primarily from the proceeds of the Muskrat Falls and LCP Transmission financing of $1.6 billion (December 31, 2018 - $2.0 billion) and other assets and regulatory deferrals totaling $0.9 billion (December 31, 2018 - $1.0 billion). Further details on changes in the Consolidated Statement of Financial Position are included in *Consolidated Financial Results*.

Total Liabilities and Equity

Total liabilities and equity of $13.1 billion and $6.2 billion, respectively, at December 31, 2019 are comparable to $13.0 billion and $5.8 billion as at December 31, 2018. Further details on changes in the Consolidated Statement of Financial Position are included in *Consolidated Financial Results*.

Debt to Capital

Debt to capital of 62% as at December 31, 2019 is comparable to 64% as at December 31, 2018. See *Liquidity and Capital Resources* for further details.

RECENT DEVELOPMENTS

HYDRO REGULATED

2017 General Rate Application

Hydro Regulated filed its 2017 General Rate Application in July 2017, using 2018 and 2019 Test Years. The PUB issued its decision on the 2017 GRA in Order No. P.U. 16(2019) and the 2017 GRA Compliance Application was filed in July 2019 with revised 2018 and 2019 Test Year revenue requirements and customer rates. Hydro Regulated received approval of its Compliance Application on September 11, 2019 in Order No. P.U. 30(2019) and approval of its application for retail rates to become effective October 1, 2019 on September 25, 2019 through Order No. P.U. 32(2019). Adjustments to the 2018 and 2019 revenue requirements approved in the Compliance Order were reflected in the Q3 2019 operating results.

Rates reflecting the approved 2017 GRA were implemented on October 1, 2019, replacing previously obtained interim rates for Island Industrial customers effective January 1, 2019 and Newfoundland Power and Hydro Rural customers rates effective July 1, 2018.

Rate Stabilization Plan Surplus Refund

In July 2016, Hydro Regulated filed an application with the PUB for approval to refund the balance in the RSP Surplus to Newfoundland Power and Hydro Regulated's Island Interconnected Rural customers. In June 2019, Hydro Regulated filed a report with the PUB indicating that approximately $134 million had been disbursed and a remaining balance of $10 million had been applied to the utility RSP current account balance in March 2019, in accordance with Order No. P.U. 7(2019), concluding this matter.

2019 Capital Budget

On July 31, 2018, Hydro Regulated filed its 2019 Capital Budget Application seeking approval for a $116 million capital budget, which was approved in December 2018 through Order No. P.U. 46(2018). In March 2019, the PUB issued Order No. P.U. 9(2019) approving a total of $20 million to be incurred over a two year period beginning in 2019 for the Muskrat Falls to Happy Valley-Goose Bay interconnection project. During 2019, the PUB also approved supplemental projects totaling $2.0 million and an additional $0.6 million to supplement the Allowance for Unforeseen items in Order No. P.U. 7(2019).

2020 Capital Budget

On August 1, 2019, Hydro Regulated filed its 2020 Capital Budget Application for expenditures for 2020. Hydro Regulated's final submission was filed with the PUB on December 16, 2019. On February 21, 2020, the PUB approved Hydro's 2020 Capital Budget of $107.6 million in Board Order P.U. 6 (2020).

Investigation and Hearing into Supply Issues and Power Outages – Phase II

The Phase II Investigation and Hearing into Supply Issues and Power Outages (Phase II) on the Island Interconnected System began in January 2014. The focus of this proceeding was on the reliability and adequacy of the Island Interconnected System leading up to, and after, the interconnection of Muskrat Falls. On December 4, 2019, the PUB issued a letter advising that it had closed the record on Phase II. Quarterly updates on progress towards integration of the LCP assets into Hydro Regulated's system continue to be provided by the Transition to Operations team to the Liberty Consulting Group (Liberty), which in turn, files quarterly reports to the PUB.

Resource Adequacy

The future reliability of the island interconnected system will be addressed through the PUB's review of the Reliability and Resource Adequacy Study (RRA Study), initially filed on November 16, 2018 and updated in November 2019. The RRA Study addresses Hydro Regulated's long-term approach to providing least-cost, reliable service for its customers and focuses on Hydro Regulated's proposed planning criteria and ability to meet customer and system requirements reliably over a ten-year planning period (beginning in 2020). The study also contains recommendations regarding modifications to planning criteria and extension of the system energy planning criteria to the entire Provincial Interconnected System. The PUB review process is ongoing and will continue throughout 2020 and 2021. Hydro Regulated filed an application on August 16, 2019 to defer the expenses associated with the review of this study. The application was approved on September 6, 2019 through Order No. P.U. 29(2019) and recovery of these costs will be addressed in the next GRA.

Future General Rate Application

Preparation is ongoing for Hydro Regulated's next GRA, including the development of Wholesale and Island Industrial Customer rates to reflect the Lower Churchill Project costs.

Hydro Regulated filed its Cost of Service Methodology Application with the PUB during the fourth quarter of 2018, which resulted in a settlement agreement being filed on October 7, 2019. Board Order No. P.U. 37(2019) was received on November 20, 2019 accepting the recommendations of the Settlement Agreement for use in the cost of service study to be filed in Hydro Regulated's next GRA.

An update to support the review of Hydro Regulated's Wholesale and Island Industrial Customer rates was filed with the PUB on September 30, 2019. Also, a review of supply cost recovery deferral accounts is underway to determine the most appropriate approach to manage supply cost variances during and subsequent to the transition period from HTGS generation to commissioning of the LCP assets.

In the 2017 GRA Order, the PUB directed Hydro Regulated to file its next GRA in September 2020. Information regarding the Government's rate mitigation plan and the ongoing restructuring of the Muskrat Falls Purchase Power Agreement (Muskrat Falls PPA) is required in order to prepare a GRA filing that would reasonably reflect the forecast costs expected to be incurred. As this work is currently ongoing, Hydro Regulated filed an application with the PUB on April 14, 2020 to delay its next GRA filing until after the revised financial structure for the Muskrat Falls PPA and Government's rate mitigation plan have been finalized and publicly communicated and on May 27, 2020, the PUB approved this application. Hydro Regulated is required to file quarterly updates with respect to the filing of its next GRA beginning on September 30, 2020.

Other Applications

On March 31, 2019, Hydro Regulated filed an application for the recovery of $22 million of supply costs that were deferred in 2018. These costs represent changes in the cost of produced and purchased energy for serving customers throughout 2018 when compared to the cost included in Hydro Regulated's rates. This application was approved in Order No. P.U. 21(2019), resulting in the recovery of the costs from the RSP balance.

On June 10, 2019, Hydro Regulated applied to the PUB to delay the implementation of rate changes for the RSP and Conservation Demand Management deferrals that normally occur annually on July 1 to coincide with the implementation of final rates resulting from Hydro Regulated's 2017 GRA, which was implemented on October 1, 2019. The PUB approved this application in Order No. P.U. 25(2019).

In 2018, the PUB approved the sale of the Corner Brook Pulp and Paper frequency converter for a nominal value. The asset disposal costs associated with this transaction were included in the 2018 Cost Deferral. The PUB undertook an assessment to determine whether these asset disposal costs could be included as part of Hydro Regulated's newly approved depreciation methodology and on December 9, 2019, the PUB issued Order No. P.U. 38(2019) disallowing this treatment. As a result, Hydro Regulated recorded a write down to regulatory adjustments of $4.2 million.

MUSKRAT FALLS/LCP TRANSMISSION

In November 2018, Muskrat Falls issued a demand for $184 million in letters of credit for a construction contract related to the Muskrat Falls Generating Station. The proceeds were received in February 2019. Construction of the Muskrat Falls Generating Station continued and in October 2019, testing for the generator step-up transformer for unit 1 was completed, allowing power to be provided to the Muskrat Falls powerhouse.

On June 4, 2019, LIL assets were taken off-line to undergo scheduled delivery of interim bi-pole software updates. As of July 1, 2019, substantially all construction and testing activities related to the LTA were complete. This change means borrowing and operating costs are no longer eligible for capitalization and are now being expensed in profit (loss).

As a result of actions taken to contain the spread of COVID-19, the LCP sites were placed into care and maintenance mode in mid-March 2020. On May 30, 2020, Nalcor has started preparing for the safe and gradual resumption of construction and commissioning activities of Muskrat Falls and the LIL assets. Management is assessing the impact of the pandemic on the forecast cost and schedule. As a result of the time loss and suspension of work in March, management has estimated that project completion will be delayed at least four months.

In addition, depending on the size of the workforce and level of productivity in the coming months, management estimates that final completion could be delayed a further two to six months. The full impact on project cost and schedule is yet to be determined.

Commission of Inquiry Respecting the Muskrat Falls Project

The Commission of Inquiry Respecting the Muskrat Falls Project (the Inquiry) was established by the Province on November 20, 2017, with Justice Richard LeBlanc as the appointed Commissioner. The hearings and public consultation sessions for the Inquiry concluded on August 16, 2019. In December 2019, the final report was granted an extension for a period of up to three months and was delivered to the Province on March 5, 2020. The Province released the report to the public on March 10, 2020.

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

On September 5, 2018, the Province issued Terms of Reference to the PUB to review LCP rate mitigation options and related impacts. The PUB was required to provide two reports throughout the review, an interim report, and a final report.

In early 2019, the PUB released two interim reports issued by Synapse Energy Economics Inc. (Synapse) and Liberty on rate mitigation options and impacts relating to the LCP costs followed by the PUB's interim report on February 19, 2019. In September 2019, the PUB released the final reports from its consultants - Synapse and Liberty. Most of the findings in both the Synapse and Liberty reports are largely in line with the work Nalcor has performed to date on mitigation of rates for customers. Hearings and final written submissions related to the rate mitigation options and related impacts occurred in the fall of 2019 and on February 7, 2020, the PUB issued its final report to the Province for consideration. Nalcor was actively involved in the review, through submission of requests for information and appearing during the hearing phase.

Rate Mitigation

In addition to the PUB Reference process described above, during April 2019, the Province released details surrounding its strategy to manage and mitigate electricity rates for 2021 onward, which include collaborating with the Federal government.

On February 10, 2020, the provincial and federal governments announced a plan to negotiate a financial restructuring of the LCP, including a change to the Muskrat Falls/Labrador Transmission Assets revenue model and the deferral of sinking fund payments and Cost Overrun Escrow Account payments, if required. A formal agreement between both levels of Government is anticipated to be implemented by project commissioning.

CHURCHILL FALLS

Churchill Falls appealed a ruling of the Québec Superior Court related to the interpretation of the 1969 Power Contract and the associated Renewal Contract to the Québec Court of Appeal. The appeal hearing was held on December 4, 2018 and a decision of the Court of Appeal was issued on June 20, 2019, partially overturning the decision of the Québec Superior Court. This matter is now closed and the financial impacts of the Declaratory Judgement ruling are unknown at this time. The Parties are in the process of negotiating the value of the final Annual Energy Base (AEB) that will establish the Continuous Energy volume for the term of the Renewed Power Contract.

ENERGY TRADING

Energy Trading continues to work with Hydro Regulated to procure off-island energy to displace energy production from the HTGS where it is economically justified or to aid in reservoir management when reservoir water levels are low; however, Energy Trading does not realize a profit on these transactions. In December 2018, the PUB approved an application from Hydro Regulated to authorize Energy Trading to begin purchasing and importing low-cost energy from external markets to satisfy customer requirements on the island instead of generating energy from Hydro Regulated's hydraulic assets. At a later date, when market prices are higher, Hydro Regulated generates and sells energy into export markets, creating value which will be passed along to ratepayers in the future, subject to further regulatory process. Energy Trading holds all financial responsibility and risk in the event a net gain does not materialize.

Throughout 2019, Energy Trading transferred approximately 215 GWh of Recapture energy from the Churchill Falls Generating Station to the Island via the LIL assets. In addition, Energy Trading imported approximately 232 GWh of lower-cost energy from various markets throughout eastern Canada and the northeastern United States, via the Maritime Link to reduce the cost associated with providing service to Hydro Regulated's Island customers by displacing more costly generation at HTGS.

As a result of a delay in commissioning activities related to the LIL, Energy Trading had additional Recapture volumes available for export during a portion of Q2 2019 through Q4 2019 that were similar to previous years.

OIL AND GAS

On March 11, 2019, the Province announced additional details related to the structure of its new oil and gas stand-alone Crown corporation. The new Crown corporation will be responsible for financing and managing exploration activities and future equity investments in offshore developments. Nalcor's existing equity interests in offshore developments will remain with Nalcor and be managed by the new Crown corporation under a Management Services Agreement. During Q4 2019, Oil and Gas Corp. was established, with an effective date of January 1, 2020 to commence operations. As of this date, personnel from Oil and Gas have transferred to Oil and Gas Corp.

On July 16, 2019, operations at the Hibernia oil field were suspended due to an oil spill from the Hibernia platform. The Canada-Newfoundland and Labrador Offshore Petroleum Board (C-NLOPB) issued approval to Hibernia Management and Development Company Ltd. (HMDC) to resume production operations at the platform on August 15, 2019. A second spill occurred on August 17, 2019 as a result of the loss of main power generation. HMDC received approval on September 26, 2019 from the C-NLOPB to resume production at the Hibernia oil field. Production resumed on September 27, 2019.

BULL ARM FABRICATION

Bull Arm Fabrication signed a short-term arrangement with DF Barnes related to the West Aquarius drilling rig in Q4 2018; which concluded in July 2019. In October 2019, Bull Arm Fabrication signed a second short-term agreement with DF Barnes to complete work on the Transocean Barents drill rig throughout Fall 2019 into Spring 2020. Finally, Bull Arm Fabrication also entered into an agreement with DF Barnes, effective December 2019, for cold stacking of the Transocean Henry Goodrich drill rig.

As part of the announcement by the Province on March 11, 2019, it was stated that Bull Arm Fabrication would be a subsidiary of Oil and Gas Corp. Effective January 1, 2020, the shares of Bull Arm Fabrication were distributed to Oil and Gas Corp. and, as a result, it will not be reported in the results of Nalcor going forward.

CONSOLIDATED FINANCIAL RESULTS

CONSOLIDATED STATEMENT OF PROFIT AND COMPREHENSIVE INCOME HIGHLIGHTS

For the periods ended December 31 (millions of Canadian dollars)	Three months ended 2019	2018	Variance	Twelve months ended 2019	2018	Variance
Continuing Operations						
Revenue	**288**	265	23	**1,038**	1,029	9
Fuels	**84**	65	19	**217**	189	28
Power purchased	**30**	23	7	**102**	87	15
Operating costs	**59**	62	(3)	**230**	220	10
Production, marketing and transportation costs	**7**	10	(3)	**36**	42	(6)
Transmission rental	**7**	7	-	**26**	25	1
Depreciation, depletion, amortization and impairment	**57**	50	7	**197**	189	8
Exploration and evaluation	**5**	2	3	**33**	29	4
Net finance expense	**26**	21	5	**92**	83	9
Other expense	**9**	9	-	**14**	29	(15)
Profit for the period before regulatory adjustments	**4**	16	(12)	**91**	136	(45)
Regulatory adjustments	**(16)**	(24)	8	**(36)**	(46)	10
Profit for the period from continuing operations	**20**	40	(20)	**127**	182	(55)
Discontinued operations						
Loss for the period from discontinued operations	**-**	-	-	**(1)**	(2)	1
Profit for the period	**20**	40	(20)	**126**	180	(54)
Other comprehensive (loss) income for the period	**(16)**	24	(40)	**(12)**	19	(31)
Total comprehensive income for the period	**4**	64	(60)	**114**	199	(85)

Non-GAAP Operating Profit Disclosure

Reconciliation of Nalcor's profit to operating profit for the three and twelve months ended December 31, 2019 and 2018 is as follows:

For the periods ended December 31 (millions of Canadian dollars)	Three months ended 2019	2018	Variance	Twelve months ended 2019	2018	Variance
Profit for the period	**20**	40	(20)	**126**	180	(54)
Inquiry and PUB Reference costs	**1**	3	(2)	**6**	5	1
Impairment of property, plant and equipment	**-**	4	(4)	**-**	4	(4)
Impairment of intangible assets	**-**	2	(2)	**-**	2	(2)
Operating profit for the period	**21**	49	(28)	**132**	191	(59)

Revenue

Revenue for the three months ended December 31, 2019 was $288 million, an increase of $23 million compared to the same period in 2018. The increase for the quarter was primarily driven by higher sales in Oil and Gas as a result of an increase in production for Hebron and HSE and higher average Dated Brent price per barrel; partially offset by an increase in royalties paid to the Province.

Revenue for the year ended December 31, 2019 was $1,038 million, an increase of $9 million compared to the same period in 2018. The increase for the year was primarily related to higher revenue in Hydro Regulated due to higher average rates, favourable adjustments associated with normal operation of the RSP, and higher energy and demand sales to Newfoundland Power. Also contributing to the increase was additional energy sales to Industrial customers in Hydro Non-Regulated, and higher sales volumes and favourable foreign exchange in Oil and Gas. These increases were partially offset by a lower average Dated Brent price per barrel and higher royalties paid to the Province in Oil and Gas, combined with a decrease in sales in Energy Trading due to lower average export electricity prices and a reduction in volumes available for export. Although activity in the RSP impacts revenue, it is offset in regulatory adjustments.

Fuels

Fuel costs for the three months ended December 31, 2019 were $84 million, an increase of $19 million compared to the same period in 2018. Fuel costs for the year ended December 31, 2019 were $217 million, an increase of $28 million compared to the same period in 2018. The increase for the quarter and year was primarily due to a higher volume and price of No. 6 fuel used at HTGS; partially offset by a lower volume of gas turbine fuel used in 2019, as Hydro Regulated was able to avail of lower cost off-island energy to service customer requirements. Certain variances in fuel are offset through regulatory mechanisms in the regulatory adjustments line.

Power purchased

Power purchased for the three months ended December 31, 2019 was $30 million, an increase of $7 million compared to the same period in 2018. Power purchased for the year ended December 31, 2019 was $102 million, an increase of $15 million compared to the same period in 2018. The increase for the quarter and year was primarily due to an increase in energy imported across the Maritime Link to reduce fuel consumed at HTGS and gas turbine fuel. Certain variances in Power purchased are offset through regulatory mechanisms in the regulatory adjustments line.

Operating costs

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2019**	2018	Variance	**2019**	2018	Variance
Salaries and benefits	**35**	34	1	**144**	139	5
Maintenance and materials	**10**	11	(1)	**36**	35	1
Professional services	**8**	10	(2)	**25**	23	2
Travel and transportation	**2**	2	-	**8**	8	-
Insurance	**1**	2	(1)	**6**	6	-
Rental and royalty	**2**	1	1	**5**	4	1
Other operating costs	**1**	2	(1)	**6**	5	1
Total operating costs	**59**	62	(3)	**230**	220	10

Operating costs for the three months ended December 31, 2019 were comparable to the same period in the prior year. Operating costs for the year ended December 31, 2019 were $230 million, an increase of $10 million compared to the same period in 2018. The increase for the year was primarily related to LTA operating costs being expensed for the second half of 2019, as the construction and testing of LTA assets was substantially complete, resulting in costs no longer being eligible for capitalization, along with a write-off of amounts owing from a customer during Q2 2019 in Hydro Non-Regulated.

Production, marketing and transportation costs

Production, marketing and transportation costs for the three months December 31, 2019 were comparable to the same period in 2018. Production, marketing and transportation costs for the year ended December 31, 2019 were $36 million, a decrease of $6 million compared to the same period in 2018. The decrease for the year was primarily related to lower production operating costs and lower processing fees as a result of field shutdowns at HSE and White Rose, along with natural field declines.

Transmission rental

Transmission rental for the three months and year ended December 31, 2019 were comparable to the same periods in 2018.

Depreciation, depletion, amortization and impairment

Depreciation, depletion, amortization and impairment for the three months ended December 31, 2019 was $57 million, an increase of $7 million compared to the same period in 2018. Depreciation, depletion, amortization and impairment for the year ended December 31, 2019 was $197 million, an increase of $8 million compared to the same period in 2018. The increase for the quarter and year was primarily due to an increase in depletion in Oil and Gas due to an increase in Hebron production compared to the same period in 2018 and an increase in White Rose depletion due to a lower reserve base; partially offset by an impairment expense in Q4 2018 related to Ramea Hydrogen Wind project assets and a decrease in depreciation in Hydro Regulated relating to updated service lives approved in the 2017 GRA Order.

Exploration and evaluation

Exploration and evaluation costs for the three months and year ended December 31, 2019 were comparable to the same periods in 2018.

Net finance expense

Net finance expense for the three months ended December 31, 2019 was $26 million, an increase of $5 million compared to the same period in 2018. Net finance expense for the year ended December 31, 2019 was $92 million, an increase of $9 million compared to the same period in 2018. The increase for the quarter and year was primarily due to borrowing costs related to LTA being expensed for the second half of 2019 as the construction and testing of LTA assets was substantially complete, resulting in borrowing costs no longer being eligible for capitalization. The annual increase was also related to higher interest and debt guarantee fees in Hydro Regulated associated with higher levels of long-term debt during 2019; partially offset by interest earned on long-term investments and cash balances in Corporate.

Other expense

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2019**	2018	Variance	**2019**	2018	Variance
Settlement of commodity price swap contracts	**2**	5	(3)	**2**	20	(18)
Settlement of foreign exchange forward contracts	**-**	1	(1)	**1**	1	-
Loss on disposal of property, plant and equipment	**7**	7	-	**8**	12	(4)
Unrealized foreign exchange loss (gain)	**2**	(3)	5	**3**	(2)	5
Realized foreign exchange gain	**-**	(1)	1	**-**	(2)	2
Other	**(2)**	-	(2)	**-**	-	-
Total other expense	**9**	9	-	**14**	29	(15)

Other expense for the three months ended December 31, 2019 was comparable to the same period in 2018. Other expense for the year ended December 31, 2019 was $14 million, a decrease of $15 million compared to the same period in 2018. The decrease for the year was primarily due to lower losses on commodity swap contracts and foreign exchange forward contracts in Oil and Gas and lower asset disposal costs in Hydro Regulated; partially offset by unfavourable foreign exchange on routine USD transactions.

