Nalcor Energy

Transparency and Accountability

2020 Annual Performance Report

April 2021

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 2020 Annual Performance Report for Nalcor Energy (Nalcor), on behalf of the Board of Directors.

The 2020-2022 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 2020 calendar year for Nalcor and is the year one report under Nalcor's 2020-2022 Strategic Plan.

As the Board of Directors of Nalcor 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 2020 under its 2020-2022 Strategic Plan.

John Green,
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. Nalcor has five business segments at December 31, 2020: Hydro, Power Development, Power Supply, Offshore Development and Corporate. In 2016, Nalcor's executive structure was reorganized to allow for the separation of Nalcor's regulated business, Hydro, from its unregulated business operations. As a result, Hydro, also a category 1 public body, prepares and submits a three-year strategic plan as required under the *Transparency and Accountability Act*. See Newfoundland and Labrador Hydro's 2020-22 Strategic Plan for further details regarding Hydro's strategic issues for the planning period.

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.

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

Entity Name	Description of Interest
Newfoundland and Labrador Hydro (Hydro)	Wholly owned subsidiary
Nalcor Energy – Oil and Gas Inc. (Oil and Gas)	Wholly owned subsidiary
Nalcor Energy Marketing Corporation (Energy Marketing)	Wholly owned subsidiary

Muskrat Falls Corporation (Muskrat Falls)	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).

Nalcor’s 2020-22 Strategic Plan (Plan), and thereby its 2020 Annual Report, does not currently reflect directions that may arise following from the Commission of Inquiry Respecting the Muskrat Falls Project (Inquiry) and the Reference to the Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB) on Rate Mitigation Options and Impacts. Therefore, the Plan and subsequent annual reports may require updates to reflect future direction from Government in relation to these two activities.

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 Corp. 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.

<u>Newfoundland and Labrador Hydro</u>

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

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

Power Development

The development of the 824 megawatts (MW) Muskrat Falls hydroelectric generating facility on the lower Churchill River in Labrador is a key component of the province's energy resources. 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 225 MW to Hydro for use in Labrador West and 300 MW of energy for use in the province. Any surplus Recapture energy (energy that is surplus to Newfoundland and Labrador's needs) which is not used by Hydro is made available to Nalcor Energy Marketing (NEM) for export.

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 Corp. 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 Corp.

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 2020, Nalcor had over 1,551 employees, with almost 70 per cent of these employees located in rural parts of the island and Labrador. In 2020, 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	209	238	447	29%
Male	830	274	1104	71%
Total	1039	512	1551	
Per cent	67%	33%		

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, 2020, the Nalcor Board of Directors included:

- Brendan Paddick, Chair (on-leave)
- John Green Q.C. , Chair (Acting)
- Geoff Goodyear
- Jack Hillyard
- Mark MacLeod
- Stan Marshall
- Debbie Molloy
- David Oake
- Derek Purchase
- Dr. Edna Turpin, ICD.D

2020 Consolidated Revenues and Expenses

In 2020, Nalcor had revenues of $930 million. The majority of Nalcor's revenues are currently generated from electricity sales from Hydro and petroleum sales in oil and gas. Approximately 24 per cent of Nalcor's 2020 expenditures relate to fuels and power purchases with operating costs accounting for 20 per cent of expenses; depreciation, depletion, amortization and impairment totaling 43 per cent and net finance expense accounting for approximately 11 per cent. The following table summarizes the consolidated revenue and expenses of Nalcor for the year ended December 31, 2020 (millions of dollars).

Table 1: Nalcor Energy Consolidated Revenue and Expenses 2020

	$	%
Energy sales	913	98
Other revenue	17	2
Revenue	930	
Fuels	158	15
Power purchased	91	9
Operating costs	211	20
Production, marketing and transportation costs	39	4
Transmission rental	26	3
Depreciation, depletion, amortization and impairment	437	43
Exploration and evaluation	-	-
Net finance expense	109	11
Other expense (income)	(37)	(4)
Regulatory adjustments	(14)	(1)
Expenses	1,020	
Loss for the year	(90)	

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

On February 10, 2020, the provincial and federal governments announced a plan to negotiate a financial restructuring of Lower Churchill Project (LCP), including a change to the Muskrat Falls/LTA revenue model and the deferral of sinking fund payments and pre-funded equity payments, if required.

On September 25, 2020, the Province announced the creation of a Rate Mitigation Team with a mandate to successfully conclude negotiations with the Government of Canada. The team will be supported by resources from Nalcor and the Province. On December 17, 2020, the Province and Federal Government jointly announced measures that resulted in delaying some financing related payments associated with the LCP.

Throughout 2020, Nalcor continued to work with Government to transition the relevant areas of the business to the new Oil and Gas Corp. and establish a Management Services Agreement for the new Oil and Gas Corp. to effectively manage Nalcor Oil & Gas' interests.

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 2020, 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)

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

Other Departments/Public Bodies

Nalcor also shares commitments with the Department of Environment and Climate Change (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); Indigenous Affairs and Reconciliation; 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 2020, Nalcor actively 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 and Climate Change 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 and Climate Change 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 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.

3. ISSUES

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

- A Better Economy
- Healthier People
- Better Living
- A Bright Future
- A More Efficient Public Sector for the electricity sector.

Issue 1: Electricity Supply and Reliability
Issue 2: Value from Electricity
Issue 3: Oil & Gas Interests and Development

4. OUTCOMES

The 2020-2022 Strategic Plan for Nalcor highlighted three strategic issues around which goals and objectives were established. These issues encompass the activities of Nalcor and its subsidiaries. A separate report will be filed by Hydro for 2020.

For each strategic issue, the information provided below is reflective of work completed in 2020, the first year of the three-year planning period in relation to these issues

ISSUE 1: ELECTRICITY SUPPLY AND RELIABILITY

Nalcor's mandate, as established in legislation under the Energy Corporation Act, is to invest in, engage in, and carry out activities in all areas of the energy sector in the province and elsewhere. In carrying out this mandate, Nalcor is responsible for developing the province's natural resources to provide Newfoundlanders and Labradorians with a secure and reliable source of electricity to meet their ongoing needs. Through 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.

Muskrat Falls Project

Throughout 2020, Nalcor continued to advance the construction and commissioning of the generation and transmission components of the Muskrat Falls Project to secure a reliable source of clean, renewable power for electricity customers in the province. With the integration of Muskrat Falls into the provincial electricity system, 98 per cent of our province's electricity supply will come from renewable energy sources. Construction on all components of the project significantly advanced through 2020, reaching over 99 per cent overall construction completion at the end of the year.

The COVID-19 pandemic necessitated an approximately four month ramp down of the Muskrat Falls Project work sites between March and June 2020. In particular, under the COVID-19 protocols, labour productivity for construction and commissioning activities was negatively impacted. In September 2020, the project costs and schedule were updated to account for the impacts of COVID-19 on the project. Overall schedule impact resulted in a forecast 13-month delay to project completion.

Power Development (Generation) – History was made in September 2020 as we generated power for the first time at Muskrat Falls and delivered electricity to customers in Labrador. In December, following this significant milestone, the first flow of electricity from Muskrat Falls to Soldiers Pond over the LIL successfully delivered up to 150 MW of power to island customers. Later that same month, the first of four generating units was turned over from project construction to our operations team, who now operate the unit. The Muskrat Falls generation team is continuing to make great progress on commissioning of the remaining three units, which are expected to be put into service in 2021.

Power Supply (Transmission) – We also made progress on commissioning of the 1,100 km LIL between Muskrat Falls and Soldiers Pond. The LIL was constructed as a bipole transmission line, meaning it has two wires and can deliver power over one or both wires. During the COVID-19 pandemic, the LIL contractor continued with software development and, despite a setback following the malfunction of some electrical equipment in August, commissioning of pole 1 was restarted in November. Commissioning of pole 2 started in early 2021, followed by commissioning of both poles as a typical bipole system.

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

Final commissioning and integration of all assets within the Muskrat Falls Project is forecast to be completed and turned over to Nalcor Power Supply Operations by the end of 2021.

Churchill Falls - Asset Management

The Churchill Falls hydroelectric generating station is one of the largest underground hydroelectric power facilities in the world, with a rated capacity of 5,428 MW. Safely operating and maintaining its electricity assets, as well as municipal and community services, drives the Churchill Falls strategy.

As of 2020, Churchill Falls has been in operation for 49 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 contractual commitments in 2041. From 2005-2020, Nalcor Energy Churchill Falls invested $617 million to upgrade or replace Churchill Falls assets, with annual capital expenditures increasing during the period by 599 per cent to $63.6 million in 2020.

Taking steps to ensure the continued performance of the Churchill Falls facilities through planning and strategic investment will drive the company's strategy for the 2020-2022 planning period and beyond. A long-term asset management plan has been developed that reflects the level of service required of the plant combined with key asset information including condition assessments and operating and maintenance experience. Currently, capital investments for 2020-2022 planning period are forecast to be in excess of $197 million.

