Nalcor Energy

2019 Annual Performance Report

Transparency and Accountability

September 2020

Message from the Boards of Directors

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

Dear Minister Parsons:

In accordance with the **Transparency and Accountability Act**, I am pleased to provide the 2019 Annual Performance Report for Nalcor Energy (Nalcor), on behalf of the Board of Directors.

The 2017-2019 Strategic Plan for Nalcor outlined the applicable strategic directions of the Government of Newfoundland and Labrador (Government) in relation to the energy sector, as communicated by the Minister of Industry, Energy and Technology.

This Performance Report presents performance results and accomplishments for the 2019 calendar year for Nalcor and is the last report under Nalcor's 2017-2019 Strategic Plan.

As the Board of Directors of Nalcor Energy we are accountable for the preparation of this report and are accountable for the results. Newfoundland and Labrador Hydro (Hydro) has its own legislation and its own Board of Directors and will be tabling a separate Performance Report for 2019.

Chair (Acting), Board of Directors
Nalcor Energy

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1. OVERVIEW

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

Nalcor is a provincial Crown corporation established in 2007 under a special act of the Legislature of the Province of Newfoundland and Labrador. In 2016, Nalcor's executive structure was reorganized to allow for the separation of Nalcor's regulated business, (Newfoundland and Labrador Hydro), from its unregulated business operations. Nalcor's legal structure at December 31, 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)	Wholly owned subsidiary
Labrador Transmission Corporation (Labrador Transco)	Wholly owned subsidiary
Labrador-Island Link Holding Corporation (LIL Holdco)	Wholly owned subsidiary
Labrador-Island Link Limited Partnership (LIL LP)	Limited partnership in which Nalcor, through LIL Holdco, owns 100 per cent of the 75 Class A and 1 Class C partnership unit and, through LIL GP, 1 General Partner Unit
Labrador-Island Link General Partner Corporation (LIL GP)	Wholly owned subsidiary
Labrador-Island Link Operating Corporation (LIL OpCo)	Wholly owned subsidiary
Lower Churchill Management Corporation (LCMC)	Wholly owned subsidiary

Churchill Falls (Labrador) Corporation Limited (Churchill Falls)	65.8 per cent owned joint operation of Hydro
Twin Falls Power Corporation Limited (Twin Falls)	33.3 per cent owned joint venture of Churchill Falls
Gull Island Power Corporation (GIPCo)	Wholly owned subsidiary (inactive)
Lower Churchill Development Corporation (LCDC)	51 per cent owned subsidiary of Hydro (inactive)

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

In 2019 a stand-alone Crown corporation was established to work directly with the Department of Industry, Energy and Technology to accelerate growth opportunities in the petroleum industry. However, Nalcor Oil and Gas will continue to hold ownership of existing equity interests and will therefore transition to a supporting role in the management of these assets. The new corporation will be a category 1 entity and has prepared its own three-year strategic plan in compliance with the **Transparency and Accountability Act** and will table subsequent annual reports.

Mandate

The mandate of Nalcor, established in legislation under the **Energy Corporation Act**, is to invest in, engage in and carry out activities in all areas of the energy sector in the province and elsewhere, including:

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

On March 11, 2019, Government introduced legislation (**Oil and Gas Corporation Act**) establishing a new oil and gas corporation with a mandate focused on maximizing opportunities for growth in the province's offshore oil and gas industry. As noted above, Nalcor Oil and Gas will continue to hold ownership of existing equity interests and will therefore transition to a supporting role in the management of these assets.

Business Segments

Nalcor has five business segments in its operating structure: Hydro, Power Development, Power Supply, Offshore Development and Corporate. The designation of segments is based on a combination of regulatory status and management accountability.

The activities of Nalcor's five business segments support the fulfillment of the strategic directions of Government for the energy sector. A description of each business segment is presented below with additional information pertaining to each of Nalcor's strategic issues for the 2017-19 planning period included in the issues section.

Newfoundland and Labrador Hydro

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

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

Power Development

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

Power Supply

Power Supply includes Churchill Falls (Labrador) Corporation (CF(L)Co), the Labrador Transmission Assets (LTA), Labrador-Island Link (LIL), Energy Trading, the Menihek Generating Station and the Maritime Link (which is owned by Emera Inc., but consolidated by Nalcor).

Nalcor's operation in Churchill Falls is one of the largest underground hydroelectric power-houses in the world, with a rated capacity of 5,428 MW. Safely operating and maintaining its electricity assets, as well as municipal and community services in support of these electricity assets, drives the Churchill Falls strategy.

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

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

Offshore Development

On March 27, 2018, Government announced its intent to establish a stand-alone Crown corporation to work directly with the Department of Industry, Energy and Technology to accelerate growth opportunities in the petroleum industry. On March 11, 2019, Government announced introduction of new legislation to establish a new corporation focused on maximizing opportunities for growth in the province's offshore oil and gas industry.

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

Corporate

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

Values

Employees of Nalcor and its subsidiaries, including Hydro, are committed to building a bright future for Newfoundland and Labrador, unified by the following core values:

- **Open Communication** – fostering an environment where information moves freely in a timely manner.
- **Accountability** – holding ourselves responsible for our actions and performance.
- **Safety** – relentless commitment to protecting ourselves, our colleagues, and our community.
- **Honesty and Trust** – being sincere in everything we say and do.
- **Teamwork** – sharing our ideas in an open and supportive manner to achieve excellence.
- **Respect and Dignity** – appreciating the individuality of others by our words and actions.
- **Leadership** – empowering individuals to help guide and inspire others.