Regulatory adjustments

Regulatory recoveries for the three months ended December 31, 2019 were $16 million, a reduction of $8 million compared to the same period in 2018. Regulatory recoveries for the year ended December 31, 2019 were $36 million, a reduction of $10 million compared to the same period in 2018. The decrease for the quarter was primarily due to a recovery on the 2018 cost deferral recorded in the prior year; partially offset by normal operation of the RSP and an increase in other energy supply cost deferrals in 2019. The decrease for the year was primarily due to normal operation of the RSP and a recovery related to the 2018 cost deferral recorded in the prior year; partially offset by the 2019 revenue deficiency approved as part of the 2017 GRA order.

Loss from discontinued operations

Loss from discontinued operations for the three months and year ended December 31, 2019 was comparable to the same periods in 2018.

Other comprehensive (loss) income

Other comprehensive loss for the three months ended December 31, 2019 was a loss of $16 million compared to income of $24 million for the same period in 2018, resulting in an overall decrease of $40 million for the quarter. Other comprehensive loss for the year ended December 31, 2019 was a loss of $12 million compared to income of $19 million for the same period in 2018, resulting in an overall decrease of $31 million for the year. The change for the quarter and year was primarily driven by actuarial losses on employee future benefits for 2019, and higher market prices of oil compared to hedge contract prices in 2019. These changes in fair value are primarily non-cash in nature and therefore do not materially impact the cash flows of Nalcor.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION HIGHLIGHTS

Significant changes in the Consolidated Statement of Financial Position between December 31, 2019 and December 31, 2018 include:

ASSETS *(millions of Canadian dollars)*	Increase (Decrease)	**Explanation**
Restricted cash	38	Increase relates to receipt of letters of credit for a construction contract related to Muskrat Falls and equity injections from the Province; partially offset by drawdown of investments and cash in LCP to fund LCP construction costs.
Short-term investments	(332)	Decrease was primarily related to the drawdown of LCP structured deposit notes, in accordance with approved schedules, to fund construction costs in LCP, and the redemption of Guaranteed Investment Certificates.
Trade and other receivables	(194)	Decrease was primarily due to the receipt in February 2019 of $184 million of proceeds from letters of credit from a construction contract related to Muskrat Falls that was called in November 2018.
Property, plant and equipment	1,043	Increase was driven by capital expenditures related to the construction of LCP, Hydro Regulated and Oil and Gas' capital programs; partially offset by annual depreciation and depletion for the year.
Long-term investments	(30)	Decrease was due to the partial redemption of a Guaranteed Investment Certificate in Corporate.
LIABILITIES AND EQUITY		
Short-term borrowings	44	Increase was due to utilization of Hydro Regulated's government guaranteed promissory note program to fulfill short-term funding requirements.
Trade and other payables	(51)	Decrease relates to LCP as construction is nearing completion and a reduction in the payable to the Province related to Exploits; partially offset by an increase in Hydro Regulated accruals related to fuel purchases.
Current portion of long-term debt	30	Increase relates to reclassification of long-term debt to current as a result of the first LCP debt payment becoming due in December of 2020.
Long-term debt	(39)	Decrease was primarily due to the reclassification of a portion of LCP long-term debt to current.
Class B limited partnership units	45	Increase was due to accrued interest on Class B partnership units.
Deferred credits	35	Increase was due to deferred energy sales related to the Maritime Link and deferred lease revenue related to Menihek.
Shareholder contributions	384	Increase was a result of equity injections from the Province to fund LCP construction costs.
Retained earnings	126	Increase was due to profit for the year ended December 31, 2019. Refer to the discussion of profit drivers above.

SEGMENTED RESULTS AND ANALYSIS

The following presents an overview of the Company's profit for the three months and year ended December 31, 2019, by business segment, in comparison to the three months and year ended December 31, 2018. This discussion should be read in conjunction with Note 34 of the annual audited consolidated financial statements for the year ended December 31, 2019:

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2019**	2018	Variance	**2019**	2018	Variance
Continuing Operations						
Regulated	**(8)**	24	(32)	**30**	28	2
Non-Regulated	**(1)**	-	(1)	**(3)**	2	(5)
Hydro	**(9)**	24	(33)	**27**	30	(3)
Muskrat Falls	**-**	(1)	1	**(1)**	(2)	1
Other- Power Development	**-**	-	-	**-**	-	-
Power Development	**-**	(1)	1	**(1)**	(2)	1
LCP Transmission	**(7)**	1	(8)	**(13)**	2	(15)
Churchill Falls	**12**	10	2	**35**	32	3
Energy Trading	**1**	4	(3)	**-**	23	(23)
Other- Power Supply	**2**	-	2	**2**	1	1
Power Supply	**8**	15	(7)	**24**	58	(34)
Oil and Gas	**27**	16	11	**96**	125	(29)
Offshore Development	**27**	16	11	**96**	125	(29)
Corporate	**(5)**	(14)	9	**(17)**	(26)	9
Inter-segment	**(1)**	-	(1)	**(2)**	(3)	1
Profit from Continuing Operations	**20**	40	(20)	**127**	182	(55)
Discontinued Operations						
Bull Arm Fabrication	**-**	-	-	**(1)**	(2)	1
Loss from Discontinued Operations	**-**	-	-	**(1)**	(2)	1
Profit for the period	**20**	40	(20)	**126**	180	(54)

CONTINUING OPERATIONS

HYDRO

HYDRO REGULATED

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

Financial Highlights

For the periods ended December 31 (millions of Canadian dollars)	Three months ended 2019	2018	Variance	Twelve months ended 2019	2018	Variance
Revenue	**171**	170	1	**613**	564	49
Fuels	**84**	65	19	**217**	189	28
Power purchased	**25**	19	6	**84**	71	13
Operating costs	**33**	35	(2)	**136**	136	-
Transmission rental	**1**	-	1	**1**	-	1
Depreciation and amortization	**23**	24	(1)	**83**	87	(4)
Net finance expense	**23**	22	1	**91**	87	4
Other expense	**6**	6	-	**8**	13	(5)
Loss before regulatory adjustments	**(24)**	(1)	(23)	**(7)**	(19)	12
Regulatory adjustments	**(16)**	(25)	9	**(37)**	(47)	10
(Loss) profit for the period	**(8)**	24	(32)	**30**	28	2

Revenue

Revenue for the three months ended December 31, 2019 was comparable to the same period in 2018. Revenue for the year ended December 31, 2019 was $613 million, an increase of $49 million compared to the same period in 2018. The increase for the year was primarily due to higher average rates in 2019 as a result of the implementation of interim rates for Newfoundland Power and Industrial customers part way through 2018, combined with the implementation of final rates from the 2017 GRA Order effective October 1, 2019. Also contributing to the increase were favorable adjustments associated with normal operation of the RSP, higher energy and demand sales to Newfoundland Power and increased rural revenue. Although activity in the RSP impacts revenue, it is offset in regulatory adjustments.

Energy sales and supply are summarized below:

For the periods ended December 31 (GWh)	Three months ended 2019	2018	2017	Twelve months ended 2019	2018	2017
Customer:						
Newfoundland Power	**1,582**	1,644	1,600	**5,926**	5,839	5,896
Rural	**318**	329	315	**1,189**	1,186	1,142
Industrial	**151**	177	161	**636**	637	588
	2,051	2,150	2,076	**7,751**	7,662	7,626
Generation:						
Hydraulic generation[1]	**1,038**	1,312	1,114	**4,525**	4,944	4,507
Holyrood generation	**489**	383	594	**1,257**	1,073	1,671
Standby generation[2]	**-**	9	18	**2**	45	54
Thermal diesel generation	**13**	14	8	**51**	52	45
Purchases:						
Domestic[3]	**482**	471	417	**1,803**	1,793	1,683
Off-Island[4]	**120**	72	-	**479**	113	-
Gross generation	**2,142**	2,261	2,151	**8,117**	8,020	7,960
Losses	**91**	111	75	**366**	358	334
Net generation	**2,051**	2,150	2,076	**7,751**	7,662	7,626

[1] Includes Hydro owned generation only.

[2] Includes Gas Turbine and Diesel generation.

[3] Domestic purchases include recall energy for use in Labrador and generation from Exploits, wind and other sources for use on the Island Interconnected System.

[4] Off-Island purchases include energy, such as excess Recall energy imported over the LIL and external market purchases imported over the Maritime Link for use on the Island Interconnected System.

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

	Three months ended			Twelve months ended		
For the periods ended December 31	**2019**	2018	2017	**2019**	2018	2017
Wholesale Utility:						
First Block Energy (¢/kWh)	**2.444**	2.782	2.226	**2.673**	2.504	2.226
Second Block Energy (¢/kWh)	**18.165**	10.422	10.422	**11.934**	10.422	10.422
Demand ($/kW)	**5.00**	4.75	4.75	**4.81**	4.75	4.75
Island Industrial:						
Energy (¢/kWh)	**4.428**	3.971	3.971	**3.742**	3.971	3.971
Demand ($/kW)	**10.73**	9.95	7.99	**10.86**	9.46	7.99

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

The above table illustrates the average base rate revenue per kWh and kW generated from Island Interconnected customers for the three months and year ended December 31, 2019, 2018 and 2017. Base rate revenue excludes the impact of changes in customer rates as a result of regulatory mechanisms. Rate changes reflect implementation of interim rates in 2018 and 2019 and final rates effective October 1, 2019.

Fuels

Fuel costs for the three months ended December 31, 2019 were $84 million, an increase of $19 million compared to the same period in 2018. Fuel costs for the year ended December 31, 2019 were $217 million, an increase of $28 million compared to the same period in 2018. The increase for the quarter and year was primarily due to a higher volume and price of No. 6 fuel used at HTGS; partially offset by a lower volume of gas turbine fuel used in 2019, as Hydro Regulated was able to avail of lower cost off-island energy to service customer requirements. Certain variances in fuel are offset through regulatory mechanisms in the regulatory adjustments line.

The following tables summarize fuel consumed and average price:

	Three months ended			Twelve months ended		
For the periods ended December 31	**2019**	2018	2017	**2019**	2018	2017
No. 6 fuel consumption: Millions of barrels	**0.8**	0.6	1.0	**2.1**	1.8	2.8
Average price (CAD/bbl)	**$94.64**	$88.33	$71.85	**$91.35**	$82.40	$68.60
Gas Turbine fuel consumption: Millions of liters	**0.5**	4.6	9.1	**5.1**	25.4	28.3
Average price (CAD/liter)	**$1.00**	$0.92	$0.72	**$0.86**	$0.84	$0.69
Diesel fuel consumption: Millions of liters	**4.1**	4.3	3.8	**15.8**	16.0	15.3
Average price (CAD/liter)	**$1.04**	$1.12	$0.96	**$1.05**	$1.08	$0.94

Fuel costs are summarized below:

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2019**	2018	2017	**2019**	2018	2017
No. 6 fuel and other	**79**	56	70	**196**	151	192
Gas Turbine fuel	**1**	4	7	**4**	21	20
Diesel fuel	**4**	5	3	**17**	17	14
	84	65	80	**217**	189	226

Power purchased

Power purchased for the three months ended December 31, 2019 was $25 million, an increase of $6 million compared to the same period in 2018. Power purchased for the year ended December 31, 2019 was $84 million, an increase of $13 million compared to the same period in 2018. The increase for the quarter and year was primarily due to energy imported across the Maritime Link to reduce fuel consumed at HTGS and to reduce gas turbine fuel. Certain variances in power purchased are offset through regulatory mechanisms in the regulatory adjustments line.

Operating costs

Operating costs for the three months and year ended December 31, 2019 were comparable to the same periods in 2018.

Transmission rental

Transmission rental for the three months and year ended December 31, 2019 was comparable to the same periods in 2018.

Depreciation and amortization

Depreciation and amortization for the three months ended December 31, 2019 was comparable to the same period in 2018. Depreciation and amortization for the year ended December 31, 2019 was $83 million, a decrease of $4 million compared to the same period in 2018. The decrease for the year was primarily due to updated service lives, as approved in the 2017 GRA Order, partially offset by an increase in the asset base.

Net finance expense

Net finance expense for the three months ended December 31, 2019 was comparable to the same period in 2018. Net finance expense for the year ended December 31, 2019 was $91 million, an increase of $4 million compared to the same period in 2018. The increase for the year was primarily due to higher interest and debt guarantee fees associated with higher levels of long-term debt during 2019 resulting from a debt issuance in March 2018, lower capitalized interest due to changes in the capital program and higher interest on short-term borrowings.

Other expense

Other expense for the three months ended December 31, 2019 was comparable to the same period in 2018. Other expense for the year ended December 31, 2019 was $8 million, a decrease of $5 million compared to the same period in 2018. The decrease for the year was primarily related to lower asset disposal costs in 2019. Certain variances in other expense are offset through regulatory mechanisms in the regulatory adjustments line.

Regulatory adjustments

Regulatory recoveries for the three months ended December 31, 2019 were $16 million, a reduction of $9 million compared to the same period in 2018. Regulatory recoveries for the year ended December 31, 2019 were $37 million, a reduction of $10 million compared to the same period in 2018. The decrease for the quarter was primarily due to a recovery on the 2018 cost deferral recorded in the prior year; partially offset by normal operation of the RSP and an increase in other energy supply cost deferrals in 2019. The decrease for the year was primarily due to normal operation of the RSP and a recovery related to the 2018 cost deferral recorded in the prior year; partially offset by the 2019 revenue deficiency approved as part of the 2017 GRA order.

HYDRO NON-REGULATED

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.

Financial Highlights

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2019**	2018	Variance	**2019**	2018	Variance
Revenue	**11**	10	1	**43**	34	9
Power purchased	**11**	10	1	**42**	33	9
Operating costs	**2**	-	2	**5**	-	5
Net finance income	**(1)**	-	(1)	**(1)**	(1)	-
(Loss) profit for the period	**(1)**	-	(1)	**(3)**	2	(5)

Revenue

Revenue for the three months ended December 31, 2019 was comparable to the same period in 2018. Revenue for the year ended December 31, 2019 was $43 million, an increase of $9 million compared to the same period in 2018. The increase for the year was primarily due to a return to normal operations in 2019, as 2018 results were impacted by a strike at the Iron Ore Company of Canada (IOC) in Labrador West during the second quarter of 2018, as well as higher industrial customer requirements.

Power purchased

Power purchased for the three months ended December 31, 2019 was comparable to the same period in 2018. Power purchased for the year ended December 31, 2019 was $42 million, an increase of $9 million compared to the same period in 2018. The increase for the year was primarily due to a return to normal operations in 2019, as 2018 results were impacted by a strike at IOC during the second quarter of 2018, as well as higher industrial customer requirements.

Operating costs

Operating costs for the three months ended December 31, 2019 were comparable to the same period in 2018. Operating costs for the year ended December 31, 2019 were $5 million, an increase of $5 million compared to the same period in 2018. The increase for the year was primarily due to a write-off of amounts owing from a customer during Q2 2019.

Net finance income

Net finance income for the three months and year ended December 31, 2019 was comparable to the same periods in 2018.

POWER DEVELOPMENT

MUSKRAT FALLS

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

Financial Highlights

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2019**	2018	Variance	**2019**	2018	Variance
Operating costs	**-**	1	(1)	**1**	2	(1)
Loss for the period	**-**	(1)	1	**(1)**	(2)	1

Results of Muskrat Falls for the three months and year ended December 31, 2019 were comparable to the same periods in 2018. See *Liquidity and Capital Resources* for additional details on capital expenditures incurred in the segment during the periods ended December 31, 2019.

OTHER – POWER DEVELOPMENT

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

Financial Highlights

There was no profit or loss recorded in the results of Other – Power Development for the three months and year ended December 31, 2019 and 2018.

POWER SUPPLY

LCP TRANSMISSION

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

Financial Highlights

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2019**	2018	Variance	**2019**	2018	Variance
Operating costs	**3**	-	3	**7**	2	5
Net finance expense (income)	**4**	(1)	5	**6**	(4)	10
(Loss) profit for the period	**(7)**	1	(8)	**(13)**	2	(15)

Operating costs

Operating costs for the three months ended December 31, 2019 were $3 million, an increase of $3 million compared to the same period in 2018. Operating costs for the year ended December 31, 2019 were $7 million, an increase of $5 million compared to the same period in 2018. The increase for the quarter and year was primarily due to LTA operating costs being expensed for the second half of 2019, as the construction and testing of LTA assets was substantially complete, resulting in costs no longer being eligible for capitalization.

Net finance expense (income)

Net finance expense for the three months ended December 31, 2019 was $4 million, an increase of $5 million compared to the same period in 2018. Net finance expense for the year ended December 31, 2019 was $6 million, an increase of $10 million compared to the same period in 2018. The increase for the quarter and year was primarily due to LTA borrowing costs being expensed for the second half of 2019, as the construction and testing of LTA assets was substantially complete, resulting in borrowing costs no longer being eligible for capitalization.

CHURCHILL FALLS

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

Financial Highlights

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2019**	2018	Variance	**2019**	2018	Variance
Revenue	**28**	27	1	**94**	89	5
Operating costs	**12**	12	-	**43**	41	2
Depreciation and amortization	**5**	5	-	**20**	19	1
Net finance income	**-**	-	-	**(1)**	(1)	-
Other expense	**-**	1	(1)	**-**	1	(1)
Preferred dividends	**(1)**	(1)	-	**(3)**	(3)	-
Profit for the period	**12**	10	2	**35**	32	3

Revenue

Revenue for the three months ended December 31, 2019 was comparable to the same period in 2018. Revenue for the year ended December 31, 2019 was $94 million, an increase of $5 million compared to the same period in 2018. The increase for the year was primarily due to higher Twin Block energy sales to Hydro Non-Regulated in 2019 as 2018 results were impacted by a strike at IOC in Labrador West during the second quarter of 2018, as well as higher industrial customer requirements.

For the three months ended December 31, 2019, Churchill Falls derived 35% of its revenue from sales to Hydro-Québec under the Power Contract and Renewal Contract (2018 – 35%), 36% from Hydro- Québec under GWAC (2018 – 36%), 26% from Twin Block energy sales to Hydro (2018 – 26%) and 3% Recapture energy sales to Hydro (2018 – 3%).

For the year ended December 31, 2019, Churchill Falls derived 40% of its revenue from sales to Hydro-Québec under the Power Contract and Renewal Contract (2018 – 42%), 26% from Hydro- Québec under GWAC (2018 – 27%), 30% from Twin Block energy sales to Hydro (2018 – 27%), 3% Recapture energy sales to Hydro (2018 – 3%) and 1% from other revenue (2018 – 1%).

Operating costs
Operating costs for the three months and year ended December 31, 2019 were comparable to the same periods in 2018.

Depreciation and amortization
Depreciation and amortization for the three months and year ended December 31, 2019 was comparable to the same periods in 2018.

Net finance income
Net finance income for the three months and year ended December 31, 2019 was comparable to the same periods in 2018.

Other expense
Other expense for the three months and year ended December 31, 2019 was comparable to the same periods in 2018.

Preferred dividends
Preferred dividends for the three months and year ended December 31, 2019 were comparable to the same periods in 2018.

ENERGY TRADING

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

Financial Highlights

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2019**	2018	Variance	**2019**	2018	Variance
Revenue	**8**	13	(5)	**36**	59	(23)
Power purchased	**1**	2	(1)	**6**	8	(2)
Operating costs	**1**	1	-	**5**	5	-
Transmission rental	**6**	6	-	**25**	24	1
Other income	**(1)**	-	(1)	**-**	(1)	1
Profit for the period	**1**	4	(3)	**-**	23	(23)

Revenue
Revenue for the three months ended December 31, 2019 was $8 million, a decrease of $5 million compared to the same period in 2018. Revenue for the year ended December 31, 2019 was $36 million, a decrease of $23 million compared to the same period in 2018. The quarter and annual decrease was primarily driven by lower average export electricity prices. Lower energy volumes available to export as a result of Hydro Regulated utilizing Recapture energy to service Island requirements in the first and second quarters of 2019 was also a key contributor to the annual decrease.

Export electricity prices and volumes

Prices and volumes for the three months and year ended December 31, 2019, with 2018 and 2017 comparatives, for sales in export markets are summarized in the table below:

	Three months ended			Twelve months ended		
For the periods ended December 31	**2019**	2018	2017	**2019**	2018	2017
Average Export Electricity Price (USD/MWh)[1]	**20**	31	28	**21**	29	23
Realized Export Electricity Price (USD/MWh)[2]	**19**	32	29	**20**	29	23
Realized Export Electricity Price (CAD/MWh)[3]	**26**	42	37	**27**	38	31
Export Sales (GWh)						
Recapture	**309**	271	330	**1,189**	1,492	1,490
Other[4]	**4**	34	29	**130**	70	104

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

[2]The Realized Export Price (USD) includes the impact of financial transmission rights for all periods and electricity commodity price hedges for Q1 and Q2 2018 and Q3 2019.

[3]The Realized Export Electricity Price (CAD) includes the impact of financial transmission rights and foreign exchange for all periods and foreign exchange and electricity commodity price hedges for Q1 and Q2 2018 and Q3 2019.

[4]Other export sales include energy purchased from Canadian or United States markets and subsequently sold to utilize available transmission.

Average and realized export electricity prices for the three months and year ended December 31, 2019 were lower than the same periods in 2018 in part due to temperatures averaging closer to seasonal norms in 2019 versus in 2018 for eastern Canada and northeastern United States. An extreme cold event in January 2018 contributed to annual prices being higher in 2018.

Export volumes for the three months ended December 31, 2019 were comparable to prior periods. Export volumes for the year ended December 31, 2019 were lower than the same period in 2018 and 2017 due to lower Recapture energy volumes available for export as a result of Hydro Regulated availing of this energy to service Island customers in early 2019 as well as increased industrial customer requirements in Labrador West.

Power purchased

Power purchased for the three months and year ended December 31, 2019 was comparable to the same periods in 2018.

Operating costs

Operating costs for the three months and year ended December 31, 2019 were comparable to the same periods in 2018.

Transmission rental

Transmission rental for the three months and year ended December 31, 2019 were comparable to the same periods in 2018.

Other income

Other income for the three months and year ended December 31, 2019 was comparable to the same periods in 2018.

OTHER – POWER SUPPLY

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

Financial Highlights

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2019**	2018	Variance	**2019**	2018	Variance
Revenue	**3**	2	1	**10**	8	2
Operating costs	**1**	2	(1)	**8**	7	1
Profit for the period	**2**	-	2	**2**	1	1

Results of Other - Power Supply for the three months and year ended December 31, 2019 were comparable to the same periods in 2018.