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

Issue 1: Electricity Supply and Reliability	
Goal By December 31, 2022, Nalcor will have increased the province's supply of clean renewable energy and strengthened its long-term security and reliability.	
INDICATORS	• Completed the Muskrat Falls Project and fully integrated into the provincial electricity system • Utilization of the transmission lines connecting the province to the North American grid • Continued to invest in Churchill Falls assets
Objective By December 31, 2020, Nalcor will have advanced capital projects that will increase the province's supply of clean renewable energy and strengthened its security and reliability.	
INDICATORS	**2020 ACCOMPLISHMENTS**
Completed construction for the generation assets of the Muskrat Falls Project	▪ In 2020, Nalcor was successful in achieving many milestones towards the completion of the Muskrat Falls Project. ▪ Construction of the project was substantially complete at the end of 2020 and commissioning work was ongoing.
Commissioned all Muskrat Falls generating units and transitioned to operations	▪ On September 22, the first of four generating units at Muskrat Falls was successfully synced to the electricity grid in Labrador. ▪ On December 4, 2020, 45 megawatts (MW) of power from Muskrat Falls unit 1 was transmitted over the LIL to island

	customers, marking the first time Muskrat Falls power flowed over the LIL and to the island. ▪ On December 22, 2020, unit 1 was turned over from LCP construction to Power Supply operations who now operate the unit. ▪ Units 2, 3 and 4 were not commissioned and transitioned to operations in 2020. As noted above, a reduced workforce and lost productivity resulted in impacts to project schedule. The timeline for completion of the project was extended approximately one year. Commissioning on units 2, 3, and 4 is ongoing. The current project forecast is for these three units to be turned over to operations before the end of 2021.
Completed integration of all generation and transmission assets into Nalcor Operations	**Power Development (Generation)** ▪ On December 22, 2020, unit 1 was turned over to Power Supply operations who now operate the unit. ▪ Units 2, 3 and 4 were not integrated into operations. The overall schedule for commercial operation of the four units was negatively impacted by the COVID-19 pandemic. In September 2020, the commissioning schedule for the generation assets was updated. ▪ Commissioning of the remaining three units is forecast for 2021. **Power Supply (Transmission)** ▪ Transmission assets were not integrated into Nalcor operations. The overall schedule for LIL software dynamic commissioning was negatively impacted by the COVID-19 pandemic. In September 2020, the commissioning schedule for the transmission assets was updated with an approximately 13 month delay from the previous forecast. ▪ Completion of software commissioning is expected in late 2021.
Established Operating and Maintenance requirements for operation of the transmission and generation	▪ Completed the 2020 objectives that were not tied to delayed Muskrat Falls Project commissioning and turnover milestones. ▪ A notable achievement was supporting the successful

facilities	operational acceptance of Muskrat Falls unit 1. ▪ Achieved the majority of activities related to Muskrat Falls generation operator training, preparedness of the asset management program, development of the safety program, advancement of Operating and Maintenance support services contracts, development of emergency response requirements, completion of environmental aspects, among others. ▪ Achieved required progress in system operational studies, water management and revenue agreement implementation required for the 2020 operational integration of Muskrat Falls and the LIL.
Reviewed and updated five-year capital plan	▪ Inside the first 5 years of the Long Term Asset Management Plan (LTAMP) for Churchill Falls, there is an increased level of detail and certainty in scope and cost estimate, when compared with that for 10 and 20 years out. ▪ In 2020 the annual review and update of the 5-Year portion of the LTAMP was completed, to ensure alignment of the investment program with the ongoing maintenance needs of Churchill Falls assets.
Completed planned 2020 capital investment in CF(L)Co assets	▪ The capital investment program for Churchill Falls in 2020 included the execution of 63 projects, of which 88% were successfully completed, for a total investment of $63.4M. This achievement is significant considering challenges in 2020 that impacted the ability of contractors to travel to, and work safely in, the province.
Objective By December 31, 2021, Nalcor will have progressed capital projects for enhancement of the long-term security and reliability of the province’s electricity supply	
INDICATORS	▪ Commissioned all Muskrat Falls generating units and transitioned to operations ▪ Completed integration of all generation and transmission assets into Nalcor Operations ▪ Established Operating and Maintenance requirements for operation of the transmission and generation facilities ▪ Reviewed and updated five-year capital plan ▪ Completed planned 2021 capital investment in CF(L)Co assets

Objective

By December 31, 2022, Nalcor will have made continued advancements toward increasing the province's supply of clean renewable energy and its long-term security and reliability.

ISSUE 2: VALUE FROM ELECTRICITY

As Nalcor carries out its work to safely and responsibly develop Newfoundland and Labrador's energy resources for the maximum benefit for the people of the province, it is keenly aware of the impact its operations have on electricity costs. This mandate supports the strategic directions of Government for 'a better economy' and 'a bright future' for the people of the Province. 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 has completed construction on the Muskrat Falls Project, and is currently focused on commissioning the assets and integrating them into the existing electricity grid. At the same time, the company continues 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 its Nalcor Energy Marketing (NEM) division, 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, Muskrat Falls 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 as well as energy from the first commissioned generating unit at Muskrat Falls.

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 Nalcor renewed that agreement in 2013 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 2020, NEM has also been marketing and facilitating the export of pre-commissioning energy from Muskrat Falls via the LIL and the Maritime Link between Newfoundland and Nova Scotia. In December, NEM exported six gigawatt hours (GWh) of Muskrat Falls energy over the Maritime Link between the island and Nova Scotia with power flowing to Atlantic Canada and beyond.

In 2020, 95 per cent of available Recapture energy from the Churchill Falls Generating Station was delivered to market. This provided 1.264 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 $29 million.

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, 2022, Nalcor will have advanced efforts to maximize the overall value from the electricity resources for the people of the province.	
INDICATORS	Identified and advanced the commercial, legal, financial and regulatory processes required to implement rate mitigation outcomes
Objective By December 31, 2020, Nalcor will have assessed options to increase value from electricity resources in the province.	
INDICATORS	**2020 ACCOMPLISHMENTS**
Monitored and assessed market opportunities for expansion of the provinces electricity portfolio	NEM continued to work with industry counterparts and Hydro to make cost-saving energy purchases over the Maritime Link for the benefit of Newfoundland and Labrador's electricity customers. NEM monitored and assessed the market and imported approximately 173 gigawatt hours (GWh) of lower-cost energy last year from various regions across Eastern Canada and the Northeastern United States to help displace fuel consumption at the Holyrood Thermal Generating Station.
Supported opportunities to maximize overall value from	In 2020, NEM marketed and facilitated the export of pre-commissioning energy from Muskrat Falls via the LIL and the

electricity resources	Maritime Link. Following commissioning of the first generating unit at Muskrat Falls, our Energy Marketing team exported Muskrat Falls power that was surplus to Hydro's needs. This is an important milestone – as the remaining assets come online, the volume of exports which NEM will manage will increase to three times the levels seen in recent history.
Advanced commercial, legal, financial and regulatory processes to implement rate mitigation outcomes	On February 7, 2020, the PUB issued its final report on rate mitigation options and impacts relating to the Muskrat Falls Project to the Province for consideration. Nalcor was actively involved in the review, through submission of responses to requests for information and appearing during the hearing phase. During April 2019, the Province released details surrounding its strategy to manage and mitigate electricity rates for 2021 onward, which include collaborating with the Federal government. On February 10, 2020, the provincial and federal governments announced a plan to negotiate a financial restructuring of LCP, including a change to the Muskrat Falls/LTA revenue model and the deferral of sinking fund payments and pre-funded equity payments, if required. On September 25, 2020, the Province announced the creation of a Rate Mitigation Team with a mandate to successfully conclude negotiations with the Government of Canada. The Chair of Nalcor's Board of Directors took leave to Chair the Rate Mitigation team. The team is also supported with financial, commercial and regulatory resources from Nalcor Energy. Support resources signed Non-disclosure agreements and continue to support the Rate Mitigation Committee as needed. On December 17, 2020, the Province and Federal Government, with support from the Rate Mitigation Committee, jointly announced measures that resulted in delaying some financing related payments associated with the LCP.
Continued to implement measures to maximize portfolio value such as targeting higher priced markets and times to exceed the energy price benchmark	At the conclusion of 2020, NEM surpassed its performance metric target. NEM's target was to exceed, through its optimization activities, the net revenues achievable through New York market sales (i.e. the New York benchmark) by at least 25%. In 2020, NEM exceeded the New York benchmark by 52%. Electricity prices in the Northeast US and Canada were

	depressed for much of 2020. This was due to a mild winter in the Northeast, notably Boston, which recorded its warmest January in 128 years, as well as high natural gas volumes and decreased electricity demand due to the global COVID-19 pandemic impact. These events combined to reduce transmission congestion and the historical premium for electricity deliveries into New England, therefore reducing the value of NEM's transmission congestion contracts and transmission position into New England. In Q4 the markets started to recovery and approach historical norms, enabling NEM to capitalize on trends and outperform the New York Benchmark.
Assessed and engaged potential customers on identified export market and industrial customer opportunities	Nalcor continued in 2020 to have ongoing discussions and work closely with all Atlantic Canadian utilities and is a member of the Atlantic Clean Power Planning Committee.
Objective By December 31, 2021, Nalcor will have advanced opportunities to extract maximum value from the province's electricity resources.	
INDICATORS	▪ Monitored and assessed market opportunities for expansion of the provinces electricity portfolio ▪ Supported opportunities to maximize overall value from electricity resources ▪ Continued to implement measures to maximize portfolio value such as targeting higher priced markets and times to exceed the energy price benchmark ▪ Assessed and engaged potential customers on identified export market and industrial customer opportunities
Objective By December 31, 2022 Nalcor will have further advanced efforts and opportunities to extract maximum value from the province's electricity resources in support of rate mitigation.	