Primary Clients

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

- Partners in oil and gas projects (Hebron, White Rose, Hibernia Southern Extension)
- Emera Energy
- Supply and service companies in the energy sector and construction sector

Number of Employees, Physical Location and Other Key Statistics

Headquartered in St. John's, Nalcor's energy portfolio is located throughout the province. In 2019, Nalcor had over 1,600 employees, with over 60 per cent of these employees located in rural parts of the island and Labrador. In 2019, the gender composition of Nalcor's employee group was 71 per cent male and 29 per cent female.

Gender	Rural	Urban	Total	Per cent
Female	186	285	471	29%
Male	830	316	1146	71%
Total	1016	601	1617	
Per cent	63%	37%		

Nalcor is currently implementing a multi-year action plan to support diversity and inclusion (D&I). In addition to target setting, the company is committed to implementing D&I strategies to attract, recruit, develop and retain members of designated groups including Indigenous peoples, persons with disabilities and members of visible minorities. The company has also reviewed recruitment and talent management processes through a D&I lens.

Board of Directors

As of December 31, 2019, the Nalcor Board of Directors included:

- Brendan Paddick, Chair
- John Green Q.C.
- Geoff Goodyear
- Christopher Hickman
- Jack Hillyard
- Mark MacLeod
- Stan Marshall
- Debbie Molloy
- David Oake
- Dr. Edna Turpin, ICD.D

2019 Consolidated Revenues and Expenses

In 2019, Nalcor had revenues from continuing operations of $1,038 million. The majority of Nalcor's revenues are currently generated from electricity sales from Hydro and petroleum sales in Oil and Gas. Approximately 35 per cent of Nalcor's 2019 expenditures from continuing operations relate to fuels and power purchases with operating costs accounting for 25 per cent of expenses; depreciation, depletion and amortization totalling 22 per cent and net finance expense accounting for approximately 10 per cent. The following table summarizes the consolidated revenue and expenses of Nalcor for the year ended December 31, 2019 (millions of dollars).

Table 1: Nalcor Energy Consolidated Revenue and Expenses 2019

	$	%
Continuing operations		
Energy sales	1,016	98
Other revenue	22	2
Revenue	1,038	
Fuels	217	24
Power purchased	102	11
Operating costs	230	25
Production, marketing and transportation costs	36	4
Transmission rental	26	3
Depreciation, depletion and amortization	197	22
Exploration and evaluation	33	4
Net finance expense	92	10
Other expense	14	1
Regulatory adjustments	(36)	(4)
Expenses	911	
Profit for the year from continuing operations	127	
Discontinued operations		
Loss for the year from discontinued operations	(1)	
Profit for the year	126	

The 2019 Consolidated Financial Statements for Nalcor are appended to this document (See Appendix 2).

2. HIGHLIGHTS AND PARTNERSHIPS

Nalcor works with a variety of agencies, departments and commissions to execute its mandate. During 2019, Nalcor worked closely with each of these organizations in support of the strategic directions of Government related to the energy sector.

Department of Industry, Energy and Technology

The Department of Industry, Energy and Technology (formally the Department of Natural Resources) works with Nalcor in policy-related areas for the various energy sector activities in which the companies engage and supports the companies' efforts to progress all the strategic issues outlined. In 2018, Government engaged the PUB to investigate options to mitigate the impact of Muskrat Falls costs on electricity rates, including cost savings and revenue opportunities. To support their work, the PUB engaged The Liberty Consulting Group (Liberty) and Synapse Energy Economics (Synapse). In 2018, Nalcor and Hydro representatives served as members of the Rate Mitigation Committee, chaired by the Department Industry, Energy and Technology, which is analyzing options to mitigate future electricity rates. Throughout 2019, Nalcor and Hydro Executive teams and Board worked diligently in supporting Government and the PUB in their reviews of options to manage rates for customers.

In September 2019, Liberty and Synapse delivered their final reports to the PUB, with the PUB then issuing these reports to the public. Supporting this work and responding to the PUB's and the consultants' questions has been an ongoing priority across the Board and the Executive teams.

In March 2018, Government announced its intent to establish a stand-alone Crown corporation to work directly with the Department of Industry, Energy and Technology to accelerate growth opportunities in the petroleum industry. Throughout 2019, Nalcor continued to work with Government to transition the relevant areas of the business to the new oil and gas corporation.

Department of Finance

The Department of Finance works with Nalcor in relation to addressing requirements related to financial structure, financial forecasts, as well as providing on-lending financing for the company's debt financing activities. During 2019, Nalcor's financing forecasts and equity requirements are examples of interactions between the department and Nalcor.

Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB)

In 2018, Government issued Terms of Reference to the PUB to investigate options to mitigate the impact of Muskrat Falls costs on electricity rates, including cost savings and revenue opportunities. Through the two-year PUB review, Nalcor provided information to the PUB, its consultants and intervenors and participated in the review hearings.

During the 2017-2019 period there was significant filings by Hydro to the PUB related to the integration of power supply facilities and to the study of electricity supply adequacy for the Island Interconnected System. Nalcor participated in preparation and delivery of information to the PUB and its consultants in relation to these activities.

Other Departments/Public Bodies

Nalcor also shares commitments with the Department of Environment, Climate Change and Municipalities (formerly Municipal Affairs and Environment); Department of Fisheries, Forestry and Agriculture (formerly Fisheries and Land Resources); Department of Digital Government and Service NL (formerly Service NL); Intergovernmental and Indigenous Affairs Secretariat; and, the federal Departments of Fisheries and Oceans (DFO) and Environment and Climate Change Canada in relation to the environmental aspects of the company's activities. Nalcor also provided information, exhibits and testimony to the Commission of Inquiry Respecting the Muskrat Falls Project.