OFFSHORE DEVELOPMENT

OIL AND GAS

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

Financial Highlights

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2019**	2018	Variance	**2019**	2018	Variance
Revenue						
Petroleum, natural gas and other	**82**	52	30	**307**	316	(9)
Royalty expense	**(10)**	(2)	(8)	**(39)**	(18)	(21)
	72	50	22	**268**	298	(30)
Operating costs	**1**	2	(1)	**6**	6	-
Production, marketing and transportation costs	**7**	10	(3)	**36**	42	(6)
Depreciation, depletion and amortization	**28**	15	13	**90**	75	15
Exploration and evaluation	**5**	2	3	**33**	29	4
Net finance expense	**1**	1	-	**2**	3	(1)
Other expense	**3**	4	(1)	**5**	18	(13)
Profit for the period	**27**	16	11	**96**	125	(29)

Revenue

Revenue for the three months ended December 31, 2019 was $72 million, an increase of $22 million compared to the same period in 2018. Revenue for the year ended December 31, 2019 was $268 million, a decrease of $30 million compared to the same period in 2018. The increase for the quarter was primarily due to higher sales volumes for Hebron and HSE and higher average Dated Brent price per barrel; partially offset by higher royalties paid to the Province as HSE entered a new tier of the royalty regime. The decrease for the year was primarily due to lower average Dated Brent price per barrel compared to the same period in 2018 and higher royalties paid to the Province as HSE entered a new tier of the royalty regime; partially offset by favourable foreign exchange and higher sales volumes for Hebron, which was partially offset by a decrease in HSE and White Rose sales volumes due to natural field declines and shutdowns.

Oil price and production

Oil price data and production for the three months and year ended December 31, 2019 with 2018 and 2017 comparatives is summarized in the table below.

	Three months ended			Twelve months ended		
For the periods ended December 31	**2019**	2018	2017	**2019**	2018	2017
Average Dated Brent Price (USD/bbl)[1]	**64**	60	60	**65**	70	53
Realized Price (USD/bbl)[2]	**62**	55	59	**64**	66	53
Realized Price (CAD/bbl)[3]	**83**	71	75	**86**	84	69
Oil Production (Mbbls)	**958**	643	757	**3,508**	3,421	3,023

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

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

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

Variances in Average Dated Brent and realized prices in the table above are due to continued fluctuations in global market prices as a result of ongoing production, demand and global economic factors. Average Dated Brent and realized oil prices for the year ended

December 31, 2019 were higher in comparison to the same periods in 2017 as a result of a substantial decline in global market prices during 2016 and 2017.

Oil production for the three months ended December 31, 2019 was higher than the same period in 2018 due to increased production from Hebron and HSE. Oil production for the year ended December 31, 2019 was higher than the same period in 2018 as a result of increased production from Hebron, partially offset by a natural decline in HSE and White Rose production combined with a decrease in production as a result of shutdowns due to an oil leak in 2019.

Operating costs

Operating costs for the three months and year ended December 31, 2019 were comparable to the same periods in 2018.

Production, marketing and transportation costs

Production, marketing and transportation costs for the three months ended December 31, 2019 were $7 million, a decrease of $3 million compared to the same period in 2018. Production, marketing and transportation costs for the year ended December 31, 2019 were $36 million, a decrease of $6 million compared to the same period in 2018. The decrease for the quarter was primarily due to lower production operating costs. The decrease for the year was primarily related to lower production operating costs and lower processing fees as a result of field shutdowns at HSE and White Rose, along with natural field declines.

Depreciation, depletion and amortization

Depreciation, depletion and amortization for the three months ended December 31, 2019 was $28 million, an increase of $13 million compared to the same period in 2018. Depreciation, depletion and amortization for the year ended December 31, 2019 was $90 million, an increase of $15 million compared to the same period in 2018. The increase for the quarter was primarily due to higher barrels produced compared to the same period in 2018. The increase for the year was primarily due to an increase in Hebron production compared to the same period in 2018 and an increase in White Rose due to a lower reserve base. These increases were partially offset by a decrease in HSE production compared to the same period in 2018 as a result of field shutdowns and natural field declines.

Exploration and evaluation

Exploration and evaluation for the three months ended December 31, 2019 was $5 million, an increase of $3 million compared to the same period in 2018. Exploration and evaluation for the year ended December 31, 2019 was $33 million, an increase of $4 million compared to the same period in 2018. The increase for the quarter and year was primarily related to the exploration program being ahead of schedule in 2019 as more data was processed during the year as compared to 2018.

Net finance expense

Net finance expense for the three months and year ended December 31, 2019 was comparable to the same periods in 2018.

Other expense

Other expense for the three months ended December 31, 2019 was comparable to the same period in 2018. Other expense for the year ended December 31, 2019 was $5 million, a decrease of $13 million compared to the same period in 2018. The decrease for the year was primarily due to lower losses on commodity swap and foreign exchange forward contracts; partially offset by unfavourable foreign exchange on routine USD transactions compared to 2018. Oil and Gas did not enter into any new 2019 commodity or foreign exchange contracts until April 2019.

RESERVES

Oil and Gas contracts independent reserve evaluators to prepare reports on remaining oil reserves related to its working interest in offshore developments. Gross reserves represent Oil and Gas' working interest in remaining reserves, while net reserves represent remaining reserves less royalties. Remaining reserve data for both proved and probable reserves to be recovered as at December 31, 2019 with 2018 comparatives are summarized in the table below:

	2019		2018	
	Light and Medium Oil		Light and Medium Oil	
As at December 31 (Mbbls)	Gross	Net	Gross	Net
Developed[1]	**13,976**	**11,023**	13,310	9,703
Undeveloped[2]	**8,619**	**8,266**	12,452	11,985
Total Proved[3]	**22,595**	**19,289**	25,762	21,688
Probable[4]	**31,353**	**24,509**	32,336	24,863
Total Proved Plus Probable	**53,948**	**43,798**	58,098	46,551

[1] Barrels which are expected to be produced from existing wells and installed facilities.
[2] Barrels which are expected to be produced from known accumulations of oil, requiring additional wells or infrastructure in order to extract.
[3] Barrels which can be estimated with a high degree of certainty to be recoverable.
[4] Barrels which are less certain to be recovered than proved reserves.

Decrease in remaining reserves at December 31, 2019 as compared to the same period in 2018 primarily relates to barrels produced during 2019.

CORPORATE

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

Financial Highlights

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2019**	2018	Variance	**2019**	2018	Variance
Operating costs	**6**	9	(3)	**19**	21	(2)
Depreciation, amortization and impairment	**-**	7	(7)	**3**	8	(5)
Net finance income	**(1)**	(1)	-	**(5)**	(1)	(4)
Other income	**-**	(1)	1	**-**	(2)	2
Loss for the period	**(5)**	(14)	9	**(17)**	(26)	9

Non-GAAP Operating Loss Disclosure

Reconciliation of Corporate loss to operating loss for the three and twelve months ended December 31, 2019 and 2018 is as follows:

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2019**	2018	Variance	**2019**	2018	Variance
Loss for the period	**(5)**	(14)	9	**(17)**	(26)	9
Inquiry and PUB Reference costs	**1**	3	(2)	**6**	5	1
Impairment of property, plant and equipment	**-**	4	(4)	**-**	4	(4)
Impairment of intangible assets	**-**	2	(2)	**-**	2	(2)
Operating loss for the period	**(4)**	(5)	1	**(11)**	(15)	4

Operating costs

Operating costs for the three months ended December 31, 2019 was $6 million, a decrease of $3 million compared to the same period in 2018. Operating costs for the year ended December 31, 2019 were comparable with the same period in 2018. The decrease for the quarter was primarily due to activities related to the Inquiry and the PUB Reference winding down, along with lower costs associated with the business systems project as the project moves towards full implementation.

Depreciation, amortization and impairment

Depreciation, amortization and impairment for the three months ended December 31, 2019 was $nil, a decrease of $7 million compared to the same period in 2018. Depreciation, amortization and impairment for the year ended December 31, 2019 was $3 million, a decrease of $5 million compared to the same period in 2018. The decrease for the quarter and year was primarily due to a write-down of Ramea wind assets in Q4 2018.

Net finance income

Net finance income for the three months ended December 31, 2019 was comparable with the same period in 2018. Net finance income for the year ended December 31, 2019 was $5 million, an increase of $4 million compared to the same period in 2018. The increase for the year was primarily due to interest earned on long-term investments and cash.

Other income

Other income for the three months and year ended December 31, 2019 was comparable to the same periods in 2018.

DISCONTINUED OPERATIONS

On March 11, 2019, the Province announced the structure of the new provincial oil and gas Crown corporation, which includes Bull Arm Fabrication as a subsidiary. As a result, Bull Arm Fabrication, which was designated as a discontinued operation as at September 30, 2018, continues to meet the criteria for a discontinued operation and is classified as a disposal group held for distribution as at December 31, 2019. Effective January 1, 2020, the shares of Bull Arm Fabrication were distributed to Oil and Gas Corp.

BULL ARM FABRICATION

Revenue related to Bull Arm Fabrication is primarily generated through leasing arrangements. Management continues to evaluate opportunities for a long-term tenant. While evaluation of these opportunities is ongoing, Bull Arm Fabrication continues to avail of short-term property and sublease arrangements.

Financial Highlights

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2019**	2018	Variance	**2019**	2018	Variance
Revenue	**-**	-	-	**1**	-	1
Operating costs	**-**	-	-	**2**	2	-
Loss for the period	**-**	-	-	**(1)**	(2)	1

Results of Bull Arm Fabrication for the three months and year ended December 31, 2019 were comparable with the same periods in 2018.

LIQUIDITY AND CAPITAL RESOURCES

CASH FLOW HIGHLIGHTS

For the year ended December 31 (millions of Canadian dollars)	**2019**	2018	Variance
Cash, beginning of the year	**153**	143	10
Net cash provided from operating activities	**40**	50	(10)
Net cash used in investing activities	**(405)**	(323)	(82)
Net cash provided from financing activities	**386**	283	103
Cash, end of the year	**174**	153	21

Operating activities

For the year ended December 31 (millions of Canadian dollars)	**2019**	2018	Variance
Net cash provided from operating activities	**40**	50	(10)

Net cash provided from operating activities during the year ended December 31, 2019 was $40 million, a decrease of $10 million compared to the same period in 2018. The decrease in cash was primarily due to lower profit from operations compared to 2018.

Investing Activities

For the year ended December 31 (millions of Canadian dollars)	**2019**	2018	Variance
Additions to property, plant and equipment and intangible assets	**(904)**	(1,089)	185
Decrease in investments (including short-term)	**362**	922	(560)
Other	**(12)**	(15)	3
Changes in non-cash working capital balances	**149**	(141)	290
Net cash used in investing activities	**(405)**	(323)	(82)

Net cash used in investing activities during the year ended December 31, 2019 was $405 million, an increase of $82 million in cash used compared to the same period in 2018. The increase in cash used in investing activities was primarily driven by lower draw-downs on structured deposit notes to fund LCP capital expenditures; partially offset by lower capital additions primarily related to LCP, as a result of the construction phase winding down, and favourable changes in non-cash working capital primarily due to the receipt in February 2019 of proceeds from letters of credit from a construction contract related to Muskrat Falls, which were called in November 2018.

Financing Activities

For the year ended December 31 (millions of Canadian dollars)	**2019**	2018	Variance
Proceeds from long-term debt	**-**	316	(316)
Increase in restricted cash	**(38)**	(385)	347
Increase (decrease) in short-term borrowings	**44**	(180)	224
Shareholder contributions	**384**	531	(147)
Other	**(4)**	1	(5)
Net cash provided from financing activities	**386**	283	103

Net cash provided from financing activities during the year ended December 31, 2019 was $386 million, an increase of $103 million compared to the same period in 2018. The increase in cash provided from financing activities was primarily due to lower repayments of short-term borrowings and lower contributions to restricted cash to fund LCP construction costs; partially offset by a decrease in long-term debt proceeds and shareholder contributions in 2019 compared to 2018.

CAPITAL RESOURCES

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

Hydro Regulated

Capital resource requirements for Hydro Regulated consist primarily of working capital needs, capital expenditures and debt servicing and repayment. Hydro Regulated's capital resources consist primarily of cash from operations, sinking funds and access to a $300 million government guaranteed promissory note program. As at December 31, 2019, there were $233 million in notes outstanding under this program (December 31, 2018 - $189 million). Hydro also maintains a $200 million committed revolving term credit facility with a maturity date of July 27, 2021. As at December 31, 2019, there were no amounts drawn on the facility (December 31, 2018 - $nil).

Hydro Regulated addresses longer-term capital funding requirements through long-term debt. The Province issues debt in the domestic capital markets, on Hydro Regulated's behalf, and in turn loans the funds to Hydro Regulated on a cost recovery basis. Any funding to address long-term capital requirements requires approval from the Province and the PUB. Access to long-term debt through the Province remains an important consideration for funding capital resource requirements. Hydro Regulated's ability to access adequate capital within existing legislated debt caps in 2020 resulted in a request to the Province to increase the existing debt caps to permit access to adequate borrowing facilities, and on February 20, 2020, the Lieutenant-Governor in Council issued Order in Council OC2020-18 to increase the level of short-term borrowings permitted by Hydro from $300.0 million to $500.0 million, effective until March 31, 2022. Issuance of short-term borrowings and long-term debt by Hydro is further restricted by Bill 33, an amendment to the Newfoundland and Labrador Hydro Act of 2007. Effective March 26, 2020, Bill 33 amended the limit of Hydro's total borrowings, which includes both short-term and long-term debt, to increase it from $2.1 billion to $2.6 billion. In April 2020, Hydro Regulated obtained additional credit through the establishment of a committed credit facility with its banker in the amount of $300.0 million.

Timing of Hydro Regulated's next GRA Order and implementation of new customer rates, timing of completion and commissioning of LCP assets, and the results of rate mitigation decisions by the Province could have material impacts on Hydro Regulated's available capital resources and requirements in 2020 and 2021. Management will continue to monitor the potential impacts of these events. Should these impacts materialize, capital requirements for other segments, including Muskrat Falls, LCP Transmission and Energy Trading could also be impacted.

Muskrat Falls and LCP Transmission

Capital resource requirements for Muskrat Falls and LCP Transmission consist primarily of capital expenditures in connection with construction of the LCP. The primary source of financing for Muskrat Falls and LCP Transmission will continue to be the credit facilities relating to the proceeds from long-term debt issuances in 2013 and 2017 and equity contributions from the Province. The credit facilities include $150 million in working capital reserves and as at December 31, 2019, no amounts have been drawn on these working capital reserves (December 31, 2018 - $nil). Management believes these capital resources will be sufficient to fund planned capital expenditures.

Churchill Falls

Capital resource requirements consist primarily of working capital needs, reserve fund payments and capital expenditures. Churchill Falls capital resources consist primarily of cash from operations. In addition, Churchill Falls has access to a $10 million unsecured demand operating credit facility. There were no amounts drawn on this facility as at December 31, 2019 (December 31, 2018 - $nil), however, $1 million of the borrowing limit has been used to issue two irrevocable letters of credit (December 31, 2018 - $1 million was used to issue two irrevocable letters of credit). Churchill Falls also has access to a reserve fund, which when fully funded totals $75 million and can be used to fund capital expenditures relating to Churchill Falls' existing facilities and their replacement, subject to the terms and conditions established in the Shareholder's Agreement. As at December 31, 2019, the reserve fund balance was $38 million (December 31, 2018 - $19 million). Nalcor has recorded its 65.8% proportionate share of the amount invested of $25 million (December 31, 2018 - $12 million). Contributions will continue to be made over the coming years to replenish the reserve fund to its fully funded amount.

As at December 31, 2019, no long-term investments remained as they were redeemed during the year. The proceeds from redemptions were placed in a cash account earning higher interest thereby increasing the return on cash held by Churchill Falls. Management believes existing capital resources will be sufficient to fund planned 2020 capital expenditures, required reserve fund replenishment and to meet current and future working capital needs.

Energy Trading

Capital resource requirements for Energy Trading are primarily limited to working capital needs. For Energy Trading, capital resources consist primarily of cash from operations and access to a $20 million demand operating credit facility. As at December 31, 2019, Energy Trading had no amounts drawn on this facility (December 31, 2018 - $nil), however $1.9 million of the borrowing limit has been used to issue three irrevocable letters of credit (December 31, 2018 - $8.5 million was used to issue three irrevocable letters of credit). Management believes these existing capital resources will be sufficient to meet current and future working capital needs for Energy Trading.

Oil and Gas

Capital resource requirements consist primarily of working capital needs and capital expenditures. Oil and Gas' capital resources consist primarily of cash from operations and access to a $30 million unsecured demand operating credit facility. While there were no amounts drawn on this facility at December 31, 2019 (December 31, 2018 - $nil), $22.2 million of the borrowing limit has been used to issue two irrevocable letters of credit (December 31, 2018 - $23.3 million was used to issue two irrevocable letters of credit). Management believes these existing capital resources will be sufficient to fund 2020 planned capital expenditures for Oil and Gas while meeting current working capital needs.

Bull Arm Fabrication

Capital resource requirements for Bull Arm Fabrication are primarily limited to working capital needs. For Bull Arm Fabrication, capital resources consist primarily of cash from operations, supplemented with assistance from Nalcor when required. Effective January 1, 2020, the shares of Bull Arm Fabrication were distributed to Oil and Gas Corp., thereby extinguishing Nalcor's responsibility for securing and managing any future capital resource requirements.

Additional Liquidity

Nalcor maintains a $250 million CAD or USD equivalent committed revolving term credit facility with its bank which serves as an additional source of liquidity available to each of the subsidiaries. On February 28, 2020, Nalcor signed an extension to its revolving term facility, resulting in a maturity date of January 31, 2022. There were no amounts drawn on this facility as at December 31, 2019 (December 31, 2018 - $nil), however $8.0 million of the borrowing limit has been used to issue 11 irrevocable letters of credit (December 31, 2018 - $8.3 million was used to issue 11 irrevocable letters of credit). The 11 letters of credit, some of which are denominated in USD, are issued on behalf of Energy Trading and relate to power purchase and sale contracts with various independent system operators, transmission providers and bilateral counterparties.

As at December 31, 2019 and December 31, 2018, external short-term credit facilities are as follows:

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

	December 31, 2018			
As at (millions of Canadian dollars)	Limit	Drawn	Letters of Credit Issued	Available Limit
Revolving Term Facilities:				
Nalcor Energy	250	-	8	242
Hydro Regulated	200	-	-	200
Demand Operating Facilities:				
Churchill Falls	10	-	1	9
Energy Trading	20	-	9	11
Oil and Gas	30	-	23	7
Promissory Notes:				
Hydro Regulated	300	189	-	111
Total credit facilities	810	189	41	580

Promissory Notes

Hydro Regulated utilizes its government guaranteed promissory note program to fulfill its short-term funding requirements. As at December 31, 2019, there was a $233 million promissory note outstanding with a maturity date of January 7, 2020 bearing an interest rate of 1.82% per annum (December 31, 2018 - $189 million bearing an interest rate of 1.77% per annum). Upon maturity, the promissory note was reissued.

Long-term Debt

In addition to credit facilities, long-term debt and/or equity contributions from the Province is utilized to fund capital resource requirements when necessary. The use of long-term debt to fund capital resource requirements is limited to cases where there is reasonable certainty that operating cash flows will be sufficient to service the debt.

CAPITAL STRUCTURE

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

As at (millions of Canadian dollars)	**December 31 2019**	December 31 2018
Short-term borrowings	**233**	189
Current portion of lease liabilities	**1**	-
Current portion of long-term debt	**37**	7
Long-term debt (net of sinking funds)	**9,475**	9,524
Class B limited partnership units[1]	**578**	533
Lease liabilities	**5**	-
Total debt	**10,329**	10,253
Total shareholder's equity	**6,255**	5,757
Debt to capital[2]	**62%**	64%
Fixed rate debt as a percentage of total indebtedness[2]	**92%**	93%

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

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

CAPITAL EXPENDITURES

	Three months ended			**Twelve months ended**		
For the periods ended December 31 (millions of Canadian dollars)	**2019**	2018	Variance	**2019**	2018	Variance
Continuing Operations						
Regulated	**47**	46	1	**129**	160	(31)
Non-Regulated	**-**	-	-	**-**	-	-
Hydro	**47**	46	1	**129**	160	(31)
Muskrat Falls	**128**	67	61	**653**	710	(57)
Other - Power Development	**-**	-	-	**-**	-	-
Power Development	**128**	67	61	**653**	710	(57)
LCP Transmission	**58**	101	(43)	**286**	390	(104)
Churchill Falls	**15**	9	6	**44**	43	1
Energy Trading	**-**	-	-	**-**	-	-
Other - Power Supply	**2**	2	-	**8**	11	(3)
Power Supply	**75**	112	(37)	**338**	444	(106)
Oil and Gas	**17**	20	(3)	**73**	65	8
Offshore Development	**17**	20	(3)	**73**	65	8
Corporate	**1**	5	(4)	**5**	8	(3)
Inter-Segment	**1**	-	1	**(3)**	(3)	-
Capital Expenditures from Continuing Operations	**269**	250	19	**1,195**	1,384	(189)
Discontinued Operations						
Bull Arm Fabrication	**-**	-	-	**-**	-	-
Capital Expenditures from Discontinued Operations	**-**	-	-	**-**	-	-
Nalcor Capital Expenditures, excluding Maritime Link	**269**	250	19	**1,195**	1,384	(189)
Maritime Link – Non Cash Additions	**5**	7	(2)	**28**	15	13
Nalcor Total	**274**	257	17	**1,223**	1,399	(176)

Capital expenditures for the three months ended December 31, 2019, excluding Maritime Link, were comparable to the same period in 2018. For the year ended December 31, 2019, capital expenditures, excluding Maritime Link were $1,195 million, a decrease of $189 million compared to the same period in 2018. The primary driver of the annual decrease was lower capital expenditures in LCP

Transmission and Muskrat Falls due to the wind down of construction as assets nears completion, along with lower capital expenditures in Hydro Regulated resulting from a decrease in planned capital spend for 2019.

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

	Three months ended		Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2019**	2018	**2019**	2018	Total To Date[1]
Muskrat Falls	**94**	31	**528**	584	5,078
Labrador Transmission Assets	**-**	12	**11**	22	864
Labrador-Island Link	**15**	43	**82**	169	3,566
Facilities capital costs	**109**	86	**621**	775	9,508
Capitalized interest and financing costs	**61**	65	**249**	257	1,252
Class B Limited Partnership Unit Interest	**12**	11	**45**	42	169
Transition to Operations	**4**	6	**24**	26	66
Total capital costs for Nalcor project components	**186**	168	**939**	1,100	10,995
Maritime Link	**5**	7	**28**	15	1,778
Total capital expenditures	**191**	175	**967**	1,115	12,773

[1]Total to date excludes $184 million of allowance for funds used during construction on Nalcor's Class A limited partnership units in the LIL LP that are eliminated upon consolidation.