ISSUE 3: OIL AND GAS INTERESTS

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. ("Nalcor Oil and Gas"), these activities supported fulfillment of the strategic directions of Government for 'a better economy' and 'a bright future'.

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 ("Oil and Gas Corp.") 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 Corp. and support this effort.

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.

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

In addition to the economic value provided through equity, Nalcor Oil and Gas' ownership position provides Oil and Gas Corp., through its management of Nalcor Oil and Gas' equity interests, 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.

The combination of disputes between oil producing nations and the COVID-19's devastating impact on demand for fuels had a severe impact on crude oil prices in 2020.

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

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

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

<table>
<tr><th colspan="2">Issue 3: Oil and Gas Interests</th></tr>
<tr><td colspan="2">Goal
By December 31, 2022, Nalcor will have supported the new oil and gas corporation in its role as manager of Nalcor Oil and Gas assets.</td></tr>
<tr><td>Indicators</td><td>▪ Supported the establishment of the new Oil and Gas Corp. as a stand- alone entity
▪ Supported the new Oil and Gas Corp. in its role as manager of Nalcor Oil and Gas assets, as per the terms of the Management Services Agreement (MSA)
▪ Ensured the appropriate administration of the MSA</td></tr>
</table>

<table>
<tr><td colspan="2">Objective
By December 31, 2020, Nalcor Oil and Gas will have provided support to the new oil and gas corporation in the implementation of a Management Services Agreement between Nalcor and the new oil and gas corporation.</td></tr>
<tr><th>INDICATORS</th><th>2020 ACCOMPLISHMENTS</th></tr>
<tr><td>Supported the new oil and gas corporation in its role as manager of Nalcor Oil and Gas assets, as per the terms of the MSA</td><td>▪ The MSA was finalized, approved by the Nalcor Oil & Gas Board of Directors, and executed in August 2020.</td></tr>
<tr><td>Ensured the appropriate administration of the MSA</td><td>▪ Clear roles and responsibilities were outlined and agreed upon between Nalcor Oil & Gas and the new Oil and Gas Corp. within the MSA which was executed in August 2020.</td></tr>
<tr><td colspan="2">Objective
By December 31, 2021, Nalcor will have continued to support efforts to further advance the establishment of the new oil and gas corporation.</td></tr>
<tr><td>INDICATORS</td><td>▪ Approved the 2021 annual work plan and annual budget for Nalcor Oil & Gas assets submitted by Oil and Gas Corp. as required under the MSA.
▪ Evaluated the performance of Oil and Gas Corp under the terms of the MSA.
▪ Provided oversight of management of existing assets by reviewing financial and operational updates of Existing Assets provided by Oil & Gas Corp.</td></tr>
<tr><td colspan="2">Objective
By December 31, 2022, Nalcor will have supported the new oil and gas corporation in its role as manager of Nalcor Oil and Gas assets.</td></tr>
</table>

5. 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 2021-2022 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. Energy began flowing from Muskrat Falls over the LIL to the island in December 2020, and the assets began contributing to the energy supply for island and export customers in Atlantic Canada, which is anticipated to continue throughout the commissioning period in 2021. Energy from the second generating unit of Muskrat Falls is expected later in Q1 2021, with the third and fourth units coming online in the months thereafter.

Throughout 2021, the LCP will continue to commission and test the LIL until full completion. During Q1 2021, dynamic commissioning of the interim software for the LIL will continue with final software expected in the second half of the year. The LCP cost and schedule was updated in September 2020 with commissioning scheduled in Q4 2021 and a total project cost of $13.1 billion. A recent rise in cases of COVID-19 in 2021 and resulting Public Health measures implemented in the Province is impacting the LCP. Management is working to minimize the effect and continues to monitor and assess any implications to the LCP cost and schedule.

Churchill Falls – Asset Management

During 2021, 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 2021-22 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.

The Province is evaluating options to reduce the impact of LCP costs on electricity rates and on April 15, 2019 released its strategy to manage and mitigate electricity rates for 2021 onward. On September 25, 2020, the Province announced the creation of a Rate Mitigation Team with a mandate to successfully conclude negotiations with the Government of Canada. Nalcor representatives continue to support the work being done by GNL under the new framework initiated in the fall of 2020.

Oil and Gas

The new Oil and Gas Corp. 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.

In October 2020, Husky announced that the construction of the West White Rose platform would continue to be suspended through 2021.

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

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

COVID-19

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

On March 14, Newfoundland and Labrador announced its first case of COVID-19, and Nalcor Energy enacted its Corporate Pandemic Emergency Response Plan (Pandemic plan). Nalcor's Corporate Pandemic Response Plan was developed in consultation with key corporate areas to create response strategies including:

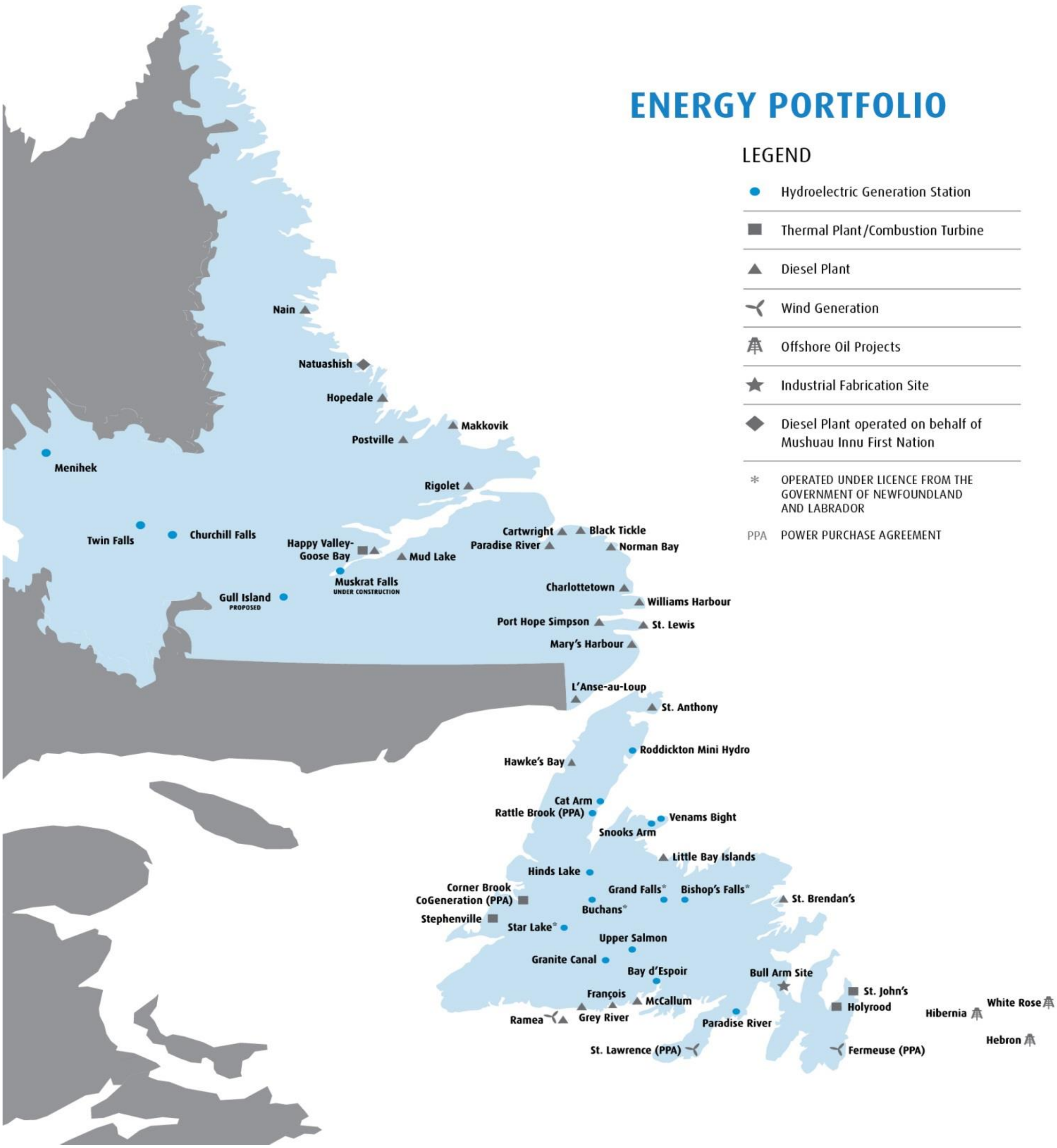
- the development of operations business continuity plans
- communication strategies and tools
- supply chain issues
- information systems infrastructure
- infection control guidelines, and
- policies and monitoring updates.