In 2019, Nalcor activity engaged with the Department of Environment, Climate Change and Municipalities to demonstrate the company's compliance with the requirements of Environmental Assessments release for the Muskrat Falls hydroelectric generating project and LIL. The Department of Environment, Climate Change and Municipalities and DFO were also engaged to ensure all necessary approvals and permits are in place for new assets and for Nalcor's ongoing operations. Nalcor was also engaged with the Climate Change Branch of the Department of Environment, Climate Change and Municipalities to support the province's commitment to a low-carbon economy. Nalcor was also a participant in many federal level working groups with Water Power Canada and the Canadian Electricity Association that engage with the Federal Government on regulatory requirements.

The Lower Churchill Project (LCP) Impact and Benefits Agreement (IBA) with Innu Nation was signed in 2011. In 2017, Nalcor entered into a six-year Community Development Agreement (CDA) with the NunatuKavut Community Council (NCC). Implementation of these agreements is ongoing and is a key consideration on how Nalcor conducts its business.

In March 2019, the Atlantic Premiers and the Government of Canada committed to the development of a Clean Power Roadmap for Atlantic Canada. Nalcor has ongoing discussions and works closely with all Atlantic Canadian utilities and is an active member of the Atlantic Clean Power Planning Committee.

3. OUTCOMES OF GOALS AND OBJECTIVES

The 2017-2019 Strategic Plan for Nalcor highlighted three strategic issues around which goals and objectives were established. These issues encompass the activities of Nalcor and its subsidiaries. A separate report will be filed by Hydro for 2019.

For each strategic issue, the information provided below is reflective of work completed throughout the three-year planning period in relation to these issues. As well, the 2019 objectives and indicators outlined in the 2018 Annual Performance Report are provided along with a summary of related accomplishments.

ISSUE 1: ELECTRICITY SUPPLY AND RELIABILITY

Nalcor's mandate, as established in legislation under the **Energy Corporation Act**, is to invest in, engage in, and carry out activities in all areas of the energy sector in the province and elsewhere. In carrying out this mandate, Nalcor is responsible for developing the province's energy resources to provide Newfoundlanders and Labradorians with a secure and reliable source of electricity to meet their ongoing needs. This mandate supports the strategic direction of Government related to energy security and reliability in Newfoundland and Labrador. Through its subsidiary Hydro and its Churchill Falls business segments, Nalcor also undertakes a robust asset management program to ensure ongoing capital investments and maintenance of existing electricity assets to ensure long-term reliable operation of these assets.

During the 2017-19 planning period, Nalcor advanced the construction of the Muskrat Falls Project which by the end of 2019 was over 99 per cent complete. Muskrat Falls will be a secure, reliable source of clean, renewable power for electricity customers in the province. With the integration of Muskrat Falls into the provincial electricity system, 98 per cent of our province's electricity will come from renewable energy sources.

Nalcor's operation in Churchill Falls is one of the largest underground hydroelectric power facilities in the world, with a rated capacity of 5,428 MW. Safely operating and maintaining its electricity assets, as well as municipal and community services, drives the Churchill Falls strategy. As of 2019, Churchill Falls has been in operation for 48 years. With the plant and related infrastructure aging, asset management is critical to keeping assets in reliable operating condition to provide reliable service to customers for the long-term and to ensure assets are fully functional well beyond the expiry of current commitments in 2041. From 2005-2019, Nalcor Churchill Falls invested $553 million to upgrade or replace Churchill Falls assets, with annual capital expenditures increasing during the period by around 630 per cent to $65.4 million in 2019.

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

Issue 1: Electricity Supply and Reliability	
Goal: By December 31, 2019, Nalcor will have will have advanced long-term security and reliability of the province's electricity supply.	
INDICATORS	**2017-2019 ACCOMPLISHMENTS**
Advanced construction of the Muskrat Falls Project	Throughout the 2017-19 planning cycle Nalcor was successful in achieving many milestones towards the completion of Muskrat Falls. Overall construction of the project reached over 99 per cent complete at the end of 2019, an increase of three per cent from the previous year. **Power Development (Generation)** Construction progress on the generation project reached over 98 per cent complete compared to 92 per cent complete at the end of 2018. At the Muskrat Falls facility, all water retaining structures were completed and reservoir impoundment (raising the level of the water upstream of the Muskrat Falls facilities) to the full operating supply level of around 39 m was completed in September 2019. In the powerhouse, two of the four turbine and generator units were installed and work continued with the assembly and installation of the third and fourth turbine and generator units. Final concrete for civil works was poured. Construction and commissioning work will continue in 2020.

	Power Supply (Transmission) Construction and commissioning of all Labrador Transmission Assets is complete and by mid-2019 the Churchill Falls HVac extension and switchyard, the Muskrat Falls HVac switchyard and the two, 250 km transmission lines from Churchill Falls to Muskrat Falls were turned over to Nalcor Operations. On LIL, all construction is complete on the 1,100 km transmission line from Muskrat Falls to Soldiers Pond, including the Strait of Belle Isle Marine Cable Crossing (SOBI) and turned over to Nalcor Operations. All construction and commissioning of the Soldiers Pond HVac switchyard is complete and turned over to Nalcor Operations. Construction of the HVdc Converter Stations at both Muskrat Falls and Soldiers Pond, as well as the Synchronous Condenser Facility at Soldiers Pond, is substantially complete and testing of LIL in monopole was completed in June 2019. 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, LIL operated over one transmission line (monopole) as an interim step to deliver surplus Recapture power from Churchill Falls to the island. Bipole software development and resolution of issues identified during commissioning of the synchronous condensers is ongoing. High power testing and commissioning of LIL will continue in 2020.
Prepared for integration into the provincial electricity system	Completed and published to the PUB all applicable low-power and high-power operational system studies related to the reliable operation of the LTA, LIL and Muskrat Falls assets. Completed the development of LTA, LIL and Muskrat Falls generating Unit 1 grid energization procedures, enabling the safe commissioning and integration of Muskrat Falls Project assets into the provincial electricity system. Supported the transition of Muskrat Falls Project assets into Operations, including the LTA and LIL transmission lines, SOBI and HVac Terminal Stations at Churchill Falls, Muskrat Falls and Soldiers Pond.