OBLIGATIONS AND COMMITMENTS

Outstanding commitments for capital projects, excluding those related to Oil and Gas, total approximately $208.3 million as at December 31, 2019 (December 31, 2018 - $413.7 million). LCP prefunded equity requirements associated with financing agreements in Muskrat Falls and LCP Transmission are $nil as at December 31, 2019 (December 31, 2018 - $505.5 million). Prefunded equity is used to fund capital and borrowing costs.

KEY BUSINESS RISKS

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

REGULATORY RISK

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

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

Once the full in-service of LCP assets is achieved, certain contractual payment obligations will commence for Hydro Regulated when this is achieved. Hydro Regulated's next GRA is expected to deal with the recovery of LCP costs. Regulatory processes and outcomes may be impacted by the ongoing evaluation of options to reduce electricity rates (rate mitigation) by the PUB, as well as any changes to LCP cost or schedule.

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

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

STRATEGIC RISKS

Sustainability of Future Electricity Rates

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

The Province is evaluating options to reduce the impact of LCP costs on electricity rates and on April 15, 2019, released its strategy to manage and mitigate electricity rates for 2021 onward. In addition, from late 2018 through 2019 the PUB, under the direction of the Province has reviewed and provided its final report to the Province on February 7, 2020. Management has fully cooperated with this process, maintaining ongoing constructive dialogue with the PUB, the PUB's consultants, and intervening parties and continues to discuss and explore options to mitigate customer rates.

Final decisions on rate mitigation may have an adverse effect on the results of operations, financial condition and cash flows of the Company.

Completion of Lower Churchill Project

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

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

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

Risk of Natural and Other Unexpected Occurrences

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

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

OPERATIONAL RISKS

Electricity System Integration Risk

The Muskrat Falls Generating Station and the LIL remain under construction, while construction of the transmission interconnection between the isolated Island grid to North America is now complete with the Maritime Link in-service. The integration of the Muskrat Falls Generating Station and related transmission assets into the existing asset base is complex and involves a high degree of coordination. Nalcor is focused on completion of the construction of the Muskrat Falls Generating Station, full system integration efforts and planning for the implementation of new operating procedures and commercial agreements.

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

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

Asset Condition and Maintenance Risk

Generation and Transmission Assets

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

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

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

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

Safety Risk
Several of Nalcor's lines of business have material inherent safety risks and related municipal, provincial and federal requirements with associated potential liabilities. Notably within utility operations, this includes risks related to working around energized equipment and operating dams and dykes. There are additional unique hazards associated with certain facilities such as the underground powerhouse at Churchill Falls and worksites related to LCP construction and various capital projects for Hydro and Churchill Falls. These facilities carry risks relating to working from heights and management of contractors onsite. Based on the industry and the nature of work performed, there are many hazards and risks that could result in workplace incidents that could cause serious injury or death to employees, contractors or members of the public. Nalcor has implemented a safety management system that is based on elements of internationally recognized safety management systems.

Unsafe work conditions can lead to workplace incidents, and disruption of the business, which could have an adverse effect on the results of operations, financial condition and cash flow of the Company.

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

Environmental events causing significant damage may lead to claims by third parties, governmental fines, disruption to operations and adverse effect on the results of operations, financial condition and cash flow of the Company.

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

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

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

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

Human Resource Management Risk

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

The collective agreements between Hydro and Power Supply (IBEW Local 1615) expired in 2018 and were extended by one year to March 31, 2019. Negotiations are on-going with these bargaining units. The collective agreement between Churchill Falls and IBEW Local 2351 expired at the end of 2019 and was extended one year.

Oil and Gas Production Volume Risk

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

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

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

FINANCIAL RISK

Commodity Price Risk

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

For crude oil sales and export energy sales, profit is sensitive to market price fluctuations. The market price for electricity exports is impacted by a number of factors including emerging technologies, seasonality and changes in weather patterns and fluctuations in demand. A financial risk management strategy articulating the extent to which derivatives will be used to provide a measure of cash flow certainty is presented to the Board for approval and approved transactions are executed by Management in accordance with a Board approved Risk Management Policy.

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

Once LCP is operating at full capacity, usage of No. 6 fuel is expected to be materially reduced, however, new risks associated with potential volatility of new supply costs will arise, for which regulatory relief may be required. Hydro Regulated is expecting to apply to the PUB for new deferral mechanisms to replace the RSP and other supply cost deferral accounts to address these risks in its next GRA filing.

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

Foreign Exchange Rate Risk

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

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

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

Credit Risk

Credit risk represents the financial loss that would be suffered if Nalcor's counterparties in a transaction fail to meet or discharge their obligation to the Company. Nalcor is exposed to credit risk in the event of non-performance by counterparties to its financial instruments or in non-performance of suppliers and/or contractors. Default by a company to which Nalcor has extended significant credit could result in material lost revenue, increases to bad debt expense, and a negative impact to Nalcor's financial position.

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

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

Investments are similarly restricted to high-quality securities. Investments held within the sinking fund portfolios of Nalcor and Hydro Regulated and the reserve fund in Churchill Falls are limited to securities issued by or guaranteed by the Government of Canada, any of the provincial governments and Schedule 1 Canadian Chartered Banks. In addition, portfolio investments held within the reserve fund of Churchill Falls do not exceed 10% with any one entity with the exception of the Government of Canada. Long-term investments held by Muskrat Falls and LCP Transmission are with a Canadian Schedule 1 Bank with a minimum credit rating of A by S&P. Derivative transactions are executed with only highly rated banking institutions. Aggregate principal amount of permitted investments issued by a single Canadian Schedule 1 or 2 bank does not exceed 30% portfolio limit on investments issued by Canadian Schedule 1 and 2 banks.

Non-performance by counterparties to its financial instruments or in non-performance of suppliers and/or contractors could have an adverse effect on the results of operations, financial condition and cash flow of the Company.

Liquidity Risk

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

Hydro Regulated addresses longer-term capital funding through a process whereby the Province issues debt specifically on Hydro Regulated’s behalf and lends the proceeds to Hydro Regulated on a cost recovery basis. The funding obligations associated with a portion of Hydro Regulated’s long-term debt are managed through a program of sinking fund investment. Increased risk exists surrounding Hydro Regulated’s ability to access adequate capital within existing legislated debt caps to cover potential cash flow shortages in 2020. Hydro Regulated requested the Province increase the existing debt caps to permit access to adequate borrowing facilities, and on February 20, 2020, the Lieutenant-Governor in Council issued Order in Council OC2020-18 to increase the level of short-term borrowings permitted by Hydro from $300.0 million to $500.0 million, effective until March 31, 2022. Issuance of short-term borrowings and long-term debt by Hydro is further restricted by Bill 33, an amendment to the Newfoundland and Labrador Hydro Act of 2007. Effective March 26, 2020, Bill 33 amended the limit of Hydro’s total borrowings, which includes both short-term and long-term debt, to increase it from $2.1 billion to $2.6 billion. In April 2020, Hydro Regulated obtained additional credit through the establishment of a committed credit facility with its banker in the amount of $300.0 million.

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

COMPLIANCE RISK

Legislative Compliance

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

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

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

Contractual Compliance

Nalcor has contracts in place with various related companies and third parties including, but not limited to, arrangements relating to federally guaranteed debt, power purchase and other agreements governing the sale of power and transmission access through Québec, Atlantic Canada and the Northeastern US. Across all segments there are agreements relating to revenue generation activities, financing of key investments and projects, the delivery of power and other products and services, the use of Nalcor sites or locations by third parties, and the payment of various contractors and service providers. Contracts are awarded in compliance with provincial purchasing requirements and regulation, as well as Nalcor internal purchasing guidelines, and standardized contracts are often used.

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

ACCOUNTING POLICIES AND SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

CURRENT CHANGES IN ACCOUNTING POLICIES

The following is a new IFRS that is applicable to Nalcor, was adopted in 2019 and had an impact on Nalcor's annual audited consolidated financial statements:

Leases: IFRS 16

Effective January 1, 2019 Nalcor adopted *IFRS 16 – Leases*, which introduces significant changes to lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset and a lease liability at the lease commencement for all leases, except for short-term leases and leases of low-value assets.

Management has elected to apply IFRS 16 using the modified retrospective approach, and therefore comparative information has not been restated and will continue to be reported under *IAS 17 - Leases* and *IFRIC 4 – Determining Whether an Arrangement Contains a Lease*.

On transition to IFRS 16, Nalcor recognized lease liabilities in relation to leases which had previously been classified as operating leases under IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using Nalcor's incremental borrowing rate as at January 1, 2019. The weighted average incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 2.3% - 4.6%. The associated right-of-use assets were measured at the amount equal to the corresponding lease liabilities totaling $10 million.

Further details relating to the application of this new standard are described in Note 4 of the annual audited consolidated financial statements.

FUTURE CHANGES IN ACCOUNTING POLICIES

There have been no new IFRS standards issued in which management anticipates could have a future impact on Nalcor's annual audited consolidated financial statements.

SIGNIFICANT JUDGMENTS AND ESTIMATES

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

Revenue

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

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

Regulatory Adjustments

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

As at December 31, 2019, Hydro Regulated recognized a total of $123 million in regulatory assets (December 31, 2018 - $159 million) and $13 million in regulatory liabilities (December 31, 2018 - $71 million). For further detail of regulatory assets and liabilities please refer to Note 14 of Nalcor's annual audited consolidated financial statements.

Depreciation and Depletion

Depreciation and depletion are significant estimates included in the Nalcor consolidated financial statements due to the significant asset balances carried in property, plant and equipment. As at December 31, 2019, Nalcor's consolidated property, plant and equipment is $16.8 billion, or approximately 87% of total consolidated assets compared to $15.8 billion or approximately 84% of total consolidated assets as at December 31, 2018. Total depreciation and depletion is $193 million for the year ended December 31, 2019 (December 31, 2018 - $176 million).

Depreciation is recorded over the useful lives of Nalcor's assets as determined by independent specialists. These useful lives are Nalcor's best estimate and are reviewed annually by Management. Any change in these estimates must be accounted for prospectively in the financial statements and could materially affect the amount of depreciation recorded. For Hydro Regulated, depreciation methodology and services lives are approved by the PUB. The depreciation periods used and associated rates are reviewed on an ongoing basis to ensure they continue to be appropriate. From time to time, third party depreciation studies are performed, and based on the results of these depreciation studies, the impact of any over or under depreciation as a result of actual experience differing from that expected and provided for in previous depreciation rates is generally reflected in future depreciation rates and depreciation expense, when the differences are refunded or collected in customer rates, as approved by the regulator.

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

Impairment of Non-Financial Assets

Non-financial assets are assessed for indicators of impairment at the end of each reporting period. Non-financial assets are impaired where there is evidence that, as a result of one or more events that occurred after the initial recognition of the non-financial asset, the recoverable amount of the asset has been impacted. Where it is not possible to estimate the recoverable amount of an individual asset, Nalcor estimates the recoverable amount of the cash generating unit (CGU) to which the asset belongs. The determination of a CGU requires judgement in determining the level at which cash flows are largely independent of other assets or groups of assets. Management uses internal qualitative and quantitative assessments. The calculation of recoverable amount includes a discounted cash flow analysis which may include estimates and assumptions regarding expected future revenue often driven by commodity prices and volume, the timing and amount of future operating and capital cash flows and a market participant discount rate. The calculation of the recoverable amount of a CGU also requires judgement surrounding future events. Changes to these estimates can have a material impact on this calculation and while no impact on cash flows, can lead to large fluctuations in profit or loss between reporting periods. For the year ended December 31, 2019, the impact of asset impairments on Nalcor's profit or loss was $nil (December 31, 2018 - $6 million). Impairment in 2018 relates to costs associated with the intangible assets and property, plant and equipment which Management anticipates no longer have future economic benefit.

Oil and Natural Gas Reserves

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

Partnership Unit Liabilities

Partnership unit liabilities represent the limited partner's ownership interests in the Partnership based on the fair value of the Class B limited partnership units at each reporting date. Due to the nature of the liability and the lack of comparable market data, the fair value is determined using the present value of future cash flows. Significant assumptions are used in the calculation including the amount and timing of future cash flows and the discount rate. As at December 31, 2019, the carrying value of the Class B limited partnership units on the Statement of Financial Position is $578 million (December 31, 2018 - $533 million).

Decommissioning Liabilities

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

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

Decommissioning liabilities are periodically reviewed by Management and any changes are recognized as an increase or decrease in the carrying amount of the liability and the related asset. As at December 31, 2019, Nalcor's decommissioning liabilities were $102 million (December 31, 2018 - $86 million).

Employee Future Benefits

Employee future benefits, which consist of group life insurance and health care benefits, are provided to retired employees on a cost-shared basis, in addition to a retirement allowance. The expected cost of providing these benefits is actuarially determined by an independent actuary using Management's best estimate of salary escalation, retirement ages of employees and expected heath care costs. Changes in the assumptions such as the discount rate, inflation rate, and life expectancy, along with the estimates of salary, retirement and health care costs could have a material impact on the liability. As at December 31, 2019, Nalcor's total employee future benefits liability is $144 million (December 31, 2018 - $123 million).

Contingencies

Nalcor and its subsidiaries are subject to various legal proceedings and associated claims in the normal course of business operations. The Company possesses certain securities that protect it against financial liability associated with liens and claims made by subcontractors and suppliers. Management believes that the amount of liability, if any, from these actions would not have a material adverse effect on Nalcor's consolidated financial position, results of operations or cash flows.

NON-GAAP FINANCIAL MEASURES

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

NON-GAAP FINANCIAL MEASURES

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

Disclosure of Operating Profit (Loss)

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

RELATED PARTY TRANSACTIONS

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

Related Party	Relationship
The Province	100% shareholder of Nalcor
Churchill Falls	Joint arrangement of Hydro
Hydro-Québec	34.2% shareholder of Churchill Falls
Twin Falls	Joint venture of Churchill Falls
Churchill Falls (Labrador) Corporation Trust (The Trust)	Created by the Province with Churchill Falls as the beneficiary
PUB	Agency of the Province

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. Outstanding balances due to or from related parties are non-interest bearing with no set terms of repayment, unless otherwise stated. Refer to Note 31 in Nalcor's annual audited consolidated financial statements for the year ended December 31, 2019, for descriptions of transactions with related parties.

SUMMARY OF QUARTERLY RESULTS

The following table outlines Nalcor's quarterly results for the eight quarters ended March 31, 2018 through December 31, 2019. The quarterly information has been obtained from Nalcor's unaudited condensed consolidated interim financial statements. These financial results are not necessarily indicative of results for any future period and should not be relied upon to predict future performance.

For the period ended (millions of Canadian dollars)	Revenue[1]	Profit (Loss)	ROCE (%)[2]	FFO	Capital Expenditures[3]
December 31, 2019	**288**	**20**	**4.6%**	**78**	**269**
September 30, 2019	176	(13)	4.9%	32	324
June 30, 2019	245	27	5.5%	79	318
March 31, 2019	330	92	5.9%	139	284
December 31, 2018	265	40	5.7%	89	250
September 30, 2018	207	25	5.3%	73	440
June 30, 2018	257	37	6.2%	92	390
March 31, 2018	300	78	7.8%	121	304

[1] Includes Discontinued Operations

[2] Excludes assets under development

[3] Excludes Maritime Link

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

DECEMBER 2019/DECEMBER 2018

2019 fourth quarter profit decreased $20 million compared to the same period in 2018. Key drivers of the decrease include lower profit in Hydro Regulated due to the approval of a cost deferral in Q4 2018 combined with a loss on rural sales and a write off of a regulatory asset in 2019; an increase in depletion for Oil and Gas, along with higher royalties paid to the Province, as HSE entered a new tier of the royalty regime in 2019; an increase in borrowing and operating costs for LCP Transmission as costs related to the LTA were no longer eligible for capitalization and lower revenue in Energy Trading due to lower realized export market prices. These decreases were partially offset by higher oil sales volumes during the quarter for Hebron and HSE and higher realized oil prices compared to the same period in 2018, as well as an asset write-down in Q4 2018 related to Ramea wind assets.

SEPTEMBER 2019/SEPTEMBER 2018

2019 third quarter loss was $13 million, a decrease of $38 million compared to a profit of $25 million for the same period in 2018. Key drivers of the unfavourable variance include lower oil production, primarily due to shutdowns at HSE and White Rose, and lower realized oil prices; an increase in borrowing and operating costs for LCP Transmission as the construction and testing of LTA assets was substantially complete, resulting in some costs no longer being eligible for capitalization; and lower revenue in Energy Trading related to lower realized export market prices.

JUNE 2019/JUNE 2018

2019 second quarter profit decreased $10 million compared to the same period in 2018. Key drivers of the decrease include higher royalties paid to the Province by Oil and Gas and lower oil production, a decrease in revenues for Energy Trading as a result of lower volumes of energy available for export and lower export prices. These decreases were partially offset by a reduction in Hydro Regulated's energy supply costs primarily due to importing off-island energy to supply Island customers, higher revenues from interim rates, along with higher realized oil prices.

The increase in Q2 2019 profit resulting from lower energy supply costs was temporary and reversed in Q3 2019, upon implementation of the final 2017 GRA Order.

MARCH 2019/MARCH 2018

2019 first quarter profit increased $14 million compared to the same period in 2018. Key drivers of the increase include a reduction in Hydro Regulated's energy supply costs due to importing off-island energy to supply Island customers and higher revenues from interim rates; increased revenues in Oil and Gas, as a result of higher production and favourable foreign exchange; and lower exploration and evaluation costs due to timing of Oil and Gas seismic activities. These favourable variances were partially offset by a reduction in Energy Trading's revenue due to lower volumes available for export, along with higher interest on long-term debt in Hydro Regulated as a result of increased debt levels compared to the same period in 2018. The increase in Q1 2019 profit resulting from lower energy supply costs was temporary and reversed in Q3 2019, upon implementation of the final 2017 GRA Order.

OUTLOOK

We expect the remainder of 2020 to be a challenging time for our industry and the global economy in general. The extent to which COVID-19 impacts our business, results of operations and financial condition will depend on future developments, which are highly uncertain and are difficult to predict, including, but not limited to, the duration and spread of the pandemic, its severity, the actions to contain COVID-19 or treat its impact, and how quickly and to what extent normal economic and operating conditions can resume. Management does not yet know the full extent of the impacts on our business and operations or the global economy as a whole. The situation is changing rapidly and future impacts may materialize that are not yet known and may have an adverse effect on the results of operations, financial condition and cash flows of the Company. Management continues to monitor developments related to the pandemic and will take reasonable and necessary actions to minimize the risk to the business.

In response to the COVID-19 pandemic in mid-March 2020, the LCP was placed in care and maintenance mode to help protect the health and safety of workers and the general public. As a result of the Province easing restrictions, on May 30, 2020, Nalcor started preparing for the safe and gradual resumption of construction and commissioning activities. The number of workers on site will slowly increase to ensure that all new protocols and guidelines for the protection of workers from COVID-19 in the construction industry are observed.

In recognizing that LCP would result in an increase in rates for Island electricity customers, options to manage rate impacts have been a focus for Nalcor over a number of years. On April 15, 2019, the Province released its strategy to manage and mitigate electricity rates for 2021 onward. On February 10, 2020, the provincial and federal governments announced a plan to negotiate a financial restructuring of the LCP, including a change to the Muskrat Falls/LTA revenue model and the deferral of sinking fund payments and Cost Overrun Escrow Account payments, if required. A formal agreement between both levels of government is anticipated to be implemented by project commissioning. Nalcor is continuing to work with the Province to implement a plan for rate mitigation going forward.

Timing associated with the occurrence of these items; in particular the commissioning of LCP and details surrounding rate mitigation, could cause material fluctuations in Nalcor's future profit, cash flows and asset values.

HYDRO

HYDRO REGULATED

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

Prior to the completion of the Muskrat Falls Generating Station, LCP Transmission assets will be used, once the LIL is available, in limited capacity, by Hydro Regulated to direct surplus Recapture and pre-commissioning energy to service load on the island portion of the Province and to partially displace fuel consumption at the HTGS. The availability of the LCP transmission assets is dependent on the LCP schedule and any future impact related to COVID-19. Costs associated with the use of the LIL and LTA, when incurred, will be deferred and recovery through customer rates is subject to future approval by the PUB.

The RRA study proceeding addresses Hydro Regulated's long-term approach to providing least-cost, reliable service for its customers and focuses on Hydro Regulated's proposed planning criteria and ability to meet customer and system requirements reliably over a ten-year planning period (beginning in 2020). The PUB review process is ongoing and will continue throughout 2020 and 2021.

The 2017 GRA Order directed Hydro Regulated to file its next GRA no later than September 30, 2020 for electricity rates based on a 2021 Test Year. Hydro Regulated filed an application with the PUB on April 14, 2020 to delay its next GRA filing until after the revised financial structure for the Muskrat Falls and Government's rate mitigation plan have been finalized and publicly communicated. On May 27, 2020, the PUB approved this application and ordered Hydro Regulated to file quarterly updates with respect to the filing of its next GRA beginning on September 30, 2020.

Regulatory processes and outcomes may be impacted by the on-going evaluation and implementation of rate mitigation as well as the recent announcement by the provincial and federal governments regarding the plan for financial restructuring of the LCP, along with any changes to LCP cost or schedule. Hydro Regulated's continued ability to access adequate capital within existing legislated debt caps in 2020 resulted in a request to the Province to increase the existing debt caps to permit access to adequate borrowing facilities. On February 20, 2020, Hydro's permitted level of short-term borrowings increased from $300.0 million to $500.0 million, effective until March 31, 2022. In addition, on March 26, 2020, Hydro's permitted level of total borrowings, which includes both short-term and long-term debt increased from $2.1 billion to $2.6 billion. In April 2020, Hydro Regulated obtained additional credit through the establishment of a committed credit facility with its banker in the amount of $300.0 million.

On May 14, 2020, the Province announced a one-time wholesale bill credit applicable to residential and general customers of which the timing and details are subject to PUB approval. The provision of projected fuel savings through a bill credit will replace any changes to rates that would have resulted from the RSP Fuel Price Projection normally scheduled for implementation on July 1, 2020.