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

As a result of the Province easing restrictions in Q2 2020, Nalcor started preparing for the safe and gradual resumption of construction and commissioning activities at Muskrat Falls. Construction has since resumed on site while ensuring that all new protocols and guidelines for the protection of workers from COVID-19 in the construction industry are observed.

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

Appendix 1 Energy Portfolio



Appendix 2 2020 Audited Financial Statements

NALCOR ENERGY
CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020

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Independent Auditor's Report

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

Opinion

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

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

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Deloitte LLP

Chartered Professional Accountants
March 5, 2021

NALCOR ENERGY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

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

See accompanying notes

On behalf of the Board:

DIRECTOR DIRECTOR

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

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

See accompanying notes

NALCOR ENERGY
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

See accompanying note

NALCOR ENERGY
CONSOLIDATED STATEMENT OF CASH FLOWS

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

See accompanying notes

1. DESCRIPTION OF BUSINESS

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

1.1 Subsidiaries

Nalcor holds interests in the following subsidiaries:

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

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

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

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

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

A 100% interest in Labrador-Island Link General Partner Corporation (LIL GP) and Labrador-Island Link Holding Corporation (LIL Holdco), created to control, manage and hold Nalcor's interest in the Labrador-Island Link Limited Partnership (LIL LP or the Partnership).

A 100% interest in Labrador-Island Link Operating Corporation (LIL Opco), created to operate and maintain the Labrador-Island Link (LIL).

A 100% interest in Lower Churchill Management Corporation (LCMC), created to carry out the project development and management functions for Phase 1 of the Lower Churchill Project (LCP) including planning, engineering and design management, construction management, risk management, finance, procurement and supply chain management.

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

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

1.2 Investment in Joint Arrangement

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

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

1.3 Structured Entities

Nalcor consolidates the results of structured entities in which it holds a financial interest and is the primary beneficiary. Nalcor has determined that it is the primary beneficiary of the LIL Construction Project Trust (the IT) and, as a result, has included the financial statements of the IT in these annual audited consolidated financial statements. Nalcor has determined that it is not the primary beneficiary of the Muskrat Falls/Labrador Transmission Assets (MF/LTA) Funding Trust or the Labrador-Island Link Funding Trust and therefore the operations of these trusts are not reflected in these annual audited consolidated financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of Compliance and Basis of Measurement

These annual audited consolidated financial statements (financial statements) have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB).

These financial statements have been prepared on a historical cost basis, except for financial instruments at fair value through profit or loss (FVTPL) and fair value through other comprehensive income (FVTOCI) which have been measured at fair value. The financial statements are presented in Canadian Dollars (CAD) and all values rounded to the nearest million, except when otherwise noted. The financial statements were approved by Nalcor's Board of Directors (the Board) on March 5, 2021.

2.2 Basis of Consolidation

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

2.3 Cash and Cash Equivalents and Short-term Investments

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

2.4 Restricted Cash

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

2.5 Inventories

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

2.6 Property, Plant and Equipment

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

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

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

Depreciation commences when the assets are ready for their intended use. Residual values and useful lives are reviewed at the end of each year and adjusted prospectively, if appropriate. Depreciation is calculated on a straight-line basis over the estimated useful lives for all lines of business except Hydro, where depreciation is calculated based on the average group methodology. As per Board Order P.U. 30 (2019), Hydro was approved to recover gains and losses through accumulated amortization and to record removal costs through depreciation. To comply with International Accounting Standard (IAS) 16, the adjustments related to the recovery of gains and losses through accumulated amortization and removal depreciation are presented as a regulatory adjustment in Note 13. The depreciation rates used are as follows:

Generation plant	
Hydroelectric	7 to 110 years
Thermal	20 to 70 years
Diesel	3 to 70 years
Transmission	
Lines	26 to 65 years
Terminal stations	7 to 70 years
Distribution system	20 to 60 years
Other assets	3 to 70 years

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

Transmission lines include the support structures, foundations and insulators associated with lines at voltages of 230, 138 and 69 kilovolt. Terminal station assets are used to step up voltages of electricity for transmission and to step down voltages for distribution. Distribution system assets include poles, transformers, insulators, and conductors.

Other assets include telecontrol, buildings, vehicles, furniture, tools and equipment.

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

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

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

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

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

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

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

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

Such reserves are considered commercially producible when Management has the intention of developing and producing them and such intention is based upon:

- a reasonable assessment of the future economics of such production;
- a reasonable expectation that there is a market for all (or substantially all) of the expected petroleum and natural gas production; and
- evidence that the necessary production, transshipment and transportation facilities are available or can be made available.

2.7 Intangible Assets
Intangible assets that are expected to generate future economic benefit and are measurable, including computer software costs, costs of technical services and feasibility studies are capitalized as intangible assets in accordance with IAS 38.

Intangible assets with finite useful lives are carried at cost less accumulated amortization and impairment losses. The estimated useful life and amortization method are reviewed at the end of each year, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives are carried at cost less accumulated impairment losses.

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

Computer software	5 to 10 years
Feasibility studies	5 to 22 years

2.8 Borrowing Costs

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

2.9 Impairment of Non-Financial Assets

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

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

2.10 Investments in Joint Arrangements

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

Nalcor holds interests in the Hebron, Hibernia South Extension and White Rose Extension projects. These projects are classified as joint operations as multiple parties hold joint control and stakeholders have rights to the project assets and obligations for its liabilities. Nalcor accounts for its oil and gas investments by recognizing its share of assets, liabilities and profit or loss in relation to its interest in the joint operation.

Nalcor accounts for its investment in Churchill Falls by recognizing its share of assets, liabilities and profit or loss in relation to its interest in the joint operation.

Nalcor's joint operation, Churchill Falls, holds 33.33% of the equity share capital of Twin Falls and is a party with other shareholders in a participation agreement which gives Churchill Falls joint control of Twin Falls. This investment is accounted for using the equity method. Under the equity method, the interest in the joint venture is carried in the Consolidated Statement of Financial Position at cost plus post acquisition changes in Churchill Falls' share of net assets of the joint venture. The Consolidated Statement of (Loss) Profit and Comprehensive (Loss) Income reflects the share of the profit or loss of the joint venture.

2.11 Employee Future Benefits

<u>Pension Plan</u>

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

Other Benefits

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

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

Actuarial gains and losses on Nalcor's defined benefit obligation are recognized in reserves in the period in which they occur. Past service costs are recognized in operating costs as incurred. Pursuant to Board Order No. P.U. 36 (2015), Nalcor recognizes the amortization of Hydro's employee future benefit actuarial gains and losses in the Consolidated Statement of (Loss) Profit and Comprehensive (Loss) Income as a regulatory adjustment.

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

2.12 Provisions

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

2.13 Decommissioning, Restoration and Environmental Liabilities

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

2.14 Revenue Recognition

Revenue from Contracts with Customers

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

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

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

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

Revenue from Crude Oil Sales

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

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

2.15 Leasing

Lessee Accounting

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

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

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

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

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

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

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

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

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

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

2.16 Foreign Currencies

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

2.17 Income Taxes

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

2.18 Financial Instruments

Classification and Initial Measurement

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

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

Financial Assets at Amortized Cost

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

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

Financial Assets at FVTOCI

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

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

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

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

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

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

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

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

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

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

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

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

Hedges
Nalcor may choose to designate derivative instruments as hedges and apply hedge accounting if there is an economic relationship between the hedged item and the hedging instrument; the effect of credit risk does not dominate the value changes that result from that economic relationship; and the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that Nalcor actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item. Nalcor formally documents all hedges and the related risk management objectives at the

inception of the hedge. Derivative instruments that have been designated and qualify for hedge accounting are classified as either cash flow or fair value hedges.

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

2.19 Government Grants

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

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

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

2.20 Regulatory Deferrals

Nalcor’s revenues from its electrical sales to most customers within the Province are subject to rate regulation by the PUB. Hydro's borrowing and capital expenditure programs are also subject to review and approval by the PUB. Rates are set through periodic general rate applications utilizing a cost of service methodology. Hydro’s allowed rate of return based upon Board Order No. P.U. 30 (2019) is 5.4% in 2020 and 5.4% in 2019. Hydro applies various accounting policies that differ from enterprises that do not operate in a rate regulated environment. Generally, these policies result in the deferral and amortization of costs or credits which are expected to be recovered or refunded in future rates. In the absence of rate regulation, these amounts would be included in the determination of profit or loss in the year the amounts are incurred. The effects of rate regulation on the financial statements are disclosed in Note 13.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the financial statements in conformity with IFRS requires Management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ materially from these estimates, including changes as a result of future decisions made by the PUB. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is reviewed if the revision affects only that period or future periods.

The World Health Organization declared the Coronavirus disease (COVID-19) outbreak a Public Health Emergency of International Concern on January 30, 2020 and a pandemic on March 11, 2020. In order to mitigate the spread of COVID-19 there have been global restrictions on travel, quarantines, self-isolation, social and physical distancing and forced closure of certain types of public places and non-essential businesses. These actions have caused and continue to cause significant disruption to operations, economic uncertainty and impact construction cost and schedule of the Muskrat Falls plant and LCP Transmission assets.