	Recruited and secured more than 130 engineering, operations, maintenance and support positions to enable Power Supply to reliably operate the new transmission and generation assets. Substantially advanced the development of the Muskrat Falls Project asset management program, establishing all preventative maintenance procedures to manage the assets at turnover as well as the majority of procedures for long-term requirements. Completed risks assessments related to fire and safety emergency response at Soldiers Pond and Muskrat Falls. Developed emergency response plans for Soldiers Pond and advanced requirements for the emergency response approach for the Muskrat Falls site. Completed a detailed assessment of emergency response and repair requirements for the overhead transmission lines, conducted mock trials and advanced the development of long-term strategies. Developed interim and long-term warehousing plans for the island and Labrador and secured and established interim warehouse space for the island and advanced Labrador requirements. Inspected and received spares inventory for SOBI, the LTA/LIL transmission lines and HVac stations. Procured recommended spares for the synchronous condensers and advanced the review of contractor supplied and recommended spares for the HVdc and Muskrat Falls generation assets and structures. Built a preliminary 50-year forward looking capital sustaining plan for LCP assets, completed a financial review of asset costs and service lives for LTA and LIL assets, and established financial systems and processes for Power Supply operations. Established key operational service and support contracts to enable safe and reliable operations of the transmission assets and advanced generation requirements.

	Completed the development and implementation of all transmission related safety programs and substantially advanced the development and implementation of generation safety programs. Completed pre-Muskrat Falls generation availability commercial arrangements for transmission availability and use. Completed the Pilot Agreement for the Optimization of Hydraulic Resources, submitted the agreement to the PUB and received PUB approval. Advanced the development of the Long-term Agreement.
Prepared for interconnection with the North American grid	Open access application submitted and approved by the PUB. Achieved Government royal assent of open access legislation. Developed and implemented all open access policies, procedures, tools and technologies to enable the Newfoundland and Labrador System Operator's (NLSO) preparedness for its interconnection to the North American grid. Completed, applicable Energy Control Centre (ECC) operator training and established a code of conduct training program across the organization. Successfully executed the first commercially-scheduled interchange transaction in January 2018. Identified reliability standards to be considered for voluntary adoption of North American Electric Reliability Corporation (NERC) standards, developed associated polices and procedures, and completed an implementation and prioritization framework for voluntary adoption. Advanced discussions between Hydro-Québec, CF(L)Co and the NLSO regarding establishing an Interconnection Operators Agreement (IOA) between the NLSO and Hydro-Québec and the assignment of certain CF(L)Co transmission operating functions to the NLSO through a transmission Multi-Party Pooling Agreement (MPPA). Conducted a mapping exercise to review and document existing and future roles and responsibilities related to the management of the transmission interface and power flows between Labrador and Quebec.

Continued to invest in Churchill Falls assets	Throughout 2017-2019, asset management at Churchill Falls remained a key priority for Nalcor, given the age of the plant and its related infrastructure. Current commitments expire in 2041 and work completed over the last three years will assist in ensuring these assets will continue to operate reliably well beyond that time. A long-term asset management plan was developed that reflects the level of service required of the plant combined with key asset information including condition assessments and operating and maintenance experience. From 2005-2019, Nalcor Churchill Falls invested \$553 million to upgrade or replace Churchill Falls assets, with annual capital expenditures increasing during the period by around 630 per cent to \$65.4 million in 2019.

Objective

By December 31, 2019, Nalcor will have further advanced capital projects to enhance the long-term security and reliability of the province's electricity supply.

INDICATORS	2019 ACCOMPLISHMENTS
Advanced construction of the Muskrat Falls Project	▪ Worked more than 17.5 million hours and more than 33 months without a lost-time injury. ▪ The Muskrat Falls Project received the Health and Safety Distinction Award from Building Trades Unions. **Generation** ▪ Over 98 per cent construction complete on the generation project. ▪ The North Dam was completed 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. ▪ Raised the water level in the reservoir, reaching the final operating level of about 39m and creating the reservoir. ▪ The remaining concrete in the powerhouse was poured with a total of 680,000m^3 of concrete placed to build the generation facility.