In May 2020, the Province announced it is providing up to $2.5 million to Hydro and Newfoundland Power to enable the utilities to waive the interest on overdue accounts for residential and general service customers requiring flexible bill payment arrangements as a result of the economic impact of COVID-19. Customers availing of this Government initiative will be required to continue to make agreed-upon monthly payments during the interest relief period.

POWER DEVELOPMENT AND POWER SUPPLY

MUSKRAT FALLS/LCP TRANSMISSION

Management is assessing the impact of the pandemic on the forecast cost and schedule of Muskrat Falls and the LIL assets and has estimated that project completion will be delayed at least four months. Depending on the size of the workforce and level of productivity resulting from new safety protocols due to the pandemic, final completion could be delayed a further two to six months. The full impact on project cost and schedule is yet to be determined. The integration of Muskrat Falls and related transmission assets into the existing asset base is complex and involves a high degree of coordination. As such, Nalcor is focused on completion of the construction of Muskrat Falls, full system integration efforts and planning for the implementation of new operating procedures and commercial agreements.

CHURCHILL FALLS

Churchill Falls' will continue to prioritize revenue generation while supporting the completion of its operating and capital programs in 2020 as it has in previous years. Churchill Falls' 2020 forecasted profit is anticipated to be consistent with 2019. Currently, there are no anticipated material changes to profit forecast as a result of COVID-19. The financial impacts of the Declaratory Judgement ruling are unknown at this time and the Parties are in the process of negotiating the value of the final AEB that will establish the Continuous Energy volume for the term of the Renewed Power Contract.

ENERGY TRADING

Energy Trading will continue to focus on the growth of Nalcor's energy marketing portfolio in 2020 through its efforts to secure premium prices and market access for maximizing the export value of remaining surplus Recapture and future Muskrat Falls exports. Energy Trading expects to continue to have the ability to export Recapture volumes for a significant portion of 2020 as a result of the delay in LCP schedule due to the COVID-19 pandemic. Energy Trading will continue to work with Hydro Regulated to procure off-island energy to displace energy production from the HTGS and to optimize the value of the Province's hydraulic storage and production assets.

OFFSHORE DEVELOPMENT

OIL AND GAS

Effective January 1, 2020, Oil and Gas is comprised of Nalcor's existing equity interests in offshore developments. Activities related to exploration and future offshore developments were transitioned to Oil and Gas Corp. Going forward, Oil and Gas Corp. will manage the existing equity interests in offshore developments on Nalcor's behalf, through a Management Services Agreement.
Profit is expected to decrease over 2019 due to the significant decline in global market prices as a result of the COVID-19 pandemic and a reduction in worldwide demand for crude oil. The anticipated decrease in profit over 2019 will be partially offset by a forecasted favourable impact of 2020 commodity price hedges and a decrease in exploration and evaluation expenses in 2020 as these activities transitioned to Oil and Gas Corp as of January 1, 2020.

Oil price continues to be volatile and any significant price change for 2020 unhedged production will impact profitability. To mitigate exposure on realized oil prices, Oil and Gas has entered into commodity price swaps providing an average fixed price of $59.50 USD per barrel on approximately 2,000,000 barrels which represents 50% of budgeted 2020 production. Given that oil sales are denominated in USD, Oil and Gas has also entered into foreign exchange forward contracts with an average rate of $1.33 CAD per USD and a notional value of $119.0 million USD representing 50% of budgeted USD oil revenue.

BULL ARM

Effective January 1, 2020, the shares of Bull Arm Fabrication were distributed to Oil and Gas Corp. for a nominal amount. As such, going forward, Bull Arm Fabrication will no longer be presented in the results of the Nalcor consolidated financial statements.

CAPITAL EXPENDITURE OUTLOOK

Capital expenditures for Nalcor in 2020 are forecasted to be $1.0 billion, a decrease of $0.4 billion over 2019 capital expenditures due to the wind down of LCP construction. Management is still assessing the impact of COVID-19 on its 2020 capital program and therefore forecast capital expenditures could change as a result.

MANAGEMENT REPORT

The accompanying Consolidated Financial Statements of Nalcor Energy, and all information in the Management's Discussion & Analysis, are the responsibility of Management and have been approved by the Board of Directors.

The Consolidated Financial Statements have been prepared by Management in accordance with International Financial Reporting Standards. The preparation of financial statements necessarily involves the use of estimates based on Management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to February 28, 2020. Financial information presented elsewhere in the Management's Discussion & Analysis is consistent with that in the Consolidated Financial Statements.

Management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for the appropriate delegation of authority and segregation of responsibilities. An internal audit department independently evaluates the effectiveness of these internal controls on an ongoing basis, and reports its findings to Management and to the Audit Committee of the Board of Directors.

The responsibility of the external auditor, Deloitte LLP, is to express an independent, professional opinion on whether the Consolidated Financial Statements are fairly presented in accordance with International Financial Reporting Standards. The Auditors' Report outlines the scope of their examination and their opinion.

The Board of Directors, through its Audit Committee, is responsible for ensuring that Management fulfills its responsibility for financial reporting and internal controls. The Audit Committee meets regularly with Management, the internal auditors and the external auditors to ensure that each group has properly discharged its respective responsibility and to review the Consolidated Financial Statements before recommending approval by the Board of Directors. The internal and external auditors have full and free access to the Audit Committee, with and without the presence of Management.

Stan Marshall
President and Chief Executive Officer

Carla Russell
Executive Vice President, Finance and Chief Financial Officer

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Stan Marshall
President and Chief Executive Officer

Carla Russell
Executive Vice President, Finance and Chief Financial Officer

APPENDIX 2

NALCOR ENERGY
CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019

Deloitte.

Deloitte LLP
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St. John’s, NL A1E 0E4
Canada

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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, 2019, 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, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (“IFRS”).

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Deloitte LLP

Chartered Professional Accountants
February 28, 2020

NALCOR ENERGY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31 (millions of Canadian dollars)	Notes	**2019**	2018
ASSETS			
Current assets			
Cash and cash equivalents	6	**174**	153
Restricted cash		**1,460**	1,422
Short-term investments	12	**-**	332
Trade and other receivables	7	**240**	434
Inventories	8	**134**	121
Current portion of other long-term assets	13	**2**	2
Prepayments		**27**	27
Derivative assets		**4**	1
Total current assets before distribution to shareholder		**2,041**	2,492
Assets for distribution to shareholder		**1**	1
Total current assets		**2,042**	2,493
Non-current assets			
Property, plant and equipment	9	**16,798**	15,755
Intangible assets	10	**36**	34
Right-of-use assets	11	**6**	-
Long-term investments	12	**100**	130
Other long-term assets	13	**236**	222
Total assets		**19,218**	18,634
Regulatory deferrals	14	**123**	159
Total assets and regulatory deferrals		**19,341**	18,793
LIABILITIES AND EQUITY			
Current liabilities			
Short-term borrowings	16	**233**	189
Trade and other payables	15	**435**	486
Current portion of long-term debt	16	**37**	7
Derivative liabilities		**9**	1
Current portion of other liabilities		**4**	3
Total current liabilities before distribution to shareholder		**718**	686
Liabilities directly associated with the assets for distribution to shareholder		**-**	1
Total current liabilities		**718**	687
Non-current liabilities			
Long-term debt	16	**9,649**	9,688
Class B limited partnership units	17	**578**	533
Deferred credits	18	**1,812**	1,777
Deferred contributions		**24**	26
Decommissioning liabilities	19	**102**	86
Long-term payables	20	**41**	45
Lease liabilities	21	**5**	-
Employee future benefits	22	**144**	123
Total liabilities		**13,073**	12,965
Shareholder's equity			
Share capital	23	**123**	123
Shareholder contributions		**4,608**	4,224
Reserves		**(101)**	(89)
Retained earnings		**1,625**	1,499
Total equity		**6,255**	5,757
Total liabilities and equity		**19,328**	18,722
Regulatory deferrals	14	**13**	71
Total liabilities, equity and regulatory deferrals		**19,341**	18,793

Commitments and contingencies (Note 32) and Subsequent event (Note 36)

See accompanying notes

On behalf of the Board:

DIRECTOR DIRECTOR

NALCOR ENERGY
CONSOLIDATED STATEMENT OF PROFIT AND COMPREHENSIVE INCOME

For the year ended December 31 (millions of Canadian dollars)	Notes	**2019**	2018
Continuing operations			
Energy sales	25	**1,016**	1,005
Other revenue		**22**	24
Revenue		**1,038**	1,029
Fuels		**217**	189
Power purchased		**102**	87
Operating costs	26	**230**	220
Production, marketing and transportation costs	27	**36**	42
Transmission rental		**26**	25
Depreciation, depletion, amortization and impairment		**197**	189
Exploration and evaluation		**33**	29
Net finance expense	28	**92**	83
Other expense	29	**14**	29
Expenses		**947**	893
Profit before regulatory adjustments		**91**	136
Regulatory adjustments	14	**(36)**	(46)
Profit for the year from continuing operations		**127**	182
Discontinued operations			
Loss for the year from discontinued operations		**(1)**	(2)
Profit for the year		**126**	180
Other comprehensive (loss) income			
Total items that may or have been reclassified to profit or loss:			
Actuarial (loss) gain on employee future benefits	22	**(12)**	11
Net fair value loss on cash flow hedges		**(7)**	(16)
Reclassification adjustments related to:			
Cash flow hedges recognized in profit or loss		**7**	24
Other comprehensive (loss) income for the year		**(12)**	19
Total comprehensive income for the year		**114**	199

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
Balance at January 1, 2019		**123**	**4,224**	**(70)**	**(19)**	**1,499**	**5,757**
Profit for the year		**-**	**-**	**-**	**-**	**126**	**126**
Other comprehensive loss		**-**	**-**	**-**	**(12)**	**-**	**(12)**
Total comprehensive (loss) income for the year		**-**	**-**	**-**	**(12)**	**126**	**114**
Shareholder contributions	**31**	**-**	**384**	**-**	**-**	**-**	**384**
Balance at December 31, 2019		**123**	**4,608**	**(70)**	**(31)**	**1,625**	**6,255**
Balance at January 1, 2018		123	3,693	(78)	(30)	1,319	5,027
Profit for the year		-	-	-	-	180	180
Other comprehensive income		-	-	8	11	-	19
Total comprehensive income for the year		-	-	8	11	180	199
Shareholder contributions	31	-	531	-	-	-	531
Balance at December 31, 2018		123	4,224	(70)	(19)	1,499	5,757

See accompanying notes

NALCOR ENERGY
CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31 (millions of Canadian dollars)	Notes	**2019**	2018
Operating activities			
Profit for the year		**126**	180
Adjustments to reconcile profit to cash provided from operating activities:			
Depreciation, depletion, amortization and impairment		**197**	189
Regulatory adjustments	14	**(36)**	(46)
Finance income		**(52)**	(51)
Finance expense		**144**	134
Other		**17**	20
		396	426
Changes in non-cash working capital balances	33	**(13)**	(30)
Interest received		**41**	50
Interest paid		**(384)**	(396)
Net cash provided from operating activities		**40**	50
Investing activities			
Additions to property, plant and equipment	34	**(898)**	(1,080)
Additions to intangible assets	34	**(6)**	(9)
Decrease in short-term investments		**332**	720
Decrease in long-term investments		**30**	202
Other		**(12)**	(15)
Changes in non-cash working capital balances	33	**149**	(141)
Net cash used in investing activities		**(405)**	(323)
Financing activities			
Proceeds from long-term debt		**-**	316
Increase in restricted cash		**(38)**	(385)
Increase (decrease) in short-term borrowings		**44**	(180)
Shareholder contributions	31	**384**	531
Other		**(4)**	1
Net cash provided from financing activities		**386**	283
Net increase in cash and cash equivalents		**21**	10
Cash and cash equivalents, beginning of the year		**153**	143
Cash and cash equivalents, end of the year		**174**	153

Cash and cash equivalents 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), which has a mandate to engage in the upstream and downstream sectors of the oil and gas industry. Upstream includes exploration, development, and production activities, while downstream includes transportation and processing activities.

A 100% interest in Nalcor Energy – 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 and finance the assets and property constituting the LIL, a transmission link constructed between the Muskrat Falls plant and the Newfoundland and Labrador Island Interconnected System. LIL Holdco holds 100% of the Class A and Class C limited partnership units.

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

1.2 Investment in Joint Arrangement

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

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

1.3 Structured Entities

Nalcor consolidates the results of structured entities in which it holds a financial interest and is the primary beneficiary. Nalcor has determined that it is the primary beneficiary of the LIL Construction Project Trust (the IT) and, as a result, has included the financial statements of the IT in these annual audited consolidated financial statements. Nalcor has determined that it is not the primary beneficiary of the Muskrat Falls/Labrador Transmission Assets (MF/LTA) Funding Trust or the 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 IFRS applicable as at December 31, 2019 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 February 28, 2020.

2.2 Basis of Consolidation

The annual audited consolidated financial statements include the financial statements of Nalcor and its subsidiary companies, the equity method of accounting for entities over which Nalcor has significant influence, but not control, and proportionate consolidation for those which are jointly owned with non-affiliated entities. In addition, the financial statements of all structured entities, for which Nalcor has been determined the primary beneficiary, are included in these annual audited consolidated financial statements. Intercompany transactions and balances have been eliminated upon consolidation.

2.3 Cash and Cash Equivalents and Short-term Investments

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

2.4 Restricted Cash

Restricted cash consists of cash held on deposit with Schedule 1 Canadian Chartered banks and administered by the Collateral Agent for the sole purpose of funding construction costs related to the LIL, Labrador Transmission Assets (LTA) and Muskrat Falls' hydroelectric generating facility, including pre-funded equity requirements required under the Labrador-Island Link Project Finance Agreement (LIL PFA) and MF/LTA Project Finance Agreement (MF/LTA PFA). The Lower Churchill Project Companies draw funds from these accounts in accordance with procedures set out in the LIL PFA and MF/LTA PFA. Restricted cash also includes accounts administered by the Trustee of the IT and funds held in trust by solicitors of the Lower Churchill Project Companies.

2.5 Inventories

Inventories are carried at the lower of cost and net realizable value. Cost is determined on a weighted average basis and includes expenditures incurred in acquiring inventories and bringing them to their existing condition and location. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

2.6 Property, Plant and Equipment

Items of property, plant and equipment are recognized at cost less accumulated depreciation and accumulated impairment losses. Cost includes materials, labour, contracted services, professional fees and, for qualifying assets, borrowing costs capitalized in accordance with Nalcor's accounting policy outlined in Note 2.8. Costs capitalized with the related asset include all those costs directly attributable to bringing the asset into operation.

When significant parts of property, plant and equipment, including petroleum and natural gas properties, are required to be replaced at intervals, Nalcor recognizes such parts as individual assets with specific useful lives and depreciation rates. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the asset as a replacement if the recognition criteria are satisfied. All other repairs and maintenance costs are recognized in profit or loss as incurred.

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

Depreciation commences when the assets are ready for their intended use. Residual values and useful lives are reviewed at the end of each year and adjusted prospectively, if appropriate. Depreciation is calculated on a straight-line basis over the estimated useful lives for all lines of business except Hydro, where depreciation is calculated based on the average group methodology. As per Board Order P.U. 30 (2019), Hydro was approved to recover gains and losses through accumulated amortization and to record removal costs through depreciation. To comply with IAS 16, the adjustments related to the recovery of gains and losses through accumulated amortization and removal depreciation are presented as a regulatory adjustment in Note 14. The depreciation rates used are as follows:

Generation plant	
Hydroelectric	25 to 110 years
Thermal	20 to 70 years
Diesel	3 to 70 years
Transmission	
Lines	26 to 65 years
Terminal stations	20 to 60 years
Distribution system	20 to 60 years
Other assets	5 to 70 years

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

Transmission lines include the support structures, foundations and insulators associated with lines at voltages of 230, 138 and 69 kilovolt (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.

The carrying amount of a replaced asset is derecognized when replaced. Gains and losses on disposal of an item of property, plant and equipment, including petroleum and natural gas interests, are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recorded in other expense.

Petroleum and Natural Gas Properties

Petroleum and natural gas development and production assets are carried at cost less accumulated depreciation, depletion and accumulated impairment losses. Development and production assets are grouped into cash-generating units (CGUs) for impairment testing.

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

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the decommissioning costs and, for qualifying assets, borrowing costs in accordance with Nalcor's accounting policy in Note 2.8. The purchase price or constructed cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Capitalized petroleum and natural gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis.

Costs incurred subsequent to the determination of technical feasibility and commercial viability are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to Oil and Gas and the cost can be measured reliably.

Depletion

The net carrying value of development and production assets is depleted using the unit of production method by reference to the ratio of production in the year to the related proved and probable reserves, and considering estimated future development costs necessary to bring those reserves into production. Future development costs are estimated, taking into account the level of development required to produce the reserves. These estimates are reviewed by independent reserve engineers, at least annually.

Proved and probable reserves are estimated using independent reserve engineer reports and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate, with a specified degree of certainty, to be recoverable in future years from known reservoirs and which are considered commercially viable. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves.

Such reserves 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.

2.7 Intangible Assets

Intangible assets that are expected to generate future economic benefit and are measurable, including computer software costs, costs of technical services, 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 22 years
Seismic data acquisitions	6 years

2.8 Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in the Consolidated Statement of Profit and Comprehensive Income in the period in which they are incurred.

2.9 Impairment of Non-Financial Assets

Property, plant and equipment and other non-financial assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Where it is not possible to estimate the recoverable amount of an individual asset, Nalcor estimates the recoverable amount of the CGU to which the asset belongs. The recoverable amount is the higher of fair value less costs of disposal and value in use. Value in use is generally computed by reference to the present value of future cash flows expected to be derived from non-financial assets. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount and an impairment loss is recognized immediately in the Consolidated Statement of Profit and Comprehensive Income.

2.10 Investments in Joint Arrangements

A joint arrangement is an arrangement of which two or more parties have joint control. Control exists when Nalcor has the power, directly or indirectly, to govern the financial and operating policies of another entity, so as to obtain benefits from its activities. A joint arrangement is either classified as a joint operation or a joint venture based on the rights of the parties involved.

Nalcor holds 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 reflects the share of the profit or loss of the joint venture.

2.11 Employee Future Benefits

Pension Plan

Employees participate in the Province's Public Service Pension Plan, a multi-employer defined benefit plan. Contributions by Nalcor to this Plan are recognized as an expense when employees have rendered service entitling them to the contributions. Liabilities associated with this Plan are held with the Province.

Other Benefits

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

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 as a regulatory adjustment.

The retirement benefit obligation recognized in the Consolidated Statement of Financial Position represents the present value of the defined benefit obligation.

2.12 Provisions

A provision is a liability of uncertain timing or amount. A provision is recognized if Nalcor has a present legal obligation or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognized for future operating losses. The provision is measured at the present value of the best estimate of the expenditures expected to be required to settle the obligation using a discount rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. Provisions are re-measured at each Consolidated Statement of Financial Position date using the current discount rate.

2.13 Decommissioning, Restoration and Environmental Liabilities

Legal and constructive obligations associated with the retirement of property, plant and equipment are recorded as liabilities when those obligations are incurred and are measured as the present value of the expected costs to settle the liability, discounted at a rate specific to the liability. The liability is accreted up to the date the liability will be incurred with a corresponding charge to net finance expense. The carrying amount of decommissioning, restoration and environmental liabilities is reviewed annually with changes in the estimates of timing or amount of cash flows added to or deducted from the cost of the related asset or expensed in the Consolidated Statement of Profit and Comprehensive Income if the liability is short-term in nature.

2.14 Revenue Recognition

Revenue from Contracts with Customers

Nalcor recognizes revenue from contracts with customers related to the sale of electricity to regulated Provincial industrial, utility and direct customers in rural Newfoundland and Labrador and to non-regulated industrial, utility and external market customers.

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

Revenue from the sale of energy is recognized when Nalcor satisfies its performance obligation by transferring energy to the customer. Sales within the Province are primarily at rates approved by the Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB), whereas sales to certain other major industrial customers and export sales are either at rates under the terms of the applicable contracts, or at market rates.

Nalcor recognizes revenue at the amount to which it has the right to invoice, which corresponds directly to the value to the customer of Nalcor's performance to date.

Revenue from Crude Oil Sales

Revenue from the sale of crude oil is recognized when the amount of revenue can be reasonably measured, the significant risks and rewards of ownership have passed to the buyer and collection is reasonably assured. This typically occurs when the oil has been produced and delivered to the buyer in accordance with contracted shipping terms.

Revenue from properties in which Nalcor has an interest with other producers is recognized on the basis of Nalcor's sales to customers. Under this method, when Nalcor sells less crude oil production than its net working interest (under-lift), it has a right to future production of the joint operation and the under-lift portion is recognized as an asset that represents crude oil production not yet received. Similarly, an over-lift position is recognized as a liability that represents an accrual for crude oil production received but not yet paid.

2.15 Leasing

Lessee Accounting

Nalcor assesses whether a contract is or contains a lease, at inception of a contract. Nalcor recognizes a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low-value assets. For these leases, Nalcor recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, Nalcor uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed (and in-substance) lease payments less any lease incentives;
- variable lease payments that depend on an index or rate; and
- payments expected under residual value guarantees and payments relating to purchase options and renewal option periods that are reasonably certain to be exercised (or periods subject to termination options that are not reasonably certain to be exercised).

The lease liability is subsequently measured at amortized cost using the effective interest rate method. Lease liabilities are remeasured, with a corresponding adjustment to the related right-of-use assets, when there is a change in variable lease payments arising from a change in an index or rate, or when Nalcor changes its assessment of whether purchase, renewal or termination options will be exercised. Nalcor did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and accumulated impairment losses.

Whenever Nalcor incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognized and measured under *IAS 37 – Provisions, Contingent Liabilities and Contingent Assets*. The costs are included in the related right-of-use asset.

Right-of-use assets are depreciated over the shorter period of the lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that Nalcor expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. Depreciation starts at the commencement date of the lease.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognized as an expense in operating costs in the period in which the event or condition that triggers those payments occurs.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. Nalcor has elected to apply this practical expedient.

2.16 Foreign Currencies

Transactions in currencies other than Nalcor's functional currency (foreign currencies) are recognized using the exchange rate in effect at the date of transaction, approximated by the prior month end close rate. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates of exchange in effect at the period end date. Foreign exchange gains and losses not included in regulatory deferrals are recorded in the Consolidated Statement of Profit and Comprehensive Income as other expense.