The COVID-19 pandemic has had a material impact on the financial results of the Company, in its Oil and Gas segment, due to a significant decrease in global demand for crude oil and a decrease in crude oil prices leading to asset impairments. COVID-19 is an evolving situation that will continue to have widespread implications for the Company's environment, operations and financial results. Management cannot reasonably estimate the duration and magnitude of the COVID-19 impact on the economy and future effect on the Company at this time.

3.1 Use of Judgments

(i) Asset Impairment and Reversals
Nalcor applies judgment in evaluating impairment and impairment reversal indicators based on various internal and external factors.

The recoverable amount of a CGU or asset is determined based on the higher of fair value less costs of disposal and its value in use. For example, with respect to petroleum and natural gas properties, Management uses factors including expected future oil prices and proved and probable reserves from third party specialists and discount rates to determine the recoverable amount, as well as judgments regarding the occurrence of future events. Changes in these factors will affect the recoverable amount of CGUs and assets, which may result in a material adjustment to their carrying value.

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

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

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

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

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

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

(vii) Consolidation
Management applies its judgment when determining whether to consolidate structured entities in accordance with the criteria outlined in IFRS 10 and when applying the criteria outlined in IFRS 11 to determine whether joint arrangements constitute joint ventures or joint operations.

(viii) Leases
Definition of a Lease
At inception of a contract, Nalcor assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, Nalcor assesses whether the contract involves the use of an identified asset, Nalcor has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use and Nalcor has the right to direct the use of the asset.

Lease Extension and Termination Options
In determining the lease term, Nalcor considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. The assessment is reviewed if a significant event or a significant change in circumstances occurs within its control. The assessment requires the consideration of facts and circumstances such as contractual terms and conditions for option periods, significant leasehold improvements undertaken, costs to terminate the lease, the importance of the asset to the lessee’s operations and past practice.

(ix) Regulatory adjustments
Regulatory assets and liabilities recorded in Hydro arise due to the rate setting process for regulated utilities governed by the PUB. The amounts relate to costs or credits which Management believes will be recovered or settled through customer rates in future periods, pursuant to the proceedings and outcomes of future PUB orders. Certain estimates are necessary since the regulatory environment often requires amounts to be recognized at estimated values until these amounts are finalized pursuant to regulatory decisions or other regulatory proceedings. The final amounts approved by the PUB for deferral as regulatory assets and liabilities and the approved recovery or settlement periods may differ from those originally expected. Any resulting adjustments to original estimates could have a material impact and are recognized in profit or loss in the period in which they become known.

3.2 Use of Estimates

(i) Property, Plant and Equipment
Amounts recorded for depreciation are based on the useful lives of Nalcor’s assets. The useful lives of property, plant and equipment are determined by independent specialists and reviewed annually by Nalcor. These useful lives are Management’s best estimate of the service lives of these assets. Changes to these lives could materially affect the amount of depreciation recorded.

(ii) Oil and Natural Gas Reserves
Oil and natural gas reserves are evaluated by independent reserve engineers. Reserve estimates are used in calculating depletion, impairment and decommissioning liabilities. Estimates of recoverable reserves are based upon variable factors and assumptions regarding historical production, production rates, ultimate reserve recovery, marketability of petroleum and natural gas, and timing and amount of future cash expenditures. Changes to these amounts could materially affect these calculations.

(iii) Partnership Unit Liabilities
Nalcor determines the fair value of the Class B limited partnership units at each financial reporting date. These units represent Emera Newfoundland and Labrador Island Link Inc.’s (Emera NL’s) ownership interest in LIL LP. Due to the nature of the liabilities and lack of comparable market data, the fair value of these units is determined using the present value of future cash flows. Significant assumptions used in the determination of fair value include estimates of the amount and timing of future cash flows and the discount rate.

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

(iv) Decommissioning Liabilities
Nalcor recognizes a liability for the fair value of the future expenditures required to settle obligations associated with the retirement of property, plant and equipment. Decommissioning liabilities are recorded as a liability at fair value, with a corresponding increase to property, plant and equipment. Accretion of decommissioning liabilities is included in the Consolidated Statement of (Loss) Profit and Comprehensive (Loss) Income through net finance expense. Differences between the recorded decommissioning liabilities and the actual decommissioning costs incurred are recorded as a gain or loss in the settlement period.

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

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

(vii) Leases Incremental Borrowing Rate
Nalcor uses its incremental borrowing rates in measuring its lease liabilities. The incremental borrowing rate is the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The determination of the incremental borrowing rate requires the consideration of different components, all of which are to incorporate a number of important lease characteristics.

4. CURRENT AND FUTURE CHANGES IN ACCOUNTING POLICIES

The following is a list of standards/interpretations that have been issued and are effective for accounting periods commencing on or after January 1, 2020, as specified.

- *IAS 1 – Presentation of Financial Statements*[1] *and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors*[1] *(Amendments to IAS 1 and IAS 8)*
- *IFRS 16 – Leases – COVID-19 Related Rent Concessions (Amendment to IFRS 16)*[2]
- *IAS 16 – Property, Plant and Equipment – Proceeds before Intended Use (Amendments to IAS 16)*[3]
- *IAS 37 – Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Costs of Fulfilling a Contract (Amendments to IAS 37)*[3]
- *IAS 1 – Presentation of Financial Statements – Classification of Liabilities as Current or Non-Current (Amendments to IAS 15)*[4]

[1] Effective for annual periods beginning on or after January 1, 2020.
[2] Effective for annual periods beginning on or after June 1, 2020.
[3] Effective for annual periods beginning on or after January 1, 2022, with earlier application permitted.
[4] Effective for annual periods beginning on or after January 1, 2023, with earlier application permitted.

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

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

4.2 IFRS 16 – Leases – COVID-19 Related Rent Concessions (Amendment to IFRS 16)

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

4.3 IAS 16 – Property, Plant and Equipment – Proceeds before Intended Use (Amendments to IAS 16)

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

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

4.4 IAS 37 – Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Costs of Fulfilling a Contract (Amendments to IAS 37)

The amendments to IAS 37 specify that the cost of fulfilling a contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract, such as direct labour and materials, or an allocation of other costs that relate directly to fulfilling contracts, such as the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract. These amendments apply to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the amendments and are currently not applicable to Nalcor, however, may apply to future transactions.

4.5 IAS 1 – Presentation of Financial Statements – Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)

The IASB issued amendments to IAS 1 to promote consistency in applying the requirements by helping companies determine whether, in the Statement of Financial Position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The classification is based on rights that are in existence at the end of the reporting period and specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability. The amendments are applied retrospectively upon adoption.

5. DISCONTINUED OPERATIONS

Effective January 1, 2020, the shares of Bull Arm Fabrication were distributed to the new Crown corporation, Oil and Gas Corporation of Newfoundland and Labrador for a nominal amount. As at December 31, 2019, Bull Arm Fabrication represented a discontinued operation.

6. CASH AND CASH EQUIVALENTS

As at December 31, 2020 and 2019, cash and cash equivalents consisted entirely of cash.

7. TRADE AND OTHER RECEIVABLES

As at December 31 (millions of Canadian dollars)		**2020**	2019
Trade receivables		**157**	171
Advances	(a)	**1**	25
Other receivables	(b)	**22**	58
Allowance for doubtful accounts		**(17)**	(14)
		163	240

(a) Advances relate to deposits paid to suppliers in relation to construction of the LCP.

(b) Other receivables are comprised primarily of harmonized sales tax (HST) as well as bank interest.

As at December 31 (millions of Canadian dollars)	**2020**	2019
0-60 days	**149**	223
60+ days	**14**	17
	163	240

As at December 31 (millions of Canadian dollars)	**2020**	2019
Allowance for doubtful accounts, beginning of the year	**(14)**	(17)
(Increase) decrease in allowance during the year	**(3)**	3
Allowance for doubtful accounts, end of the year	**(17)**	(14)

8. INVENTORIES

As at December 31 (millions of Canadian dollars)	**2020**	2019
Materials	**63**	60
Fuel	**54**	65
Crude oil	**3**	6
Other	**2**	3
	122	134

The amount of inventory recognized as an expense during the year was $162.1 million (2019 - $221.6 million) and is included in operating costs and fuels.