	Transmission ▪ Over 99 per cent construction complete on the transmission project. ▪ Transmitted power from Churchill Falls, over LIL to the island over one transmission line (monopole) as an interim step to deliver surplus Recapture power from Churchill Falls to the island.
Prepared for integration into the electricity system	▪ High-power operational studies completed and submitted to the PUB. ▪ Supported the transition of the HVac terminal stations at Churchill Falls, Muskrat Falls and Soldiers Pond into Operations. ▪ Completed energization procedures for the synchronous condensers, converter stations and Muskrat Falls generating Unit 1. ▪ Completed the transition of final documentation from the Muskrat Falls Project to operations for SOBI, LTA/LIL transmission lines and HVac Stations. ▪ 26 of 28 operations roles secured for generation including all required hydro operator apprentices and journey persons. Recruiting for remaining transmission operations, engineering and support functions completed. ▪ Financial systems and processes for Power Supply operations established. ▪ Joint working committee established with Emera and plan established to advance the development of the Long-term Asset Management Plan for all Muskrat Falls Project assets including the Maritime Link. ▪ Asset management program completed for the HVac terminal stations and substantially advanced for the Muskrat Falls generation assets and structures. ▪ Safety, fire and rescue emergency response risk assessment for the Muskrat Falls site completed, approaches evaluated and implementation of key requirements initiated. ▪ Operations, maintenance and service support requirements for generation operations advanced. ▪ Assessment of long-term warehousing requirements for Labrador completed. Procurement of recommended spares for the synchronous condenser completed. Remaining

	HVac station spares received. Assessment and preparation for receipt of Muskrat Falls generation spares continued. ▪ Transmission safety program completed. Generation safety program substantially advanced. ▪ The Nalcor/Hydro coordinated water management production planning function was operationalized.
Prepared for interconnection with North American grid	▪ Development of NERC reliability policies and procedures completed for the NERC standards being considered for voluntary adoption. Prioritization framework for implementation completed. ▪ Advanced discussion between Hydro-Québec, CF(L)Co and the NLSO regarding establishing an IOA between the NLSO and Hydro-Québec and the assignment of certain CF(L)Co transmission operating functions to the NLSO through a transmission MPPA. Conducted a mapping exercise to review and document existing and future roles and responsibilities related to the management of the transmission interface and power flows between Labrador and Quebec. ▪ Advanced the implementation of the independent river coordinator function as required under the Churchill River Water Management Agreement.
Continued to invest in Churchill Falls assets	▪ Achieved 98.66 per cent of possible Guaranteed Winter Availability Contract (GWAC) revenue. ▪ Successfully delivered 2019 capital program. ▪ Successfully delivered key maintenance activities within the annual work plan, and exceeded 97 per cent on targeted preventive and corrective maintenance activities.

ISSUE 2: VALUE FROM ELECTRICITY

As Nalcor carries out its work to safety and responsibly develop Newfoundland and Labrador's energy resources for the maximum benefit for the people of the province, it is keenly aware of the impact its operations have on electricity costs. This mandate supports the strategic direction of Government regarding maximized value with regard to the development and export of energy. Capital and financing costs associated with Nalcor's capital projects - through its subsidiary Hydro and, in particular, the Muskrat Falls Project - are not only backed by taxpayers but also passed along to customers through electricity rates.

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

To extract maximum value from its electricity portfolio, Nalcor, through NEM actively trades and sells the province's surplus power to customers in external energy markets. The Energy Trading portfolio includes surplus Churchill Falls Recapture energy, long-term transmission rights, and agreements with Hydro for the provision of external electricity marketing services.

Nalcor currently sells electricity as a participant in the competitive energy markets in Canada and the United States. The current portfolio includes electricity available from the 300 MW Recapture energy block available from Churchill Falls to Hydro. To access export markets, Nalcor, through its subsidiary, Hydro, signed a Transmission Service Agreement with Hydro-Québec TransÉnergie (HQT) under HQT's Open Access Transmission Tariff in 2009 and in 2013, Nalcor renewed that agreement for another 10 years. The agreement is for long-term power transmission capacity from Labrador through Quebec to the New York border with the ability to transmit electricity to other markets.

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.

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

In a second, but unrelated, legal action filed by Hydro-Québec in the Quebec Superior Court in 2013, Hydro-Québec sought a Declaratory Judgment relating to the interpretation of certain terms of the 1969 Power Contract and the Renewed Power Contract (commencing September 1, 2016 and expiring August 31, 2041). In this proceeding, Hydro-Québec sought the Court's declarations with respect to i) "Continuous Energy" under the Renewed Power Contract and ii) CF(L)Co's right to sell power beyond the 300 MW Recapture block provided for in the Power Contract and the Renewed Power Contract on an interruptible basis to third parties. The Quebec Superior Court ruled against CF(L)Co in August 2016. On September 7, 2016 CF(L)Co filed an appeal with the Quebec Court of Appeal. In December 2016, the appeal factum was filed and the Declaratory Judgment Case was heard at the Quebec Court of Appeal on December 4, 2018. A decision of the Quebec Court of Appeal was issued on June 20, 2019, which partially overturned the decision of the Superior Court. The Court of Appeal ruled that Hydro-Québec is entitled to an annual capped quantity of energy known as "Continuous Energy" and confirmed that Hydro-Québec does not have an exclusive right to all energy produced at Churchill Falls other than the Recapture and Twin Falls blocks of energy. In accordance with this ruling, CF(L)Co has the right to sell energy in excess of Continuous Energy to third parties when it can be produced at the Churchill Falls facility. The judgment has not been appealed and therefore will stand. With the completion of the litigation process, CF(L)Co has been, and will continue monitoring of its reservoirs and forecast hydrology conditions to assess opportunities to produce and sell excess energy.