2.17 Income Taxes

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

2.18 Financial Instruments

Classification and Initial Measurement

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

Financial assets are classified at amortized cost, FVTOCI, FVTPL or as derivatives designated as hedging instruments in an effective hedge. Financial liabilities are classified at FVTPL, amortized cost or as derivatives designated as hedging instruments in an effective hedge. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

Financial Assets at Amortized Cost

Financial assets with contractual cash flows arising on specified dates, consisting solely of principal and interest, and that are held within a business model whose objective is to collect the contractual cash flows are subsequently measured at amortized cost using the effective interest rate method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

Nalcor's financial assets at amortized cost include cash and cash equivalents, restricted cash, short-term investments, trade and other receivables, sinking fund investments, long-term receivables and long-term investments.

Financial Assets at FVTOCI
Financial assets measured at FVTOCI are those that have contractual cash flows arising on specific dates, consisting solely of principal and interest, and that are held within a business model whose objective is to collect the contractual cash flows and to sell the financial asset. Any change in the carrying amount of these assets other than foreign exchange gains and losses, impairment gains and losses, and interest income are recognized in other comprehensive income accumulated in the fair value reserve. When these assets are derecognized, the cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss.

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

Financial Assets at FVTPL
Financial assets that do not meet the criteria for being measured at amortized cost or FVTOCI are measured at FVTPL. Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognized in profit or loss to the extent they are not part of a designated hedging relationship.

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

Financial Liabilities at Amortized Cost
Nalcor subsequently measures all financial liabilities at amortized cost using the effective interest rate method. Gains and losses are recognized in profit or loss when the liability is derecognized.

Nalcor's financial liabilities at amortized cost include trade and other payables, short-term borrowings, long-term debt, long-term payables, and Class B limited partnership units.

Derecognition of Financial Instruments
Nalcor derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

Nalcor derecognizes financial liabilities when, and only when, its obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Impairment of Financial Assets
Nalcor recognizes a loss allowance for expected credit losses (ECL) on investments in debt instruments that are measured at amortized cost or at FVTOCI. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

Nalcor always recognizes lifetime ECL for trade and other receivables. The ECL on these financial assets are estimated based on Nalcor's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate. Nalcor also records 12-month ECL for those financial assets which have low credit risk and where the low credit risk exemption has been applied. The classes of financial assets that have been identified to have low credit risk are cash and cash equivalents, restricted cash, short-term investments, long-term investments, sinking funds and the reserve fund.

For all other financial instruments, Nalcor recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, Nalcor measures the loss allowance for that financial instrument at an amount equal to 12-month ECL. The assessment of whether lifetime ECL should be recognized is based on significant increases in the likelihood or risk of a default occurring since initial recognition instead of on evidence of a financial asset being credit-impaired at the reporting date or an actual default occurring.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Hedges

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

The effective portion of the gain or loss on a cash flow hedging instrument is recognized directly in other comprehensive income, while any ineffective portion is recognized immediately in the Consolidated Statement of Profit and Comprehensive Income for the period in other expense. Amounts recognized in other comprehensive income are transferred to the Consolidated Statement of Profit and Comprehensive Income for the period when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognized or when a forecast sale occurs.

2.19 Government Grants

Government grants are recognized when there is reasonable assurance that Nalcor will comply with the associated conditions and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which Nalcor recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that Nalcor should purchase, construct or otherwise acquire non-current assets are recognized as deferred credits in the Consolidated Statement of Financial Position and transferred to the Consolidated Statement of Profit and Comprehensive Income on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to Nalcor with no future related costs are recognized in the Consolidated Statement of Profit and Comprehensive Income in the period in which they become receivable.

2.20 Regulatory Deferrals

Nalcor’s revenues from its electrical sales to most customers within the Province are subject to rate regulation by the PUB. Hydro's borrowing and capital expenditure programs are also subject to review and approval by the PUB. Rates are set through periodic general rate applications utilizing a cost of service methodology. Hydro’s allowed rate of return based upon Board Order No. P.U. 30 (2019) is 5.4% in 2019 and 5.5% in 2018 +/- 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 14.

2.21 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.

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. For example, with respect to petroleum and natural gas properties management uses factors including expected future oil prices and proved and probable reserves from third party specialists and discount rates to determine the recoverable amount, as well as judgments regarding the occurrence of future events. Changes in these factors will affect the recoverable amount of CGUs and assets, which may result in a material adjustment to their carrying value.

(ii) Property, Plant and Equipment
Nalcor's accounting policy relating to property, plant and equipment is described in Note 2.6. In applying this policy, judgment is used in determining whether certain costs are additions to the carrying amount of the property, plant and equipment as opposed to repairs and maintenance. If an asset has been developed, judgment is required to identify the point at which the asset is capable of being used as intended and to identify the directly attributable borrowing costs to be included in the carrying value of the development asset. Judgment is also used in determining the appropriate componentization structure for Nalcor's property, plant and equipment.

(iii) Revenue
Management exercises judgment in estimating the value of electricity consumed by retail customers in the period, but billed subsequent to the end of the reporting period. Specifically, this involves an estimate of consumption for each retail customer, based on the customer's past consumption history.

In addition, when recognizing deferrals and related amortization of costs or credits in Hydro Regulated, Management assumes that such costs or credits will be recovered or refunded through customer rates in future years. Recovery of some of these deferrals is subject to a future PUB order. As such, there is a risk that some or all of the regulatory deferrals will not be approved by the PUB which could have a material impact on Hydro Regulated's profit or loss in the year the order is received.

(iv) Functional Currency
Functional currency was determined by evaluating the primary economic environment in which Nalcor operates. As Nalcor enters into transactions in multiple currencies, judgment is used in determining the functional currency. Management considered factors regarding currency of sales, costs incurred, and operating and financing activities and determined the functional currency to be Canadian Dollars.

(v) Determination of CGUs
Nalcor's accounting policy relating to impairment of non-financial assets is described in Note 2.9. In applying this policy, Nalcor groups assets into the smallest identifiable groups for which cash flows are largely independent of the cash flows from other assets or groups of assets. Judgment is used in determining the level at which cash flows are largely independent of other assets or groups of assets.

(vi) Discount Rates
Certain of Nalcor's financial liabilities are discounted using discount rates that are subject to Management's judgment.

(vii) Consolidation
Management applies its judgment when determining whether to consolidate structured entities in accordance with the criteria outlined in IFRS 10 and when applying the criteria outlined in IFRS 11 to determine whether joint arrangements constitute joint ventures or joint operations.

(viii) Leases
Definition of a Lease
At inception of a contract, Nalcor assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, Nalcor assesses whether the contract involves the use of an identified asset, Nalcor has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use and Nalcor has the right to direct the use of the asset.

Lease Extension and Termination Options
In determining the lease term, Nalcor considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. The assessment is reviewed if a significant event or a significant change in circumstances occurs within its control. The assessment requires the consideration of facts and circumstances such as contractual terms and conditions for option periods, significant leasehold improvements undertaken, costs to terminate the lease, the importance of the asset to the leasee's operations and past practice.

3.2 Use of Estimates

(i) Property, Plant and Equipment
Amounts recorded for depreciation are based on the useful lives of Nalcor's assets. The useful lives of property, plant and equipment are determined by independent specialists and reviewed annually by Nalcor. These useful lives are Management's best estimate of the service lives of these assets. Changes to these lives could materially affect the amount of depreciation recorded.

(ii) Oil and Natural Gas Reserves
Oil and natural gas reserves are evaluated by independent reserve engineers. Reserve estimates are used in calculating depletion, impairment and decommissioning liabilities. Estimates of recoverable reserves are based upon variable factors and assumptions regarding historical production, production rates, ultimate reserve recovery, marketability of petroleum and natural gas, and timing and amount of future cash expenditures. Changes to these amounts could materially affect these calculations.

(iii) Partnership Unit Liabilities

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.

(iv) Decommissioning Liabilities

Nalcor recognizes a liability for the fair value of the future expenditures required to settle obligations associated with the retirement of property, plant and equipment. Decommissioning liabilities are recorded as a liability at fair value, with a corresponding increase to property, plant and equipment. Accretion of decommissioning liabilities is included in the Consolidated Statement of Profit and Comprehensive Income through net finance expense. Differences between the recorded decommissioning liabilities and the actual decommissioning costs incurred are recorded as a gain or loss in the settlement period.

(v) Employee Future Benefits

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

(vi) Revenue

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

(vii) Leases Incremental Borrowing Rate

Nalcor uses its incremental borrowing rates in measuring its lease liabilities. The incremental borrowing rate is the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The determination of the incremental borrowing rate requires the consideration of different components, all of which are to incorporate a number of important lease characteristics.

4. CURRENT AND FUTURE CHANGES IN ACCOUNTING POLICIES

The following is a list of standards/interpretations that have been issued and are effective for accounting periods commencing on January 1, 2019 or January 1, 2020, as specified.

- *IFRS 16 – Leases*[1]
- *IFRS 9 – Prepayment Features with Negative Compensation*[1]
- *IAS 19 – Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)*[1]
- *IAS 28 – Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)*[1]
- *IAS 23 – Borrowing Costs (Amendments to IAS 23)*[1]
- *IFRS 11 – Joint Arrangements (Amendments to IFRS 11)*[1]
- *IAS 1 – Presentation of Financial Statements*[2] *and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors*[2] *(Amendments to IAS 1 and IAS 8)*

[1] Effective for annual periods beginning on or after January 1, 2019.
[2] Effective for annual periods beginning on or after January 1, 2020.

4.1 IFRS 16 – Leases

Effective January 1, 2019 Nalcor adopted *IFRS 16 – Leases* which introduces significant changes to lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset and a lease liability at the lease commencement for all leases, except for short-term leases and leases of low-value assets.

Nalcor has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under *IAS 17 – Leases* and *IFRIC 4 – Determining Whether an Arrangement Contains a Lease*.

Impact of the New Definition of a Lease

Nalcor has not elected to apply the practical expedient available on transition to IFRS 16, not to reassess whether a contract is or contains a lease at the date of initial application. In preparation for the first-time application of IFRS 16, Nalcor has carried out an implementation project which has shown that the new definition in IFRS 16 will not significantly change the scope of contracts that meet the definition of a lease for Nalcor.

Impact on Lessee Accounting

Former Operating Leases

IFRS 16 changes how Nalcor accounts for leases previously classified as operating leases under IAS 17, which were off-balance-sheet. Applying IFRS 16, for all leases (except as noted below), Nalcor:

a) recognizes right-of-use assets and lease liabilities in the Consolidated Statement of Financial Position, initially measured at the present value of future lease payments;
b) recognizes depreciation of right-of-use assets and interest on lease liabilities in the Consolidated Statement of Profit and Comprehensive Income; and
c) separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the Consolidated Statement of Cash Flows.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), Nalcor has opted to recognize a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within operating costs in the Consolidated Statement of Profit and Comprehensive Income.

Former Finance Leases

The main difference between IFRS 16 and IAS 17 with respect to assets formerly held under a finance lease is the measurement of residual value guarantees provided by a lessee to a lessor. Nalcor did not have any leases previously accounted for as finance leases under IAS 17, therefore, this change did not have an effect on its annual audited consolidated financial statements.

Impact on Lessor Accounting
IFRS 16 does not substantially change how a lessor accounts for leases. The changes to lessor accounting did not have an effect on Nalcor's annual audited consolidated financial statements.

Financial impact of the application of IFRS 16
On transition to IFRS 16, Nalcor recognized lease liabilities in relation to leases which had previously been classified as operating leases under IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using Nalcor's incremental borrowing rate as of January 1, 2019. The weighted average incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 2.3% - 4.6%. The associated right-of-use assets were measured at the amount equal to the corresponding lease liabilities totalling $10.0 million.

(millions of Canadian dollars)	
Operating lease commitments disclosed as at December 31, 2018	1
Additional operating lease commitments recognized under IFRS 16 as at January 1, 2019	15
Total operating lease commitments	16
Discounted using the incremental borrowing rate of 2.3% - 4.6%	9
Less: short-term leases recognized on a straight-line basis as expense	(2)
Add: extension and termination options reasonably certain to be exercised	3
Lease liability recognized as at January 1, 2019	**10**

In applying IFRS 16, Nalcor elected to use the following practical expedients, permitted by the standard:
- accounting for operating leases with a remaining lease term of less than 12 months as at January 1, 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

4.2 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 application of these amendments to IFRS 9 did not have a material impact on Nalcor's annual audited consolidated financial statements.

4.3 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 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 application of these amendments to IAS 19 did not have a material impact on Nalcor's annual audited consolidated financial statements.

4.4 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 application of these amendments to IAS 28 did not have a material impact on Nalcor's annual audited consolidated financial statements.

4.5 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. The application of these amendments to IAS 23 did not have a material impact on Nalcor's annual audited consolidated financial statements.

4.6 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 application of these amendments to IFRS 11 did not have a material impact on Nalcor's annual audited consolidated financial statements.

4.7 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 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, Bull Arm Fabrication represented a discontinued operation, based on the expectation that the whole company would be distributed to the Province. Bull Arm Fabrication was classified as a disposal group held for distribution as it was 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. Effective January 1, 2020, the shares of Bull Arm Fabrication were distributed to the new Crown corporation, Oil and Gas Corporation of Newfoundland and Labrador for a nominal amount.

6. CASH AND CASH EQUIVALENTS

As at December 31, 2019 and 2018, cash and cash equivalents consisted entirely of cash.

7. TRADE AND OTHER RECEIVABLES

As at December 31 (millions of Canadian dollars)		**2019**	2018
Trade receivables		**171**	354
Advances	(a)	**25**	25
Other receivables	(b)	**58**	72
Allowance for doubtful accounts		**(14)**	(17)
		240	434

(a) Advances relate to 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 bank interest.

As at December 31 (millions of Canadian dollars)	**2019**	2018
0-60 days	**223**	415
60+ days	**17**	19
	240	434

As at December 31 (millions of Canadian dollars)	**2019**	2018
Allowance for doubtful accounts, beginning of the year	**(17)**	(17)
Decrease in allowance during the year	**3**	-
Allowance for doubtful accounts, end of the year	**(14)**	(17)

8. INVENTORIES

As at December 31 (millions of Canadian dollars)		**2019**	2018
Fuel		**65**	57
Materials		**60**	57
Crude oil	(a)	**6**	4
Other		**3**	3
		134	121

(a) The cost of crude oil is based on production costs and an estimated capital component based on depletion.

The amount of inventory recognized as an expense during the year was \$218.6 million (2018 - \$193.2 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 as at January 1, 2018	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 as at December 31, 2018	1,932	1,298	1,489	503	11,897	17,119
Additions	**6**	**5**	**73**	**4**	**1,129**	**1,217**
Disposals	**(6)**	**(4)**	-	**(4)**	**(5)**	**(19)**
Transfers	**81**	**69**	-	**15**	**(166)**	**(1)**
Decommissioning liabilities and revisions	-	-	**13**	-	-	**13**
Other adjustments	**1**	-	-	-	-	**1**
Balance as at December 31, 2019	**2,014**	**1,368**	**1,575**	**518**	**12,855**	**18,330**
Depreciation, depletion and impairment						
Balance as at January 1, 2018	509	188	269	178	51	1,195
Depreciation and depletion	54	34	72	16	-	176
Disposals	(8)	(2)	-	(1)	-	(11)
Impairment	-	-	-	-	4	4
Balance as at December 31, 2018	555	220	341	193	55	1,364
Depreciation and depletion	**59**	**30**	**92**	**12**	-	**193**
Disposals	**(2)**	**(2)**	-	**(7)**	-	**(11)**
Other adjustments	**(6)**	**(6)**	-	**(2)**	-	**(14)**
Balance as at December 31, 2019	**606**	**242**	**433**	**196**	**55**	**1,532**
Carrying value						
Balance as at January 1, 2018	1,341	1,013	1,158	306	10,747	14,565
Balance as at December 31, 2018	1,377	1,078	1,148	310	11,842	15,755
Balance as at December 31, 2019	**1,408**	**1,126**	**1,142**	**322**	**12,800**	**16,798**

Capitalized interest for the year ended December 31, 2019 was $290.9 million (2018 - $294.9 million) related to assets under development.

10. INTANGIBLE ASSETS

(millions of Canadian dollars)	Computer Software	Feasibility Studies	Seismic Data Acquisitions	Intellectual Property	Assets Under Development	Total
Cost						
Balance as at January 1, 2018	18	2	106	2	20	148
Additions	-	-	-	-	9	9
Transfers	22	-	-	-	(21)	1
Balance as at December 31, 2018	40	2	106	2	8	158
Additions	-	-	-	-	**6**	**6**
Transfers	**5**	-	-	-	**(4)**	**1**
Balance as at December 31, 2019	**45**	**2**	**106**	**2**	**10**	**165**
Amortization and impairment						
Balance as at January 1, 2018	11	1	106	-	-	118
Amortization	4	-	-	-	-	4
Impairment	-	-	-	2	-	2
Balance as at December 31, 2018	15	1	106	2	-	124
Amortization	**5**	-	-	-	-	**5**
Balance as at December 31, 2019	**20**	**1**	**106**	**2**	-	**129**
Carrying value						
Balance as at January 1, 2018	7	1	-	2	20	30
Balance as at December 31, 2018	25	1	-	-	8	34
Balance as at December 31, 2019	**25**	**1**	-	-	**10**	**36**

11. RIGHT-OF-USE ASSETS

Nalcor leases various properties and has several contracts for easements. Contracts are typically entered into for a fixed period of 1 to 100 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Extension and termination options are included in a number of property leases and easements across Nalcor. These terms are used to maximize operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by Nalcor and not by the respective lessor.

(millions of Canadian dollars)	Property
Cost	
Balance as at January 1, 2019	10
Disposals	**(3)**
Balance as at December 31, 2019	**7**
Depreciation	
Balance as at January 1, 2019	-
Depreciation	**1**
Balance as at December 31, 2019	**1**
Carrying value	
Balance as at January 1, 2019	10
Balance at December 31, 2019	**6**

12. INVESTMENTS

As at December 31 (millions of Canadian dollars)	Year of Maturity	**2019**	2018
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
$483.8 million Amortizing Floating Rate Deposit Note, with interest paid at the one-month CDOR plus 0.20%.	2019	-	39
$725.7 million Amortizing Fixed Rate Deposit Note, with interest paid at a rate of 1.679% per annum.	2019	-	58
Labrador Transco			
$75.0 million Floating Rate Deposit Note, with interest paid at the one-month CDOR plus 0.20%.	2019	-	16
$483.8 million Amortizing Floating Rate Deposit Note, with interest paid at the one-month CDOR plus 0.20%.	2019	-	8
$725.7 million Amortizing Fixed Rate Deposit Note, with interest paid at a rate of 1.679% per annum.	2019	-	12
LIL LP			
$75.0 million Floating Rate Deposit Note, with interest paid at the one-month CDOR plus 0.20%.	2019	-	75
$182.9 million Amortizing Floating Rate Deposit Note, with interest paid at the one-month CDOR plus 0.20%.	2019	-	8
$548.6 million Amortizing Fixed Rate Deposit Note, with interest paid at a rate of 1.644% per annum.	2019	-	23
Churchill Falls			
$18.4 million Redeemable Guaranteed Investment Certificate (GIC), with interest paid at a rate of 1.40% per annum.	2019	-	18
$15.5 million Redeemable GIC, with interest paid at a rate of 1.46% per annum.	2019	-	16
Nalcor			
$130.0 million Long-term Redeemable GIC, with interest paid at a rate of 3.00% per annum.	2021	**100**	130
Total investments		**100**	462
Less: redemptions to be received within the next year[1]		-	(332)
		100	130

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

13. OTHER LONG-TERM ASSETS

As at December 31 (millions of Canadian dollars)		2019	2018
Reserve fund	(a)	**25**	12
Sinking funds	(b)	**211**	202
Other		**2**	10
Other long-term assets		**238**	224
Less: current portion		**(2)**	(2)
		236	222

(a) In 2007 Churchill Falls commenced the creation of a $75.0 million segregated reserve fund pursuant to the terms of the Shareholders' Agreement to contribute towards the funding of capital expenditures related to Churchill Falls' existing facilities and their replacement. The fund must remain in place until the end of the Shareholders' Agreement in 2041. The $75.0 million fund has been withdrawn in recent years and as per the terms of the Shareholders' Agreement, these funds are required to be replaced over a five year period. Reserve fund holdings consist of securities issued by the Government of Canada, various provinces of Canada, agencies guaranteed by the provinces and Canadian banks rated A or better (Standard and Poor's).

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

As at December 31 (millions of Canadian dollars)	2019	2018
Reserve fund, beginning of the year	**12**	-
Principal contributions	**12**	12
Mark-to-market adjustment	**1**	-
Reserve fund, end of the year	**25**	12

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

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

(b) As at December 31, 2019, sinking funds include $174.0 million (2018 - $164.4 million) related to repayment of Hydro's long-term debt and $36.6 million (2018 - $37.0 million) related to funding of Nalcor's long-term payable under the Upper Churchill Redress Agreement (UCRA).

Hydro debentures held in its own debt issue, are deducted from debt while all other sinking fund investments are shown separately on the Consolidated Statement of Financial Position as assets. Annual contributions to the various sinking funds are in accordance with bond indenture terms, and are structured to ensure the availability of adequate funds at the time of expected bond redemption. Effective yields range from 2.51% to 6.82% (2018 - 2.57% to 6.82%).

Sinking fund investments consist of bonds, debentures and coupons issued by, or guaranteed by, the Government of Canada, provincial governments, agencies guaranteed by the provinces or Schedule 1 banks, and have maturity dates ranging from 2020 to 2041.

LIL LP, Muskrat Falls and Labrador Transco are required to contribute to sinking funds as part of the federal loan guarantee on Tranche A, B and C debentures commencing in 2020.