9. OTHER CURRENT ASSETS

As at December 31 (millions of Canadian dollars)	**2020**	2019
Prepayments	**27**	27
Derivative assets	**3**	4
	30	31

10. PROPERTY, PLANT AND EQUIPMENT

(millions of Canadian dollars)	Generation Plant	Transmission and Distribution	Petroleum and Natural Gas Properties	Other	Assets Under Development	Total
Cost						
Balance as at January 1, 2019	1,932	1,298	1,489	503	11,897	17,119
Additions	6	5	73	4	1,129	1,217
Disposals	(6)	(4)	-	(4)	(5)	(19)
Transfers	81	69	-	15	(166)	(1)
Decommissioning liabilities and revisions	-	-	13	-	-	13
Other adjustments	1	-	-	-	-	1
Balance as at December 31, 2019	2,014	1,368	1,575	518	12,855	18,330
Additions	**1**	**-**	**37**	**3**	**809**	**850**
Disposals	**(6)**	**(3)**	**(2)**	**(3)**	**(2)**	**(16)**
Transfers	**41**	**72**	**-**	**14**	**(127)**	**-**
Decommissioning liabilities and revisions	**1**	**-**	**18**	**-**	**-**	**19**
Other adjustments	**-**	**(1)**	**-**	**-**	**(4)**	**(5)**
Balance as at December 31, 2020	**2,051**	**1,436**	**1,628**	**532**	**13,531**	**19,178**
Depreciation, depletion and impairment						
Balance as at January 1, 2019	555	220	341	193	55	1,364
Depreciation and depletion	59	30	92	12	-	193
Disposals	(2)	(2)	-	(7)	-	(11)
Other adjustments	(6)	(6)	-	(2)	-	(14)
Balance as at December 31, 2019	606	242	433	196	55	1,532
Depreciation and depletion	**55**	**32**	**101**	**13**	**-**	**201**
Disposals	**(4)**	**(2)**	**(1)**	**(3)**	**-**	**(10)**
Impairment	**2**	**-**	**225**	**-**	**-**	**227**
Balance as at December 31, 2020	**659**	**272**	**758**	**206**	**55**	**1,950**
Carrying value						
Balance as at January 1, 2019	1,377	1,078	1,148	310	11,842	15,755
Balance as at December 31, 2019	1,408	1,126	1,142	322	12,800	16,798
Balance as at December 31, 2020	**1,392**	**1,164**	**870**	**326**	**13,476**	**17,228**

Capitalized interest for the year ended December 31, 2020 was $297.3 million (2019 - $290.9 million) related to assets under development.

On a quarterly basis, the Company assesses its CGUs for indicators of impairment or when events or changes in circumstances indicate the carrying amount may exceed its recoverable amount. As at March 31, 2020 the impact of the COVID-19 pandemic resulted in a significant decline in global demand for crude oil and in the same time-frame, an over-supply of crude oil resulted in a significant decrease in crude oil commodity prices, which was considered an indicator of impairment. The impairment assessments of the Company CGUs were completed based on value in use, estimating discounted future cash flows based on forecasted oil prices, proved and probable reserves and a discount rate derived from post-tax weighted average cost of capital, adjusted to reflect specific risks to the CGUs and resulted in $225 million of impairment recorded as of March 31, 2020. As at December 31, 2020, management determined that no further adjustments to provisions were required.

The forecasted crude oil prices as at March 31, 2020, used to determine future cash flows from oil reserves were:

	2020	2021	2022	2023	2024	Average Annual Change thereafter
Brent Price (USD/barrel)	30.00	40.00	50.00	51.00	52.02	2.00%

Fluctuations to the discount rate or forecasted oil prices over the life of the reserves would have had the following impact on the impairment as at March 31, 2020, of the White Rose Extension and Hibernia South Extension CGUs:

	Discount Rate		Forecasted Price Estimates	
(millions of Canadian dollars)	1% Decrease	1% Increase	5% Decrease	5% Increase
Total impairment – Increase (Decrease)	(10.7)	9.9	19.4	(23.4)

11. INTANGIBLE ASSETS

(millions of Canadian dollars)	Computer Software	Feasibility Studies	Assets Under Development	Total
Cost				
Balance as at January 1, 2019	40	2	8	50
Additions	-	-	6	6
Transfers	5	-	(4)	1
Balance as at December 31, 2019	45	2	10	57
Additions	**2**	-	**3**	**5**
Disposals	**(5)**	**(1)**	-	**(6)**
Transfers	**4**	-	**(4)**	-
Other adjustments	-	-	**4**	**4**
Balance as at December 31, 2020	**46**	**1**	**13**	**60**
Amortization and impairment				
Balance as at January 1, 2019	15	1	-	16
Amortization	5	-	-	5
Balance as at December 31, 2019	20	1	-	21
Amortization	**4**	**1**	-	**5**
Disposals	**(3)**	**(1)**	-	**(4)**
Balance as at December 31, 2020	**21**	**1**	-	**22**
Carrying value				
Balance as at January 1, 2019	25	1	8	34
Balance as at December 31, 2019	25	1	10	36
Balance as at December 31, 2020	**25**	-	**13**	**38**

12. INVESTMENTS

As at December 31 (millions of Canadian dollars)		**2020**	2019
Sinking funds	(a)	**219**	211
Reserve fund	(b)	**39**	25
Investments	(c)	**100**	100
Total investments		**358**	336
Less: amounts classified as short-term		**(105)**	(2)
		253	334

a) As at December 31, 2020, sinking funds include $182.6 million (2019 - $174.0 million) related to repayment of Hydro's long-term debt and $36.1 million (December 31, 2019 - $36.6 million) related to funding of Nalcor's long-term payable under the Upper Churchill Redress Agreement (UCRA).

Hydro debentures held in its own debt issue, are deducted from debt while all other sinking fund investments are shown separately on the Consolidated Statement of Financial Position as assets. Annual contributions to the various sinking funds are in accordance with bond indenture terms, and are structured to ensure the availability of adequate funds at the time of expected bond redemption. Effective yields range from 1.52% to 6.82% (2019 - 2.51% to 6.82%).

Sinking fund investments consist of bonds, debentures and coupons issued by, or guaranteed by, the Government of Canada, provincial governments, agencies guaranteed by the provinces or Schedule 1 banks, and have maturity dates ranging from 2021 to 2041.

LIL LP, Muskrat Falls and Labrador Transco are required to contribute to sinking funds as part of the federal loan guarantee on Tranche A, B and C debentures. Sinking fund payments due between December 2020 and the earlier of December 31, 2021 and commissioning have been deferred and will now be payable on a straight-line basis commencing after commissioning until the first corresponding tranche maturity date.

The movements within sinking funds in the year are outlined below:

As at December 31 (millions of Canadian dollars)	**2020**	2019
Sinking funds, beginning of the year	**211**	202
Contributions	**7**	7
Earnings	**13**	12
Disposals and maturities	**(2)**	(2)
Change in sinking fund investments in own debentures	**(10)**	(8)
Sinking funds, end of the year	**219**	211
Less: amounts classified as short-term	**(2)**	(2)
	217	209

Sinking fund contributions required over the next five years are as follows:

(millions of Canadian dollars)	2021	2022	2023	2024	2025
Sinking fund contributions	78	148	148	148	148

b) In 2007 Churchill Falls commenced the creation of a $75.0 million segregated reserve fund pursuant to the terms of the Shareholders' Agreement to contribute towards the funding of capital expenditures related to Churchill Falls' existing facilities and their replacement. The fund must remain in place until the end of the Shareholders' Agreement in 2041. The $75.0 million fund has been withdrawn in recent years and, as per the terms of the Shareholders' Agreement, these funds are required to be replaced over a five year period. Reserve fund holdings consist of securities issued by the Government of Canada, various provinces of Canada, agencies guaranteed by the provinces and Canadian banks rated A or better (Standard and Poor's).

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

As at December 31 (millions of Canadian dollars)	**2020**	2019
Reserve fund, beginning of the year	**25**	12
Principal contributions	**13**	12
Mark-to-market adjustment	**1**	1
Reserve fund, end of the year	**39**	25
Less: amounts classified as short-term	**(3)**	-
	36	25

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

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

c) Nalcor’s Redeemable Guaranteed Investment Certificate, with interest paid at a rate of 3.00% per annum is classified as a short-term investment, as it matures in 2021.

13. REGULATORY DEFERRALS

(millions of Canadian dollars)		January 1 2020	Reclass and Disposition	Regulatory Activity	**December 31 2020**	Remaining Recovery Settlement Period (years)
Regulatory asset deferrals						
Supply deferrals	(a)	35	(20)	44	**59**	n/a
Deferred energy conservation costs	(b)	9	-	(1)	**8**	n/a
Foreign exchange losses	(c)	48	-	(2)	**46**	21.0
Rate stabilization plan (RSP)	(d)	16	49	(25)	**40**	n/a
Retirement asset pool	(e)	11	-	2	**13**	n/a
Business system transformation program	(f)	3	-	1	**4**	n/a
Other	(i-v)	1	-	1	**2**	n/a
		123	29	20	**172**	
Regulatory liability deferrals						
Insurance amortization and proceeds	(g)	(3)	-	-	**(3)**	n/a
Removal provision	(h)	(8)	-	(4)	**(12)**	n/a
Other	(i-v)	(2)	1	(1)	**(2)**	n/a
		(13)	1	(5)	**(17)**	

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

Nalcor's regulatory deferrals which will be, or are expected to be, reflected in customer rates in future periods, have been established through the rate setting process. In the absence of rate regulation, these amounts would be reflected in operating results in the year and the loss for the year ended December 31, 2020 would have increased by $14.2 million (2019 decrease to profit of $36.0 million).