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

Issue 2: Value from Electricity	
Goal: By December 31, 2019, Nalcor will have will have advanced efforts to maximize the overall value from the electricity resources for the people of the province.	
INDICATORS	**2017-2019 ACCOMPLISHMENTS**
Advanced opportunities to mitigate rates	In 2018, Government engaged the PUB to investigate options to mitigate the impact of Muskrat Falls costs on electricity rates, including cost savings and revenue opportunities. To support their work, the PUB engaged Liberty and Synapse. Throughout 2019, Nalcor and Hydro Executive teams and Boards worked diligently in supporting Government and the PUB in their reviews of options to manage rates for customers. In September 2019, Liberty and Synapse delivered their final reports to the PUB, with the PUB then issuing these reports to the public. Supporting this work and responding to the PUB's and the consultants' questions has been an ongoing priority across the board and the executive team. Nalcor is committed to working collaboratively with Government to implement opportunities that will manage and mitigate electricity rates for customers following integration of the Muskrat Falls Project into the provincial electricity system. This will be a priority throughout the 2020-22 planning period.
Advanced opportunities to maximize value from, electricity sales and new developments	NEM continued to work with Hydro 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, NEM does not realize a profit on these transactions. In December 2018, the PUB approved an application from Hydro to authorize NEM to begin purchasing and importing low-cost energy from external markets to satisfy customer requirements on the island instead of generating energy from Hydro hydraulic assets. At a later date, when market prices are higher, Hydro generates and sells energy into export markets, creating value which will be passed along to ratepayers in the future, subject to further regulatory process.

<table>
<tr><td></td><td>Working alongside Hydro’s energy production team to maximize the transfer, throughout 2019, NEM transferred approximately 215 gigawatt hours (GWh) of low-cost energy from Churchill Falls to the island via LIL. In the same year, NEM also 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 island electricity customers by displacing more costly generation at HTGS.</td></tr>
<tr><td colspan="2">Objective
By December 31, 2019, Nalcor will have further advanced efforts and opportunities to extract maximum value from the province’s electricity resources.</td></tr>
<tr><th>INDICATORS</th><th>2019 ACCOMPLISHMENTS</th></tr>
<tr><td>Continued to implement measures to maximize portfolio value such as targeting higher priced markets and times to exceed the energy price benchmark</td><td>▪ Delivered 95 per cent of available Recapture energy from Churchill Falls to market.
▪ 1.189 terawatt hours of energy was provided to customers in New York, New England, Ontario and the Maritimes
▪ Realized revenues of more than $3 million, or 282 per cent above market benchmark (New York/Quebec interface).</td></tr>
<tr><td>Continued preparations relating to the appeal of the Declaratory Judgement legal proceedings</td><td>▪ The Quebec Court of Appeal issued its decision on June 20, 2019, which partially overturned the decision of the Superior Court. The Court of Appeal ruled that Hydro-Québec is entitled to an annual capped quantity of energy known as “Continuous Energy” and confirmed that Hydro-Québec does not have an exclusive right to all energy produced at Churchill Falls other than the Recapture and Twin Falls blocks of energy. In accordance with this ruling, CF(L)Co has the right to energy in excess of Continuous Energy when it can be produced at the Churchill Falls facility. The judgment has not been appealed and therefore will stand.
▪ With the completion of the litigation process, CF(L)Co has been, and will continue monitoring of its reservoirs and forecast hydrology conditions to assess opportunities to produce and sell excess energy.</td></tr>
<tr><td>Assessed and engaged potential customers on potential future electricity</td><td>▪ Nalcor’s Energy Trading team continued to work with Hydro to procure off-island energy to displace energy production</td></tr>
</table>

development for the export market and industrial customer opportunities	from the HTGS and to optimize the value of the province's hydraulic storage and production assets. ▪ Nalcor has ongoing discussions and works closely with all Atlantic Canadian utilities and is a member of the Atlantic Clean Power Planning Committee.

ISSUE 3: OIL AND GAS INTERESTS, EXPLORATION AND DEVELOPMENT

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

In February 2018, Government launched a policy document entitled *The Way Forward* on Oil and Gas as part of its Advance 2030 plan. In support of this document on March 27, 2018, Government announced its intent to establish a stand-alone Crown corporation to work directly with the Department of Industry, Energy and Technology to accelerate growth opportunities in the petroleum industry. On March 11, 2019, the Government introduced legislation establishing a new oil and gas corporation with a mandate focused on maximizing opportunities for growth in the province's offshore oil and gas industry (**Oil and Gas Corporation Act**). The new corporation, on top of managing the existing offshore equity interests, will drive exploration by attracting new investment, maximizing returns through equity investments, and enhancing local supply chain opportunities by leveraging existing capabilities; positioning the province as a globally preferred location for oil and gas development. Bull Arm Fabrication Inc. will become a subsidiary of the new corporation, and will continue to hold the lease for the Bull Arm Fabrication Site. Bull Arm's employees will transition to the new oil and gas corporation and support this effort.

Throughout 2019, Nalcor continued to work with Government to transition the relevant areas of the business to the new oil and gas corporation. An implementation working group was established to facilitate the transition (effective January 1, 2020) and to develop a Management Services Agreement (MSA) between Nalcor Oil and Gas and the new oil and gas corporation. The MSA stipulates that the ownership of the existing offshore assets (White Rose, Hibernia

Southern Extension and Hebron) will remain with Nalcor Oil and Gas as a source of revenue, but will be managed by the new oil and gas corporation.

Nalcor Oil and Gas currently holds a five per cent working interest in the White Rose Extension project. This project includes the North Amethyst field, West White Rose and South White Rose Extension. The company also has a 10 per cent working interest in the Hibernia Southern Extension (HSE) and is a co-venturer in the Hebron oil field holding a 4.9 per cent working interest in the province's fourth offshore oil project. Since 2010, more than $1.3 billion in revenue has been generated by oil sales.