The movements within sinking funds in the year are outlined below:

As at December 31 (millions of Canadian dollars)	**2019**	2018
Sinking funds, beginning of the year	**202**	194
Contributions	**7**	7
Earnings	**12**	13
Disposals and maturities	**(2)**	(2)
Change in sinking fund investments in own debentures	**(8)**	(10)
Sinking funds, end of the year	**211**	202
Less: current portion	**(2)**	(2)
	209	200

Sinking fund contributions required over the next five years are as follows:

(millions of Canadian dollars)	2020	2021	2022	2023	2024
Sinking fund contributions	71	135	135	135	135

14. REGULATORY DEFERRALS

(millions of Canadian dollars)		January 2019	Reclass and Disposition	Regulatory Activity	**December 31 2019**	Remaining Recovery Settlement Period (years)
Regulatory asset deferrals						
2018 cost deferral	(a)	19	(19)	-	-	n/a
2018 revenue deficiency	(b)	-	(2)	1	**(1)**	0.2
2019 revenue deficiency	(c)	-	(53)	52	**(1)**	1.4
Deferred energy conservation costs	(d)	9	-	-	**9**	n/a
Deferred lease costs	(e)	2	-	(1)	**1**	1.4
Energy supply deferrals	(f)	77	(69)	27	**35**	n/a
Foreign exchange losses	(g)	50	-	(2)	**48**	22.0
Business system transformation program	(h)	-	-	3	**3**	n/a
Rate stabilization plan (RSP)	(i)	-	16	-	**16**	n/a
Retirement asset pool	(j)	-	9	2	**11**	n/a
Other	(k,l,m,n,w)	2	-	-	**2**	n/a
		159	(118)	82	**123**	
Regulatory liability deferrals						
Insurance amortization and proceeds	(o)	(3)	-	-	**(3)**	n/a
Rate stabilization plan (RSP)	(i)	(67)	108	(41)	-	n/a
Firm energy purchase	(p)	-	-	(2)	**(2)**	n/a
Removal provision	(q)	-	(4)	(4)	**(8)**	n/a
Other	(r,s,t,u)	(1)	-	1	-	n/a
		(71)	104	(46)	**(13)**	

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

For the year ended December 31 (millions of Canadian dollars)		**2019**	2018
RSP amortization		**4**	(10)
RSP fuel deferral		**34**	2
RSP interest		**2**	4
Rural rate adjustment		**1**	-
Total RSP activity	(i)	**41**	(4)
2018 cost deferral	(a)	-	(19)
2018 revenue deficiency	(b)	**(1)**	-
2019 revenue deficiency	(c)	**(52)**	-
Amortization of deferred foreign exchange losses	(g)	**2**	2
Deferred lease costs	(e)	**1**	1
Energy supply deferrals	(f)	**(27)**	(25)
Firm energy purchase	(p)	**2**	-
Removal provision	(q)	**4**	-
Retirement asset pool	(j)	**(2)**	-
Business system transformation program	(h)	**(3)**	-
Other	(k,l,m,n,o,r,s,t,u,w)	**(1)**	(1)
		(36)	(46)

The following section describes Nalcor's regulatory assets and liabilities which will be, or are expected to be, reflected in customer rates in future periods and have been established through the rate setting process. In the absence of rate regulation, these amounts would be reflected in operating results in the year and the profit for the year ended December 31, 2019 would have decreased by $36.0 million (2018 - a decrease of $45.6 million).

(a) 2018 Cost Deferral

In Board Order No. P.U. 48 (2018), the Board approved the 2018 cost deferral of $18.5 million related to the differential in the 2018 depreciation, loss on retirement and removal costs associated with the proposed change in depreciation methodology. As per Board Order No. P.U. 30 (2019), the Board approved the reclassification of the 2018 cost deferral to an increase to property, plant and equipment of $13.6 million, the creation of a $9.4 million asset retirement pool, a $3.8 million removal pool liability and an increase to deferred contributions of $0.7 million.

(b) 2018 Revenue Deficiency

In Board Order P.U. 30 (2019), the Board approved the 2018 Revenue Deficiency of $0.8 million. The Revenue Deficiency consists of $2.3 million which was approved to be recovered through a transfer to the RSP and a refund to customers of $1.5 million. A refund of $0.6 million was paid to industrial customers in October 2019 with the remaining balance of $0.9 million due to be refunded to the Labrador Rural Interconnected customers in February 2020.

(c) 2019 Revenue Deficiency

In Board Order P.U. 30 (2019), the Board approved the 2019 Revenue Deficiency of $51.8 million. The Revenue Deficiency consists of $52.6 million which was approved to be recovered through a transfer to the RSP, $0.1 million to be recovered over a 20 month period and a refund to customers of $0.9 million. A refund of $0.3 million was paid to Industrial customers in October 2019 which resulted in a December 31, 2019 balance in the 2019 Revenue Deficiency of $0.6 million. The remaining refund of $0.6 million to the Labrador Rural Interconnected customers is scheduled to be paid in February 2020.

(d) Deferred Energy Conservation Costs

In 2019, Hydro deferred $1.5 million (2018 - $1.5 million) in Energy Conservation Costs associated with an electrical conservation demand management program for residential, industrial, and commercial sectors. As per Board Order No. P.U. 22 (2017), Hydro recovered $1.4 million (2018 – $1.2 million) of the balance through a rate rider.

(e) 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 amortization of lease costs associated with mobile diesel units at HTGS over a period of five years. In 2019, Hydro recorded amortization of $1.3 million (2018 - $1.3 million) of the deferred lease costs.

(f) Energy Supply Deferrals

Pursuant to Board Order No. P.U. 22 (2017), the Board approved the deferral of Energy Supply costs using three specific deferral accounts, the Energy Supply, Holyrood Conversion and Isolated Systems Supply cost deferrals. In 2019, Hydro recorded a net increase to the supply deferrals of $29.6 million (2018 - $25.3 million) with recovery determined through an annual application process. In Board Order No. P.U. 21 (2019), the Board approved the recovery of the 2018 supply cost deferral of $22.0 million from the balance of the RSP. Board Order No. P.U. 30 (2019) approved the recovery of the 2015-2017 supply deferrals of $65.4 million through a transfer of $47.0 million to the RSP with the remaining balance to be recovered over a 20 month period commencing in October 2019. During 2019 Hydro recovered $2.7 million from customers.

(g) 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 2019, amortization expense of $2.2 million (2018 - $2.2 million) was recorded.

(h) Business System Transformation Program

As per Board Order No.'s P.U. 23 (2019) and P.U. 30 (2019), the Board approved the deferral of business system transformation program costs commencing in 2018. The recovery of the deferral is subject to a future Board order. During the year, Hydro deferred $2.5 million relating to both 2018 and 2019.

(i) RSP

In 1986, the PUB ordered Hydro to implement the RSP which primarily provides for the deferral of fuel expense variances resulting from changes in fuel prices, hydrology, load and associated interest. Adjustments required in utility rates to cover the amortization of the balance are implemented on July 1 of each year. Similar adjustments required in industrial rates are implemented on January 1 of each year.

During 2019, Hydro recorded a net decrease in the RSP balance of $89.9 million (2018 - decrease of $7.2 million) resulting in a balance from customers of $16.2 million (2018 - $67.0 million liability). The decrease in the RSP liability is due to adjustments related to the GRA and the 2018 energy supply deferrals. Pursuant to Board Order No. P.U. 30 (2019), the Board ordered the recovery of $52.6 million associated with the 2019 Revenue Deficiency and $2.3 million associated with the 2018 Revenue Deficiency from the RSP. As per Board Order No.'s P.U. 21 (2019) and P.U. 30 (2019), the Board approved the recovery of a portion of the 2015-2017 supply deferrals of $47.0 million and the 2018 supply cost deferral of $22.0 million from the RSP. The normal operation of the RSP resulted in a net deferral of $40.7 million (2018 – $3.8 million).

(j) Retirement Asset Pool

As per Board Order No. P.U. 30 (2019), the Board approved Hydro's proposed depreciation methodology which includes the deferral of gains and losses on retirement of assets. The deferral will be recovered through future depreciation expense. The depreciation methodology and corresponding retirement asset pool was approved effective January 1, 2018. In addition, the Board approved the reclassification of the 2018 cost deferral which results in a transfer of a $9.4 million deferred asset to the retirement asset pool. Hydro also deferred $1.7 million of 2019 retirement asset activity resulting in a total balance of $11.1 million.

(k) Deferred Foreign Exchange on Fuel

Hydro purchases fuel for Holyrood Thermal Generating Station (HTGS) in USD. The RSP allows Hydro to defer variances in fuel prices (including foreign exchange fluctuations). During 2019, Hydro recognized in regulatory assets, foreign exchange gains on fuel purchases of $1.0 million (2018 - $1.1 million loss).

(l) Phase Two Hearing Costs

Pursuant to Board Order No. P.U. 13 (2016), Hydro received approval to defer consulting fees and salary related costs relating to Phase Two of the investigation into the reliability and adequacy of power on the Island Interconnected system after the interconnection with the Muskrat Falls generating station. As a result, Hydro recorded a net increase to regulatory assets of $0.2 million (2018 - $0.1 million) for a total deferred balance of $1.4 million (2018 - $1.2 million).

(m) Hearing Costs

As per Board Order No. P.U. 30 (2019), the Board approved the deferral of $1.7 million in hearing costs relating to the 2017 General Rate Application hearing and the Cost of Service hearing to be amortized over a three year period commencing 2018. In 2019, Hydro recorded amortization for 2018 and 2019 of $1.1 million resulting in a net balance of $0.6 million.

(n) Asset Disposal

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

(o) 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 2019, Hydro recorded a decrease to regulatory liabilities resulting from amortization of $0.6 million (2018 - $0.6 million) related to the assets.

(p) Firm Energy Purchase

Pursuant to Board Order No. P.U. 3 (2020), the Board approved the deferral of savings associated with firm energy power purchases. Hydro recorded a regulatory liability of $1.4 million in 2019 (2018 - $nil). The refund of the balance is to be determined in a future Board Order.

(q) Removal Provision

As per Board Order No. P.U. 30 (2019), the Board approved Hydro's proposed depreciation methodology which includes the provision for removal costs. The depreciation methodology and corresponding removal provision was approved effective January 1, 2018. In addition, the Board approved the reclassification of the 2018 cost deferral which results in a transfer of a regulatory liability of $3.8 million to the removal pool. Hydro also recorded a net increase to the provision relating to 2019 activity of $4.1 million resulting in a total balance of $7.9 million.

(r) Hydraulic Resources Optimization Deferral Account

In Board Order P.U. 49 (2018), a deferral account to capture the revenues and costs associated with the hydraulic optimization activities was approved. For the year ended December 31, 2019, the balance of hydraulic optimization activities is a net gain of $0.3 million (2018 - $nil) recorded as a deferred liability.

(s) 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 was approved. During 2019, this balance was eliminated as part of the 2018 Revenue Deficiency approved in Board Order P.U. 30 (2019).

(t) 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 from 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 2019, Hydro recorded amortization expense of $0.2 million (2018 – $0.2 million).

(u) 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 (2018 - $0.3 million) are deferred as a regulatory liability.

(v) 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 2019, Hydro recorded $nil (2018 - $0.2 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 2019 Hydro also recorded a decrease of $nil (2018 - $0.2 million) to other comprehensive income to recognize the amount that was reclassified to profit or loss.

(w) Reliability and Resource Adequacy Study

Pursuant to Board Order No. P.U. 29 (2019), the Board approved the deferral of costs associated with the Reliability and Resource Adequacy proceeding. Hydro deferred $0.2 million in 2019 (2018 - $nil). The recovery of the balance is to be determined in a future Board Order.

15. TRADE AND OTHER PAYABLES

As at December 31 (millions of Canadian dollars)	**2019**	2018
Trade payables and accruals	**305**	369
Accrued interest payable	**76**	55
Rent and royalty payable	**5**	4
Other payables	**49**	58
	435	486

16. DEBT

16.1 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, 2021. On February 28, 2020 Nalcor signed an extension to its revolving term credit facility, resulting in a new maturity date of January 31, 2022. There were no amounts drawn on this facility as at December 31, 2019 (2018 - $nil), however $8.0 million of the borrowing limit has been used to issue 11 irrevocable letters of credit (2018 - $8.3 million to issue 11 irrevocable letters of credit) which relate to power purchases and sale contracts with various independent system operators, transmission providers and bilateral counterparties. Borrowings in CAD may take the form of Prime Rate Advances, Bankers' Acceptances (BAs) and letters of credit. Borrowings in USD may take the form of Base Rate Advances, London Interbank Offer Rate (LIBOR) Advances and letters of credit. The facility also provides coverage for overdrafts on Nalcor's bank accounts, with interest calculated at the Prime Rate.

On August 9, 2019 Hydro signed an extension to its $200.0 million CAD or USD equivalent committed revolving term credit facility resulting in a revised maturity date of July 27, 2021. As at December 31, 2019, there were no amounts drawn on the facility (2018 - $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, 2019, there was a $233.0 million promissory note outstanding with a maturity date of January 7, 2020 bearing an average interest rate of 1.82% (2018 - $189.0 million bearing an interest rate of 1.77%). Upon maturity, the promissory note was reissued.

Churchill Falls maintains a $10.0 million CAD or USD equivalent unsecured demand operating credit facility with its banker. Advances may take the form of 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, 2019 (2018 - $nil).

Churchill Falls has issued three irrevocable letters of credit totalling $2.0 million (2018 - $2.0 million to issue three irrevocable letters of credit), $1.0 million of which does not impact the borrowing limit of the operating facility (2018 - $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, 2019, there were no amounts drawn on this facility (2018 - $nil). Borrowings in CAD may take the form of Prime Rate Advances and letters of credit. Borrowings in USD may take the form of Base Rate Advances and letters of credit. $22.2 million of the borrowing limit has been used to issue two irrevocable letters of credit (2018 - $23.3 million to issue two irrevocable letters of credit) to ensure compliance with service agreements and regulations relating to petroleum and natural gas exploration and production activities. During the year one of the existing letters of credit was reduced by $1.1 million to reflect the amended amount.

Energy Marketing maintains a $20.0 million CAD or USD equivalent demand operating credit facility with its banker, and as at December 31, 2019, there were no amounts drawn on this facility (2018 - $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. $1.9 million of the borrowing limit has been used to issue three irrevocable letters of credit (2018 - $8.5 million to issue three irrevocable letters of credit) to various independent system operators, transmission providers, and bilateral counterparties in relation to power purchase and sale contracts. In June 2019, Energy Marketing cancelled two irrevocable letters of credit to a bilateral counterparty totalling $8.0 million as they were no longer required. In December 2019, Energy Marketing issued two irrevocable letters of credit to transmission providers totalling $1.4 million.

As at December 31, 2019, Nalcor, on behalf of Energy Marketing, has issued unconditional guarantees in the amount of $15.0 million (2018 - $15.0 million) in order to guarantee amounts under power purchase and sale contracts with bilateral counterparties.

16.2 Long-term Debt

As at December 31 (millions of Canadian dollars)	Face Value	Coupon Rate %	Year of Issue	Year of Maturity	2019	2018
Hydro						
Y*	300	8.40	1996	2026	**296**	296
AB*	300	6.65	2001	2031	**305**	305
AD*	125	5.70	2003	2033	**124**	124
AF	500	3.60	2014/2017	2045	**481**	480
1A	600	3.70	2017/2018	2048	**640**	641
LIL LP						
Tranche A*	725	3.76	2013	2033	**725**	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				**9,749**	9,750
Less: Sinking fund investments in own debentures					**(63)**	(55)
					9,686	9,695
Less: maturities of debt within one year					**(37)**	(7)
					9,649	9,688

*Sinking funds are required to be established for these issues.

Hydro's promissory notes and debentures are unsecured and unconditionally guaranteed as to principal and interest and, where applicable, sinking fund payments, by the Province, with exception of Series 1A. LIL LP, Labrador Transco and Muskrat Falls financing benefits from a direct, absolute, unconditional and irrevocable guarantee from the Government of Canada.

17. 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 Newfoundland and Labrador Island Link Inc.'s (Emera NL's) ownership interest in the Partnership. As described in the Partnership Agreement, these units have certain rights and obligations, including mandatory distributions, that indicate that the substance of the units represent a financial liability and are measured at amortized cost using the effective interest rate method. The return on the units is classified as a finance expense. All finance expenses associated with the units have been capitalized.

As at December 31 (millions of Canadian dollars)	**Units**	**2019**	Units	2018
Class B limited partnership units, beginning of the year	**25**	**533**	25	491
Accrued interest	**-**	**45**	-	42
Class B limited partnership units, end of the year	**25**	**578**	25	533

18. 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, 2019 (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	1,748	28	1,778
Additions	1	-	28	6	35
Amortization	(1)	-	-	1	-
Deferred credits, end of the year	1	1	1,776	35	1,813
Less: current portion	(1)	-	-	-	(1)
	-	1	1,776	35	1,812

Nalcor has recorded deferred energy sales of $1,776.1 million (2018 - $1,748.2 million) which equals the construction costs to date incurred by Emera Inc. related to the Maritime Link. Nalcor has determined that it controls the Maritime Link asset for financial reporting purposes, and as such, has recorded the costs as construction in progress within property, plant and equipment.

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 the beginning and ending carrying amounts of decommissioning liabilities as at December 31, 2019 and 2018 are as follows:

As at December 31 (millions of Canadian dollars)	**2019**	2018
Decommissioning liabilities, beginning of the year	**86**	86
Accretion	**3**	4
Revisions	**13**	(4)
Decommissioning liabilities, end of the year	**102**	86

The total estimated undiscounted cash flows required to settle the HTGS obligations at December 31, 2019 are $15.2 million (2018 - $15.2 million). Payments to settle the liability are expected to occur between 2020 and 2024. The fair value of the decommissioning liabilities was determined using the present value of future cash flows discounted at a rate of 2.0% (2018 - 2.3%).

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, 2019 are $162.5 million (2018 - $143.6 million). Payments to settle the liabilities are expected to occur between 2032 and 2038. The fair value of the decommissioning liabilities was determined using the present value of future cash flows discounted at rates ranging from 3.5% to 3.9% (2018 – 4.0% to 4.3%).

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, 2019, long-term payables consist of a payable to the Innu Nation under the UCRA and a payable to the NunatuKavut Community Council under the Community Development Agreement (CDA).

As at December 31 (millions of Canadian dollars)	**2019**	2018
Long-term payables, beginning of the year	**54**	61
Payments	**(8)**	(9)
Additions and revisions	**1**	(1)
Accretion	**2**	3
Long-term payables, end of the year	**49**	54
Less: current portion	**(8)**	(9)
	41	45

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, 2019, $2.5 million (2018 - $2.4 million) of the amount is current and is recorded in trade and other payables. Nalcor has sinking funds in the amount of $36.6 million (2018 - $37.0 million) to fund these future obligations. The present value of the remaining payments using a discount rate of 3.3% (2018 - 4.4%) is $31.5 million (2018 - $36.2 million).

21. LEASE LIABILITIES

(millions of Canadian dollars)	
Maturity analysis - contractual undiscounted cash flows	
Less than one year	**2**
One to five years	**1**
More than five years	**13**
Total undiscounted lease liabilities as at December 31, 2019	**16**
Lease liabilities included in the Consolidated Statement of Financial Position	
Current lease liabilities	**1**
Non-current lease liabilities	**5**
Total lease liabilities as at December 31, 2019	**6**

Amounts recognized in the Consolidated Statement of Profit and Comprehensive Income

For the year ended December 31 (millions of Canadian dollars)		**2019**
Expenses relating to short-term leases		**2**
Variable lease payments not included in the measurement of leases	(a)	**28**

(a) Variable lease payments not included in the measurement of leases include payments made to the Province for power generated from assets which are owned by the Province. These variable lease payments are included in power purchased in the Consolidated Statement of Profit and Comprehensive Income.

The total cash outflow for leases amount to $32.0 million for the year ended December 31, 2019.

22. EMPLOYEE FUTURE BENEFITS

22.1 Pension Plan

Employees participate in the Province's Public Service Pension Plan, a multi-employer defined benefit plan. The employer's contributions of $13.6 million (2018 - $13.2 million) are expensed as incurred.

22.2 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 2019, cash payments to beneficiaries for its unfunded other employee future benefits were $4.1 million (2018 - $3.3 million). An actuarial valuation was performed as at December 31, 2019.

As at December 31 (millions of Canadian dollars)	**2019**	2018
Accrued benefit obligation, beginning of the year	**123**	126
Current service cost	**6**	6
Past service cost including curtailment	**3**	-
Interest cost	**5**	5
Defined benefit obligation extinguished on settlement	**(1)**	-
Benefits paid	**(4)**	(3)
Actuarial loss (gain)	**12**	(11)
Accrued benefit obligation, end of the year	**144**	123

For the year ended December 31 (millions of Canadian dollars)	**2019**	2018
Component of benefit cost		
Current service cost	**6**	6
Past service cost including curtailment	**3**	-
Interest cost	**5**	5
Total benefit expense for the year	**14**	11

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

	2019	2018
Discount rate - benefit cost	**3.90%**	3.55%
Discount rate - accrued benefit obligation	**3.20%**	3.90%
Rate of compensation increase	**3.50%**	3.50%

Assumed healthcare trend rates:

	2019	2018
Initial health care expense trend rate	**5.85%**	5.85%
Cost trend decline to	**3.60%**	4.50%

Current rate 5.85%, reducing linearly to 3.60% in 2040 and thereafter.

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

Increase (millions of Canadian dollars)	**2019**	2018
Current service and interest cost	**2.4**	2.5
Accrued benefit obligation	**24.3**	20.1

Decrease (millions of Canadian dollars)	**2019**	2018
Current service and interest cost	**(1.7)**	(1.8)
Accrued benefit obligation	**(18.4)**	(15.3)

23. SHAREHOLDER'S EQUITY

23.1 Share Capital

As at December 31 (millions of Canadian dollars)	**2019**	2018
Common shares of par value $1 each		
Authorized - unlimited		
Issued and outstanding - 122,500,000	**123**	123

24. CAPITAL MANAGEMENT

Nalcor's principal business requires ongoing access to capital in order to maintain assets and ensure the continuity of its operations as a going concern. Nalcor also requires access to capital to fund its various development activities relating to the 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)	**2019**		2018	
Debt				
Sinking funds (Hydro portion only)	**(174)**		(164)	
Short-term borrowings	**233**		189	
Current portion of long-term debt	**37**		7	
Long-term debt	**9,649**		9,688	
Class B limited partnership units	**578**		533	
Lease liabilities	**6**		-	
	10,329	**62%**	10,253	64%
Equity				
Share capital	**123**		123	
Shareholder contributions	**4,608**		4,224	
Reserves	**(101)**		(89)	
Retained earnings	**1,625**		1,499	
	6,255	**38%**	5,757	36%
Total Debt and Equity	**16,584**	**100%**	16,010	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, 2019, Nalcor was in compliance with these covenants.