For the year ended December 31 (millions of Canadian dollars)	**2020**	2019
RSP amortization	**(32)**	4
RSP fuel deferral	**57**	34
RSP interest	**(2)**	2
Rural rate adjustment	**2**	1
Total RSP activity	**25**	41
Supply deferral recovery	**11**	3
Supply deferrals	**(55)**	(30)
Total supply deferrals	**(44)**	(27)
2019 revenue deficiency	-	(52)
Removal provision	**4**	4
Other	**1**	(2)
	(14)	(36)

(a) Supply Deferrals

Pursuant to Board Order No. P.U. 22 (2017), the Board approved the deferral of Energy Supply costs using three specific deferral accounts: the Energy Supply, Holyrood Conversion and Isolated Systems Supply cost deferrals. In 2020, Hydro recorded a net increase to the deferrals of $55.0 million (2019 - $29.6 million) with recovery determined through an annual application process. Board Order No. P.U. (2019) approved the recovery from customers of $18.4 million over a 20 month period; of which, in 2020 Hydro recovered $10.9 million (2019 - $2.7 million). In Board Order No. P.U. 13 (2020), the Board approved the recovery of the 2019 supply cost deferral of $19.8 million from the RSP.

(b) Deferred Energy Conservation Costs

In 2020, Hydro deferred $0.6 million (2019 - $1.5 million) in Energy Conservation Costs associated with an electrical conservation demand management program for residential, industrial, and commercial sectors. As per Board Order No. P.U. 22 (2017), Hydro recovered $1.5 million (2019 – $1.4 million) of the balance through a rate rider.

(c) Foreign Exchange Losses

In 2002, the PUB ordered Hydro to defer realized foreign exchange losses related to the issuance of Swiss Franc and Japanese Yen denominated debt and amortize the balance over a 40 year period. Accordingly, these costs were recognized as a regulatory asset. During 2020, amortization expense of $2.2 million (2019 - $2.2 million) was recorded.

(d) RSP

In 1986, the PUB ordered Hydro to implement the RSP which primarily provides for the deferral of fuel expense variances resulting from changes in fuel prices, hydrology, load and associated interest. Adjustments required in utility rates to cover the amortization of the balance are implemented on July 1 of each year. Similar adjustments required in industrial rates are implemented on January 1 of each year.

Hydro recorded a net increase in the RSP balance in 2020 of $23.7 million (2019 - decrease of $89.9 million) resulting in a balance from customers of $39.9 million (2019 - $16.2 million). The increase in the RSP asset is primarily due to Board Order P.U. 16 (2020) which approved a one-time bill credit resulting in a net increase to the RSP of $30.8 million; Board Order P.U. 13 (2020) which approved the recovery of the 2019 supply cost deferrals of $19.8 million resulting in an increase to the RSP; partially offset by normal operation of the RSP which resulted in a net decrease to the RSP of $25.4 million (2019 - $40.7 million) and Board Order P.U. 29 (2019) which approved the refund of the firm energy savings deferral resulting in a decrease of $1.5 million from the RSP.

(e) Retirement Asset Pool

As per Board Order No. P.U. 30 (2019), the Board approved Hydro's proposed depreciation methodology which includes the deferral of gains and losses on retirement of assets. The deferral will be recovered through future depreciation expense. The depreciation methodology and corresponding retirement asset pool was approved effective January 1, 2018. In 2020, Hydro deferred \$2.1 million (2019 - \$1.9 million) of retirement asset activity resulting in a total balance of \$13.2 million.

(f) Business System Transformation Program

As per Board Order No.'s P.U. 23 (2019) and P.U. 30 (2019), the Board approved the deferral of business system transformation program costs commencing in 2018. The recovery of the deferral is subject to a future Board order. During the year, Hydro deferred \$1.1 million (2019 – \$2.5 million).

(g) Insurance Amortization and Proceeds

Pursuant to Board Order No. P.U. 13 (2012), Hydro records net insurance proceeds against the capital costs and amortizes the balance over the life of the asset. Under IFRS, Hydro is required to recognize the insurance proceeds and corresponding amortization in regulatory liabilities. During 2020, Hydro recorded a decrease to regulatory liabilities resulting from amortization of \$nil (2019 - \$0.6 million) related to the assets.

(h) Removal Provision

As per Board Order No. P.U. 30 (2019), the Board approved Hydro's proposed depreciation methodology which includes the provision for removal costs. The depreciation methodology and corresponding removal provision was approved effective January 1, 2018. Hydro recorded a net increase to the provision relating to 2020 activity of \$4.1 million (2019 - \$4.1 million) resulting in a total balance of \$12.0 million.

(i) Hearing Costs

As per Board Order No. P.U. 30 (2019), the Board approved the deferral of \$1.7 million in hearing costs relating to the 2017 General Rate Application hearing and the Cost of Service hearing to be amortized over a three year period commencing 2018. In 2020, Hydro recorded amortization of \$0.6 million (2019 - \$1.1 million) resulting in a net balance of \$nil.

(j) 2018 Revenue Deficiency

In Board Order P.U. 30 (2019), the Board approved the 2018 Revenue Deficiency of \$0.8 million. The Revenue Deficiency consists of \$2.3 million which was approved to be recovered through a transfer to the RSP and a refund to customers of \$1.5 million. A refund of \$0.6 million was paid to industrial customers in 2019 with the remaining balance of \$0.9 million refunded to the Labrador Rural Interconnected customers in 2020.

(k) 2019 Revenue Deficiency

In Board Order P.U. 30 (2019), the Board approved the 2019 Revenue Deficiency of \$51.8 million. The Revenue Deficiency consists of \$52.6 million which was approved to be recovered through a transfer to the RSP, \$0.1 million to be recovered over a 20 month period and a refund to customers of \$0.9 million. A refund of \$0.3 million was paid to Industrial customers in 2019 which resulted in a December 31, 2019 balance in the 2019 Revenue Deficiency of \$0.6 million. The remaining refund of \$0.6 million to the Labrador Rural Interconnected customers was paid in 2020.

(l) Deferred Lease Costs

In Board Order No's. P.U. 17 (2016), P.U. 23 (2016) and No. P.U. 49 (2016) the Board approved amortization of lease costs associated with mobile diesel units at Holyrood Thermal Generating Station (HTGS) over a period of five years. In 2020, Hydro recorded amortization of \$0.3 million (2019 - \$1.3 million) of the deferred lease costs.

(m) Deferred Foreign Exchange on Fuel

Hydro purchases fuel for HTGS in United States Dollars (USD). The RSP allows Hydro to defer variances in fuel prices (including foreign exchange fluctuations). During 2020, Hydro recognized a reduction to regulatory assets for foreign exchange gains on fuel purchases of \$0.2 million (2019 - \$1.0 million).

(n) Phase Two Hearing Costs

Pursuant to Board Order No. P.U. 13 (2016), Hydro received approval to defer consulting fees and salary related costs relating to Phase Two of the investigation into the reliability and adequacy of power on the Island Interconnected system after the interconnection with the Muskrat Falls generating station. As a result, Hydro recorded a net increase to regulatory assets of $nil (2019 - $0.2 million) for a total deferred balance of $1.4 million (2019 - $1.4 million).

(o) Asset Disposal

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

(p) Firm Energy Purchase

Pursuant to Board Order No. P.U. 3 (2020), the Board approved the deferral of savings associated with firm energy power purchases. Hydro recorded a regulatory liability of $1.5 million in 2019. In 2020, pursuant to Board Order No. 29 (2020), the balance of $1.5 million was refunded through the RSP.

(q) Hydraulic Resources Optimization Deferral Account

In Board Order P.U. 49 (2018), a deferral account to capture the revenues and costs associated with the hydraulic optimization activities was approved. For the year ended December 31, 2020, the balance of hydraulic optimization activities is a net gain of $1.0 million (2019 - $0.3 million) recorded as a deferred liability.

(r) Deferred Purchased Power Savings

In 1997, the PUB ordered Hydro to defer $1.1 million related to reduced purchased power rates resulting from the interconnection of communities in the area of L'Anse au Clair to Red Bay to the Hydro-Québec system and amortize the balance over a 30 year period. The remaining unamortized savings in the amount of $0.2 million (2019 - $0.3 million) are deferred as a regulatory liability.

(s) Non-Customer Contributions in Aid of Construction

Pursuant to Board Order No. P.U. 1 (2017), Hydro recognized amortization of deferred contributions in aid of construction (CIAC) from entities which are not customers in profit or loss. During 2020, Hydro recorded $0.9 million (2019 - $0.7 million) non-customer CIAC amortization as a regulatory adjustment. In the absence of rate regulation, IFRS requires non-customer CIACs to be recorded as contributed capital with no corresponding amortization. As a result, during 2020 Hydro also recorded an increase of $0.9 million (2019 - $0.7 million) to contributed capital to recognize the amount that was reclassified to profit or loss.

(t) Employee Future Benefits Actuarial Loss

Pursuant to Board Order No. P.U. 36 (2015), Hydro has recognized the amortization of employee future benefit actuarial gains and losses in net income. During 2020 Hydro recorded $0.1 million (2019 - $nil) employee future benefits losses as a regulatory adjustment. In the absence of rate regulation, IFRS would require Hydro to include employee future benefits actuarial gains and losses in other comprehensive income. As a result, during 2020 Hydro also recorded a decrease of $0.1 million (2019 - $nil) to other comprehensive income to recognize the amount that was reclassified to profit or loss.

(u) Reliability and Resource Adequacy Study

Pursuant to Board Order No. P.U. 29 (2019), the Board approved the deferral of costs associated with the Reliability and Resource Adequacy proceeding. Hydro deferred $0.6 million in 2020 (2019 - $0.2 million). The recovery of the balance is to be determined in a future Board Order.