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

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

- White Rose Extension Project: The North Amethyst field produced first oil in May 2010 and has produced over 50 million barrels through December 2019. In 2015, first production from the South White Rose Extension was achieved and in 2016, first production was achieved from the first producer in the Hibernia formation at the White Rose field. In 2017, the White Rose Extension project was sanctioned, with first oil anticipated in 2022. For the 2020-2021 period, key activities will include the sustainment of maximum production levels through sound reservoir management.
- Hibernia Southern Extension: First oil was achieved from the Hibernia Southern Extension (HSE) in 2011, supplementing production from the original Hibernia project area, helping the overall field in achieving the one billionth barrel of oil on December 21, 2016. Accelerated drilling progress in 2016 and 2017 helped achieve record production levels from the HSE area. For the 2020-2021 period, the focus will be on the sustainment of maximum production levels through sound reservoir management.

- Hebron: First oil was achieved from Hebron on November 27, 2017, ahead of schedule. For the 2020-2021 period, activities will focus on safe and environmentally sound ramp up of production rates from the platform, as well as the investigation and analysis of future upside potential in the field.

Issue 3: Oil and Gas Interests, Exploration and Development	
Goal: By December 31, 2019, Nalcor Energy-Oil and Gas will have advanced opportunities to increase exploration and development of the Province's oil and gas resources.[1]	
INDICATORS	**2017-2019 ACCOMPLISHMENTS**
Managed equity interests in offshore development in support of planned project advancements	▪ Developed partnership in Joint Ventures with industry participants ▪ Continued support for ongoing and future developments in the Province's offshore
Advanced knowledge of resource potential through execution of multi-year exploration strategy	▪ Mapped over 650 leads and prospects ▪ Independent resource assessments have identified an estimated resource potential of 52.2 billion barrels of oil and 199.6 trillion cubic feet of gas in less than nine per cent of the province's offshore
Objective By December 31, 2019, Nalcor Energy-Oil and Gas will have continued to support efforts to advance offshore project milestones and further enhanced knowledge of the province's oil and gas resource potential.	
INDICATORS	**2019 ACCOMPLISHMENTS**
Support planning for the establishment of a new stand-alone Oil and Gas Crown Corporation; develop and execute on a consolidated plan for a successful transition	▪ In March 2019, a new Crown corporation was established focused solely on oil and gas activities. The new entity is responsible for financing and managing exploration activities and future equity investments in offshore developments. ▪ A MSA between Nalcor Oil and Gas and the oil and gas corporation was developed to support existing oil and gas equity assets. ▪ New exploration activities, along with future investment in offshore developments and the Bull Arm Site, will also rest with the newly established Crown corporation. ▪ Effective January 1, 2020, Oil and Gas is comprised of existing equity interests in offshore developments.

[1]The new corporation was proclaimed on January 1, 2020 and for that reason Nalcor Oil and Gas is maintaining its current reporting structure for this report. Future reports will reflect relevant changes.

	Activities related to exploration and future offshore developments were transitioned to the new crown corporation.
Continue to exercise Joint Venture voting rights and committee representation in the three offshore developments in support of the advancement of progress toward planned project milestones	▪ Continued the White Rose Extension Project (WREP) with Argentia, Marystown and Ingleside, TX scopes, achieving 56 per cent overall project progress at year end ▪ Hebron drilling progress ahead of original schedule, completing fifteenth platform well by year end ▪ Hebron production rates exceeded expectations; ultimate recovery implications over the field life continue to be assessed ▪ Eighth oil producing well completed and online at Hibernia Southern Extension ▪ Environmental initiatives commenced/progressed, including a partnership with the Newfoundland Environmental Industries Association (NEIA)
Continued to acquire geoscience data Continue offshore exploration data surveys Continue multiyear exploration strategy	▪ Successfully executed 2019 2D and 3D surveys ▪ 2D targeting 2021 and 2022 South Coast license Rounds (10,500 km) ▪ First 3D survey off the coast of Labrador supporting 2021 license round (8,600km^2) ▪ Resource Assessment for the 2019 Carson Bonnition Salar Basins was completed and publicly issued ▪ Ongoing preparation for 2020 Resource Assessment for Eastern Newfoundland ▪ Pilot Project for Full Waveform Inversion (FWI) application ongoing on Tablelands 3D in Eastern NL 2020 license round area
Communicate Nalcor geoscience results to the global oil and gas industry	▪ Participated in Federal Trade Mission to Norway/UK to discuss offshore oil and gas digitalization, license governance and supplier development. ▪ Presented numerous scientific papers on NL offshore geoscience to global conferences in 2019 including NAPE, APPEX, AAPG, Atlantic Ireland and EAGE. o New methodology developed to detect seabed escape features from 3D seismic – initial results presented at AAPG in San Antonio and EAGE in London ▪ Participated in Eastern NL Regional Assessment o Member of GIS technical advisory group

4. OPPORTUNITIES AND CHALLENGES

Implementing priorities, as set out in Nalcor's 2020-22 Strategic Plan, will require Nalcor to continue to build on its accomplishments and address future challenges and opportunities. The key opportunities and challenges that will be addressed reflect the next phase of Nalcor's strategy in support of Government's energy sector strategic directions.

Electricity Supply and Reliability

Muskrat Falls Project

During the 2020-2021 planning period, Nalcor will continue commissioning work on the generation and transmission components of the Muskrat Falls Project, securing a new reliable source of clean, renewable power. The integration of the Muskrat Falls assets into the provincial electricity system and interconnection with the North American grid will continue to support energy security and reliability.

Churchill Falls – Asset Management

During 2020, Nalcor will continue to safely operate and maintain its electricity assets in Churchill Falls. Its long-term asset management plan and strategic investment will ensure the continued performance of Churchill Falls and contribute to long-term energy security and reliability.