24.1 Hydro

Hydro's principal business requires ongoing access to capital in order to maintain assets to ensure the continued delivery of safe and reliable service to its customers. Therefore, Hydro's primary objective when managing capital is to ensure ready access to capital at a reasonable cost, to minimize its cost of capital within the confines of established risk parameters, and to safeguard Hydro's ability to continue as a going concern.

The capital managed by Hydro is comprised of debt (long-term debentures, short-term borrowings, bank credit facilities and bank indebtedness) and equity (share capital, shareholder contributions, reserves and retained earnings).

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

For the regulated portion of Hydro's operations, Management targets a capital structure comprised of 75% debt and 25% equity, a ratio which Management believes to be optimal with respect to its cost of capital. This capital structure is maintained by a combination of dividend policy, shareholder contributions and debt issuance. The issuance of any new debt with a term greater than one year requires prior approval of the PUB. Hydro's committed operating facility has a covenant restricting the issuance of debt such that consolidated debt to total capitalization ratio cannot exceed 85%. As at December 31, 2019, Hydro was in compliance with this covenant.

Legislation stipulates that the total of the Government guaranteed short-term loans issued by Hydro and outstanding at any time shall not exceed a limit as fixed by the Lieutenant-Governor in Council. Short-term loans are those loans issued with a term not exceeding two years. The level of short-term borrowings permitted by Hydro as at December 31, 2019 was $300.0 million and $233.0 million is outstanding (2018 - $189.0 million). On February 20, 2020, the Lieutenant-Governor in Council issued Order in Council OC2020-18 to increase the level of short-term borrowings permitted by Hydro from $300.0 million to $500.0 million, effective until March 31, 2022. Issuance of short-term borrowings and long-term debt by Hydro is further restricted by 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 additional funding to address long-term capital funding requirements, will require approval from the Province and the PUB.

24.2 Oil and Gas

Oil and Gas' objective when managing capital is to maintain the ability to fund operating costs and expenditures related to development and production assets, on a timely basis. Oil and Gas maintains an unsecured demand credit facility, which is used to finance operations in the short-term. Long-term capital includes share capital, shareholder contributions and retained earnings. Additional requirements will be funded through Oil and Gas' credit facility.

24.3 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.

24.4 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.

24.5 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 remain consistent, in line with the aging of the plant and related infrastructure and the execution of the long-term asset management plan. The focus of the capital management policy is to provide flexibility to ensure cash continues to be available to satisfy capital requirements. Managing the level of dividend payments is a key aspect of ensuring the availability of funding to maintain the plant and infrastructure.

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

24.6 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 generating 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 generating facility. The Province of Newfoundland and Labrador, has provided guarantees of equity support in relation to the construction of the Muskrat Falls hydroelectric generating facility. These guarantees, together with the proceeds from long-term debt, will ensure sufficient funds are available to finance construction.

24.7 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.

25. REVENUE

For the year ended December 31 (millions of Canadian dollars)	**2019**	2018
Electricity sales	**752**	713
Petroleum and natural gas sales	**303**	310
Royalty expense	**(39)**	(18)
Total energy sales	**1,016**	1,005

26. OPERATING COSTS

For the year ended December 31 (millions of Canadian dollars)	**2019**	2018
Salaries and benefits	**144**	139
Maintenance and materials	**36**	35
Professional services	**25**	23
Travel and transportation	**8**	8
Insurance	**6**	6
Rental and royalty	**5**	4
Other operating costs	**6**	5
	230	220

27. 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)	**2019**	2018
Project operating costs	**25**	30
Processing and marketing	**5**	6
Transportation and transshipment	**6**	6
	36	42

28. NET FINANCE EXPENSE

For the year ended December 31 (millions of Canadian dollars)	**2019**	2018
Finance income		
Interest on restricted cash	**29**	17
Interest on sinking fund	**12**	13
Interest on investments	**4**	16
Other interest income	**7**	5
	52	51
Finance expense		
Interest on long-term debt	**357**	355
Interest on class B limited partnership units	**45**	42
Debt guarantee fee	**23**	21
Accretion	**5**	6
Other	**5**	5
	435	429
Interest capitalized during construction	**(291)**	(295)
	144	134
Net finance expense	**92**	83

29. OTHER EXPENSE

For the year ended December 31 (millions of Canadian dollars)	**2019**	2018
Settlement of commodity price swap contracts	**2**	20
Settlement of foreign exchange forward contracts	**1**	1
Loss on disposal of property, plant and equipment	**8**	12
Unrealized foreign exchange loss (gain)	**3**	(2)
Realized foreign exchange gain	-	(2)
Other expense	**14**	29

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

30.1 Fair Value

The estimated fair values of financial instruments as at December 31, 2019 and 2018 are based on relevant market prices and information available at the time. Fair value estimates are based on valuation techniques which are significantly affected by the assumptions used including the amount and timing of future cash flows and discount rates reflecting various degrees of risk. As such, the fair value estimates below are not necessarily indicative of the amounts that Nalcor might receive or incur in actual market transactions.

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

Establishing Fair Value

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

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

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

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

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value. For assets and liabilities that are recognized at fair value on a recurring basis, Nalcor determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. There were no transfers between Level 1, 2 and 3 during the year ended December 31, 2019 and 2018.

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
As at (millions of Canadian dollars)		**December 31, 2019**		December 31, 2018	
Financial assets					
Derivative assets	**2**	**4**	**4**	1	1
Sinking funds - investments in Hydro debt issue	**2**	**63**	**75**	55	63
Sinking funds - other investments	**2**	**211**	**253**	202	235
Long-term investments	**2**	**100**	**100**	130	130
Reserve fund	**2**	**25**	**25**	12	12
Long-term receivables	**2**	**-**	**-**	1	1
Financial liabilities					
Derivative liabilities	**2**	**9**	**9**	1	1
Long-term debt including amount due within one year (before sinking funds)	**2**	**9,749**	**11,576**	9,750	10,708
Class B limited partnership units	**3**	**578**	**578**	533	533
Long-term payables	**2**	**41**	**37**	45	51

The fair value of cash and cash equivalents, restricted cash, short-term investments, trade and other receivables, short-term borrowings and trade and other payables approximates their carrying values due to their short-term maturity.

The fair values of Level 2 financial instruments are determined using quoted prices in active markets, which in some cases are adjusted for factors specific to the asset or liability. Level 2 derivative instruments are valued based on observable commodity future curves, broker quotes or other publicly available data. Level 2 fair values of other risk management assets and liabilities and long-term debt are determined using observable inputs other than unadjusted quoted prices, such as interest rate yield curves and currency rates.

Level 3 financial instruments include Class B limited partnership units.

The Class B limited partnership units are carried at amortized cost calculated using the effective interest rate method. The effective interest rate of 8.5% (2018 – 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	(23.3)	22.5

30.2 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.

Credit Risk

Nalcor's expected future cash flows are exposed to credit risk through its operating activities, primarily due to the potential for non-performance by its customers, and through its financing and investing activities, based on the risk of non-performance by counterparties to its financial instruments. The degree of exposure to credit risk on cash and cash equivalents, 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 A+ to AA- (Standard and Poor's). Restricted cash also includes funds held in trust by solicitors of the Company. Credit risk on short-term investments is minimized by limiting holdings to high-quality, investment grade securities issued by the Federal and Provincial governments, as well as BAs and term deposits issued by Schedule 1 Canadian Chartered banks. The Financial Risk Management Policy as approved by the Board, also restricts the aggregate principal amount of permitted investments issued by a single Canadian Schedule 1 or 2 bank exceeding 30% of the total principal amount of all investments on a consolidated basis.

Credit exposure on Nalcor's sinking funds is limited by restricting the holdings to long-term debt instruments issued by the Government of Canada or any province of Canada, Crown corporations and Schedule 1 Canadian Chartered banks. The following credit risk table provides information on credit exposures according to issuer type and credit rating for the remainder of the sinking fund's portfolio:

	Issuer Credit Rating	**Fair Value of Portfolio (%)**	Issuer Credit Rating	Fair Value of Portfolio (%)
	2019		2018	
Provincial governments	**AA-to AAA**	**17.86%**	AA-to AAA	-
Provincial governments	**A -to A+**	**27.22%**	A- to A+	45.32%
Provincially owned utilities	**AA-to AAA**	**28.03%**	AA-to AAA	-
Provincially owned utilities	**A- to A+**	**26.89%**	A- to A+	54.68%
		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 (%)
	2019		2018	
Provincial governments	**A- to A+**	**40.50%**	A- to A+	38.57%
Provincially owned utilities	**AA- to AAA**	**8.93%**	AA- to AAA	-
Provincially owned utilities	**A- to A+**	**4.54%**	A- to A+	8.91%
Schedule 1 Canadian banks	**AA- to AAA**	**12.17%**	AA- to AAA	14.15%
Schedule 1 Canadian banks	**A- to A+**	**33.86%**	A- to A+	38.37%
		100.00%		100.00%

Credit exposure on Nalcor's long-term investments is considered to be limited as the investments are held by Schedule 1 Canadian Chartered banks and Provincially owned utilities with investment grade ratings of A- or higher (Standard and Poor's). The following credit risk table provides information on 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 (%)
	2019		2018	
Provincially owned utilities	**A- to A+**	-	A- to A+	0.02%
Schedule 1 Canadian Banks	**A- to A+**	**100.00%**	A- to A+	99.98%
		100.00%		100.00%

Credit exposure on derivative assets is limited by a Financial Risk Management Policy as approved by the Board, which restricts available counterparties for hedge transactions to Schedule 1 Canadian Chartered banks and Federally Chartered US banks.

Nalcor does not have any significant amounts that are past due and uncollectable, for which a provision has not been recognized as at December 31, 2019.

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 (2018 - \$250.0 million) committed revolving term credit facility, with a maturity date of January 31, 2021. There were no amounts drawn on this facility at December 31, 2019 (2018 - \$nil). In addition, Hydro has access to a \$300.0 million (2018 - \$300.0 million) promissory note program and a \$200.0 million (2018 - \$200.0 million) committed revolving term credit facility, with a maturity date of July 27, 2021. Oil and Gas and Churchill Falls also maintain demand operating facilities of \$30.0 million (2018 - \$30.0 million) and \$10.0 million (2018 - \$10.0 million), respectively. Churchill Falls maintains a \$23.0 million minimum cash balance (2018 - \$22.5 million). Energy Marketing maintains a demand operating facility of \$20.0 million (2018 - \$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, 2019:

(millions of Canadian dollars)	< 1 Year	1-3 Years	3-5 Years	> 5 Years	Total
Trade and other payables	435	-	-	-	435
Short-term borrowings	233	-	-	-	233
Long-term debt (including sinking funds)	101	392	395	8,838	9,726
Interest	357	713	709	5,930	7,709
Class B partnership units	10	154	153	3,190	3,507
Long-term payables	6	4	2	37	49
	1,142	1,263	1,259	17,995	21,659

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

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

Foreign Exchange and Commodity Exposure

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

As at December 31, 2019, trade and other receivables included balances of $35.8 million (2018 - $30.9 million) denominated in United States Dollars (USD). As at December 31, 2019, trade and other payables included balances of $5.3 million (2018 - $3.4 million) denominated in USD and $nil (2018 - $2.6 million) denominated in Euros. Nalcor does not have significant exposure to fluctuations in foreign exchange with respect to its trade and other receivables and trade and other payables.

During 2019, total energy sales denominated in USD were $26.3 million (2018 - $42.0 million). To mitigate foreign exchange risk and commodity price risk on a portion of these sales, Energy Marketing used foreign currency forward contracts and fixed price commodity swaps, respectively.

As at December 31, 2019, Energy Marketing had no remaining foreign currency forward contracts or commodity price swap contracts, as they matured at the end of Q3 2019.

During 2019, total oil sales denominated in USD were $232.7 million (2018 - $234.8 million). To mitigate foreign exchange risk and commodity price risk on a portion of these sales, Oil and Gas used foreign currency forward contracts and fixed price commodity swaps, respectively.

As at December 31, 2019, Oil and Gas has 48 commodity price swaps remaining with a notional value of $119.0 million USD, and an average fixed price of $59.50 USD per barrel. As the contracts have been designated as hedging instruments, changes in fair value have been recorded in other comprehensive (loss) income. During 2019, $2.3 million in realized losses (2018 - $19.7 million) have been recorded in other expense and $8.8 million in unrealized losses (2018 - $nil) remain in other comprehensive (loss) income.

As at December 31, 2019, Oil and Gas has 13 foreign exchange forward contract remaining with a notional value of $126.8 million USD (2018 - 1 foreign exchange forward contract with a notional value of $8.6 million), and an average fixed price of $1.33 CAD per USD (2018 - $1.27 CAD per USD). As the contracts have been designated as hedging instruments, changes in fair value have been recorded in other comprehensive (loss) income. During 2019, $0.7 million in realized losses (2018 - $1.4 million) have been included in other expense and $3.6 million in unrealized gains (2018 - $0.8 million in unrealized losses) remain in other comprehensive (loss) income.

31. 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
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 2019, Hydro incurred $2.1 million (2018 - $1.9 million) in costs related to the PUB and has included $0.7 million (2018 - $0.7 million) in trade and other payables.

(b) The Hydro debt guarantee fee for 2019 was $8.6 million (2018 - $6.9 million). It was paid to the Province on March 26, 2019.

(c) For the year ended December 31, 2019, Hydro has purchased $28.0 million (2018 - $28.4 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 2019 of $37.6 million (2018 - $38.1 million).

(d) Hydro recorded $2.2 million (2018 - $2.0 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, 2019, there is a balance of $0.4 million (2018 - $0.4 million) outstanding in trade and other receivables.

(e) During 2019, Churchill Falls generated revenue from Hydro-Québec of $95.4 million (2018 - $94.8 million) and Nalcor has recognized its share of $62.8 million (2018 - $62.4 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, 2019, $6.9 million (2018 - $6.7 million) was payable to the Province. Nalcor has recognized its share of $4.5 million (2018 - $4.4 million).

(g) For the year ended December 31, 2019, Oil and Gas expensed $39.3 million (2018 - $18.0 million) to the Province for royalties on its oil and gas operations.

(h) During 2019, Nalcor's shareholder contributed capital in the amount of $383.5 million (2018 - $529.4 million) in relation to capital expenditures. In addition, the Churchill Falls (Labrador) Corporation Trust contributed capital in the amount of $nil (2018 - $1.3 million).

31.1 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)	**2019**	2018
Salaries and employee benefits	**8**	7
Post-employment benefits	**1**	1
	9	8

32. 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 $0.2 billion as at December 31, 2019 (December 31, 2018 - $0.4 billion). LCP prefunded equity requirements associated with financing agreements in Muskrat Falls and LCP Transmission are $nil as at December 31, 2019 (2018 - $0.5 billion). Prefunded equity is used to fund capital and borrowing costs.

(c) Nalcor and its subsidiaries have issued 19 irrevocable letters of credit with a total value of $34.1 million as per Note 16.1.

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

(millions of Canadian dollars)	Total Commitments
2020	14.1
2021	9.6
2022	8.4
2023	5.7
2024	5.2

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

Type	Rating	Effective Date	Term
Hydroelectric	3 MW	1995	25 years
Hydroelectric	4 MW	1998	25 years
Cogeneration	15 MW	2003	20 years
Wind	390 kW	2004	15 years
Wind	27 MW	2008	20 years
Wind	27 MW	2009	20 years
Wind	300 kW	2010	Continual
Hydroelectric	175 kW	2019	15 years
Biomass	450 kW	2018	1 year post in-service of Muskrat Falls in-service date

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

(millions of Canadian dollars)	2020	2021	2022	2023	2024
Power purchases	31.4	31.1	30.8	19.5	18.6

(f) In 2014, Hydro entered into three Capacity Assistance Agreements, one with Vale Newfoundland & Labrador Limited (Vale) and two with Corner Brook Pulp and Paper Limited (CBPP) for the purchase of relief power during the winter period. In February 2019, Hydro entered into a revised agreement with CBPP that expires the earlier of April 30, 2022 or the commissioning of the Muskrat Falls plant. Payment for services will be dependent on the successful provision of capacity assistance for the winter period by Vale and CBPP. In December 2019, Hydro entered into a revised agreement with Vale that expires in March of 2020.

(g) 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:

2020	$20.6 million
2021	$21.0 million
2022	$21.2 million
2023	$21.4 million
2024	$21.6 million

(h) 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.

(i) 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.

(j) 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.

(k) In July 2014, Nalcor entered into the Amended and Restated 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.

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

(m) In 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, Churchill Falls appealed the ruling and an appeal hearing was held in December of 2018. The decision of the Court of Appeal was issued in June of 2019 partially overturning the decision of the Québec Superior Court. This matter is now closed and the financial impacts of the Declaratory Judgement ruling are under review by Management. The Parties are in the process of negotiating the value of the final Annual Energy Base (AEB) that will establish the Continuous Energy volume for the term of the Renewed Power Contract.

33. SUPPLEMENTARY CASH FLOW INFORMATION

For the year ended December 31 (millions of Canadian dollars)	**2019**	2018
Trade and other receivables	**194**	(62)
Prepayments	**7**	(21)
Inventories	**(13)**	-
Trade and other payables	**(52)**	(88)
Changes in non-cash working capital balances	**136**	(171)
Related to:		
Operating activities	**(13)**	(30)
Investing activities	**149**	(141)
	136	(171)

34. SEGMENT INFORMATION

The operating structure as at December 31, 2019 is comprised of five business segments. The designation of segments is based on a combination of regulatory status and management accountability. The following summary provides a brief overview of the nature of the operations included in each of the Company's operating segments.

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

- **Hydro Regulated** activities encompass sales of electricity to customers within the Province that are regulated by the PUB.
- **Hydro Non-Regulated** activities include the sale of power, 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 LIL and LTA, which consists of transmission lines connecting the Muskrat Falls Generating Station, the Churchill Falls Generating Station, and certain portions of the transmission system in Labrador to the island of Newfoundland.
- **Churchill Falls** owns and operates a hydroelectric generating facility which sells electricity to Hydro-Québec and Hydro.
- **Energy Trading** includes energy trading and commercial activities related to securing and optimizing markets to extract the greatest value from Nalcor's existing generation resources through the participation in export electricity markets.
- **Other** includes revenues and costs recovered from Hydro-Québec associated with Nalcor's operation of the Menihek Generating Station, the Maritime Link (which is owned by Emera Inc. but consolidated by Nalcor), costs related to Power Supply management and administration, and community development costs related to Power Supply, and costs associated with the management of LCP construction.

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, 2019											
Energy sales	608	44	-	-	-	94	36	-	264	-	(30)	1,016
Other revenue	5	(1)	-	-	-	-	-	10	4	-	4	22
Revenue	613	43	-	-	-	94	36	10	268	-	(26)	1,038
Fuels	217	-	-	-	-	-	-	-	-	-	-	217
Power purchased	84	42	-	-	-	-	6	-	-	-	(30)	102
Operating costs	136	5	1	-	7	43	5	8	6	19	-	230
Production, marketing and transportation costs	-	-	-	-	-	-	-	-	36	-	-	36
Transmission rental	1	-	-	-	-	-	25	-	-	-	-	26
Depreciation, depletion and amortization	83	-	-	-	-	20	-	-	90	3	1	197
Exploration and evaluation	-	-	-	-	-	-	-	-	33	-	-	33
Net finance expense (income)	91	(1)	-	-	6	(1)	-	-	2	(5)	-	92
Other expense	8	-	-	-	-	-	-	-	5	-	1	14
Preferred dividends	-	-	-	-	-	(3)	-	-	-	-	3	-
Expenses	620	46	1	-	13	59	36	8	172	17	(25)	947
(Loss) profit for the year before regulatory adjustments	(7)	(3)	(1)	-	(13)	35	-	2	96	(17)	(1)	91
Regulatory adjustments	(37)	-	-	-	-	-	-	-	-	-	1	(36)
Profit (loss) for the year from continuing operations	30	(3)	(1)	-	(13)	35	-	2	96	(17)	(2)	127
Capital expenditures*	129	-	653	-	286	44	-	36	73	5	(3)	1,223
Total assets**	2,735	11	6,556	140	5,969	647	20	1,835	1,234	291	(98)	19,340
Total debt***	1,843	-	3,696	-	4,789	-	-	1	-	-	-	10,329

*Capital expenditures (inclusive of property, plant and equipment and intangible assets) include non-cash additions of $28.0 million related to the Maritime Link, $45.3 million related to Class B Limited Partnership Unit accrued interest, and $245.6 million of interest capitalized during construction.

**Total assets include $1,778.3 million related to the Maritime Link and $169.1 million related to Class B Limited Partnership Unit accrued interest less $1.0 million related to Bull Arm Fabrication.

***Total debt includes short-term borrowings, long-term debt including current portion less Hydro's sinking funds of $174.0 million, Class B Limited Partnership Units, and lease liabilities.

	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	-	(25)	1,005
Other revenue	7	-	-	-	-	-	1	8	6	-	2	24
Revenue	564	34	-	-	-	89	59	8	298	-	(23)	1,029
Fuels	189	-	-	-	-	-	-	-	-	-	-	189
Power purchased	71	33	-	-	-	-	8	-	-	-	(25)	87
Operating costs	136	-	2	-	2	41	5	7	6	21	-	220
Production, marketing and transportation costs	-	-	-	-	-	-	-	-	42	-	-	42
Transmission rental	-	-	-	-	-	-	24	-	-	-	1	25
Depreciation, depletion, amortization and impairment	87	-	-	-	-	19	-	-	75	8	-	189
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	(21)	893
(Loss) profit for the year before regulatory adjustments	(19)	2	(2)	-	2	32	23	1	125	(26)	(2)	136
Regulatory adjustments	(47)	-	-	-	-	-	-	-	-	-	1	(46)
Profit (loss) for the year from continuing operations	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	4	6,243	140	5,829	615	32	1,816	1,220	345	(152)	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 and $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.

35. COMPARATIVE FIGURES

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

36. SUBSEQUENT EVENT

On February 10, 2020, the provincial and federal governments announced a plan to negotiate a financial restructuring of the Lower Churchill Project, including a change to the Muskrat Falls/Labrador Transmission Assets revenue model and the deferral of sinking fund payments and Cost Overrun Escrow Account payments, if required. A formal agreement between both levels of government is anticipated to be implemented by project commissioning. As further information regarding the financial restructure becomes known, management will continue to assess the associated financial reporting impacts.

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