Value from Electricity

Nalcor's energy marketing portfolio continues to grow. Throughout the 2020-22 planning period, Nalcor will advance its plan for energy marketing operations and continue to pursue opportunities to increase the value of its portfolio. Nalcor will continue to explore and assess opportunities in export markets that could bring value to the province from the sale of surplus energy and investigate all reasonable measures to minimize the impact of the Muskrat Falls Project on electricity rates for customers.

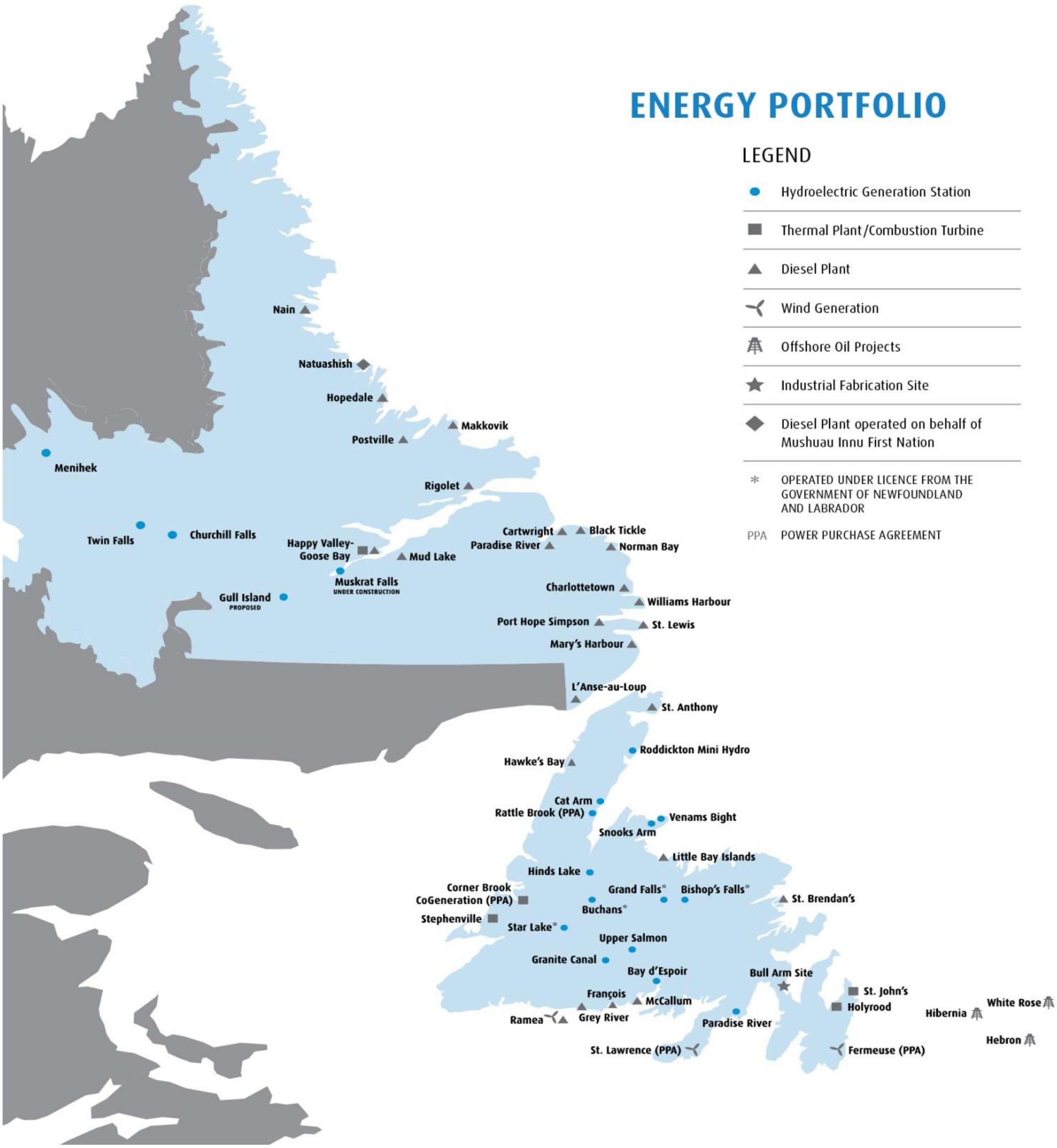
Rising electricity rates will continue to be a challenge for Nalcor. However, Nalcor will continue to seek out opportunities that will manage and mitigate electricity rates for customers by working with its provincial partners, engaging in activities to extract maximum value from its electricity portfolio, and monitoring and assessing market opportunities for expansion of its portfolio.

Oil and Gas

The new oil and gas corporation established in 2019 has a mandate focused on maximizing opportunities for growth in the province's offshore oil and gas industry. The corporation will drive exploration by attracting new investment, maximizing returns through equity investments, and enhancing local supply chain opportunities by leveraging existing capabilities; positioning the province as a globally preferred location for oil and gas development. Bull Arm Fabrication Inc. is a subsidiary of the new corporation and supports this effort.

The ownership of existing equity interests in offshore Newfoundland and Labrador projects will remain with Nalcor as a source of revenue. The existing assets include White Rose, Hebron and the Hibernia Southern Extension projects. During 2020, Nalcor will be focused on working with its partners to transition various oil and gas functions of the business over to the new oil and gas corporation. This will entail carrying out activities as set out in a MSA and clarifying the roles and responsibilities of both organizations in relation to the provinces oil and gas industry.

Appendix 1 Energy Portfolio



Appendix 2 2019 Audited Financial Statements

NALCOR ENERGY
CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019

Deloitte.

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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.

<u>Establishing Fair Value</u>

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.