(v) Frequency Converter Revenue Deferral Account

In Board Order P.U. 35 (2020), the Board approved the deferral of the cumulative revenue requirement impact associated with the loss on the sale of a frequency converter, commencing December, 2019. The disposition of the cumulative revenue requirement impact included in the deferral account balance will be addressed as part of Hydro's next general rate application. During 2020, Hydro deferred $0.2 million as a regulatory liability (2019 - $nil).

14. TRADE AND OTHER PAYABLES

As at December 31 (millions of Canadian dollars)	**2020**	2019
Trade payables and accruals	**291**	305
Accrued interest payable	**76**	76
Rent and royalty payable	**4**	5
Other payables	**38**	49
	409	435

15. DEBT

15.1 Short-term Borrowings

Nalcor maintains a $250.0 million CAD or USD equivalent committed revolving term credit facility with its banker, with a maturity date of January 31, 2022. There were no amounts drawn on this facility as at December 31, 2020 (2019 - $nil), however $7.8 million of the borrowing limit has been used to issue 10 irrevocable letters of credit (2019 - $8.0 million to issue 11 irrevocable letters of credit) which relate to power purchases and sale contracts with various independent system operators, transmission providers and bilateral counterparties. Borrowings in CAD may take the form of Prime Rate Advances, Bankers' Acceptances (BAs) and letters of credit. Borrowings in USD may take the form of Base Rate Advances, London Interbank Offer Rate (LIBOR) Advances and letters of credit. The facility also provides coverage for overdrafts on Nalcor's bank accounts, with interest calculated at the Prime Rate.

Hydro maintains a $200.0 million CAD or USD equivalent committed revolving term credit facility with a maturity date of July 27, 2021. As at December 31, 2020, there were no amounts drawn on the facility (2019 - $nil). Borrowings in CAD may take the form of Prime Rate Advances, BAs and letters of credit, with interest calculated at the Prime Rate or prevailing Government BA fee. Borrowings in USD may take the form of Base Rate Advances and letters of credit. The facility also provides coverage for overdrafts on Hydro's bank accounts, with interest calculated at the Prime Rate.

On April 17, 2020, Hydro obtained additional credit through establishment of a committed credit facility with its banker in the amount of $300.0 million with a maturity date of April 17, 2021. As at December 31, 2020, there were no amounts drawn on this facility. Borrowings in CAD may take the form of BAs and, in certain circumstances, Prime Rate advances. The facility also provides coverage for overdrafts on Hydro's bank accounts, with interest calculated at the Prime Rate.

Hydro utilized its $300.0 million government guaranteed promissory note program to fulfil its short-term funding requirements. As at December 31, 2020, there were three promissory notes outstanding for a total of $262.0 million with a maturity date of January 4, 2021 bearing an average interest rate of 0.17% (2019 - $233.0 million bearing an interest rate of 1.82%). Upon maturity, the promissory notes were reissued.

Legislation stipulates that the total of the Government guaranteed short-term loans issued by Hydro and outstanding at any time shall not exceed a limit as fixed by the Lieutenant-Governor in Council. Short-term loans are those loans issued with a term not exceeding two years. On February 20, 2020, the Lieutenant-Governor in Council issued Order in Council OC2020-18 to increase the level of short-term borrowings permitted by Hydro from $300 million to $500 million, effective until March 31, 2022. As a result, the current limit is now $500.0 million and $262.0 million is outstanding as at December 31, 2020 (2019 - $233.0 million). The Hydro Corporation Act, 2007 (the Act) limits Hydro's total borrowings outstanding at any point in time, which includes both short-term borrowings and long-term debt. Bill 33 passed on March 26, 2020 increased Hydro's total borrowing limit under the Act from $2.1 billion to $2.6 billion.

Churchill Falls maintains a $10.0 million CAD or USD equivalent unsecured demand operating credit facility with its banker.

Borrowings may take the form of Prime Rate Advances, or the issuance of a BA with interest calculated at the Prime Rate or prevailing Government BA Fee. The facility provides coverage for overdrafts on Churchill Falls' bank accounts, with interest calculated at the Prime Rate. There were no amounts drawn on this facility as at December 31, 2020 (2019 - $nil).

Churchill Falls has issued three irrevocable letters of credit totaling $2.0 million (2019 - $2.0 million to issue three irrevocable letters of credit), $1.0 million of which does not impact the borrowing limit of the operating facility (2019 - $1.0 million). The letters of credit ensure satisfactory management of its waste management system and compliance with a certificate of approval for the transportation of special and hazardous wastes, granted by the Provincial Department of Environment and Conservation.

Oil and Gas maintains a $30.0 million CAD or USD equivalent unsecured demand operating facility with its banker and as at December 31, 2020, there were no amounts drawn on this facility (2019 - $nil). Borrowings in CAD may take the form of Prime Rate Advances and letters of credit. Borrowings in USD may take the form of Base Rate Advances and letters of credit. $22.2 million of the borrowing limit has been used to issue two irrevocable letters of credit (2019 - $22.2 million to issue two irrevocable letters of credit) to ensure compliance with service agreements and regulations relating to petroleum and natural gas exploration and production activities.

Energy Marketing maintains a $20.0 million CAD or USD equivalent demand operating credit facility with its banker, and as at December 31, 2020, there were no amounts drawn on this facility (2019 - $nil). This facility has an unconditional and irrevocable guarantee from Nalcor. Borrowings in CAD may take the form of Prime Rate Advances, BAs and letters of credit. Borrowings in USD may take the form of Base Rate Advances, London Interbank Offer Rate (LIBOR) Advances and letters of credit. $1.7 million of the borrowing limit has been used to issue three irrevocable letters of credit (2019 - $1.9 million to issue three irrevocable letters of credit) to various independent system operators, transmission providers, and bilateral counterparties in relation to power purchase and sale contracts. These letters of credit have automatic renewal clauses, unless cancelled with appropriate notice by the issuer or beneficiary.

As at December 31, 2020, Nalcor, on behalf of Energy Marketing, has issued unconditional guarantees in the amount of $15.0 million (2019 - $15.0 million) in order to guarantee amounts under power purchase and sale contracts with bilateral counterparties.

15.2 Long-term Debt

As at December 31 (millions of Canadian dollars)	Face Value	Coupon Rate %	Year of Issue	Year of Maturity	**2020**	2019
Hydro						
Y*	300	8.40	1996	2026	**297**	296
AB*	300	6.65	2001	2031	**304**	305
AD*	125	5.70	2003	2033	**124**	124
AF	500	3.60	2014/2017	2045	**481**	481
1A	600	3.70	2017/2018	2048	**639**	640
LIL LP						
Tranche A*	725	3.76	2013	2033	**725**	725
Tranche B*	600	3.86	2013	2045	**600**	600
Tranche C*	1,075	3.85	2013	2053	**1,075**	1,075
Tranche 1-10	95	1.14-1.75	2017	2020-2025	**95**	105
Tranche 11-20	105	1.84-2.37	2017	2025-2030	**105**	105
Tranche 21-30	105	2.41-2.64	2017	2030-2035	**105**	105
Tranche 31-40	105	2.66-2.80	2017	2035-2040	**105**	105
Tranche 41-50	105	2.81-2.86	2017	2040-2045	**105**	105
Tranche 51-60	105	2.84-2.86	2017	2045-2050	**105**	105
Tranche 61-70	105	2.85	2017	2050-2055	**105**	105
Tranche 71-74	315	2.85	2017	2055-2057	**316**	316
Labrador Transco/Muskrat Falls						
Tranche A*	650	3.63	2013	2029	**650**	650
Tranche B*	675	3.83	2013	2037	**675**	675
Tranche C*	1,275	3.86	2013	2048	**1,275**	1,275
Tranche 1-10	185	1.14-1.75	2017	2020-2025	**185**	205
Tranche 11-20	224	1.84-2.37	2017	2025-2030	**224**	224
Tranche 21-30	253	2.41-2.64	2017	2030-2035	**253**	253
Tranche 31-40	288	2.66-2.80	2017	2035-2040	**289**	289
Tranche 41-50	331	2.81-2.86	2017	2040-2045	**331**	331
Tranche 51-60	381	2.84-2.86	2017	2045-2050	**382**	382
Tranche 61-64	168	2.85	2017	2050-2052	**168**	168
Total	9,695				**9,718**	9,749
Less: Sinking fund investments in own debentures					**(73)**	(63)
					9,645	9,686
Less: repayment of debt due within one year					**(68)**	(37)
					9,577	9,649

*Sinking funds are required to be established for these issues.

Hydro's promissory notes and debentures are unsecured and unconditionally guaranteed as to principal and interest and, where applicable, sinking fund payments, by the Province, with exception of Series 1A. LIL LP, Labrador Transco and Muskrat Falls financing benefits from a direct, absolute, unconditional and irrevocable guarantee from the Government of Canada.

On December 18, 2020, Hydro received approval from the Board of Public Utilities to issue debt with a face value of up to $300.0 million (Board Order No. P.U. 40 (2020)) on or before April 30, 2021.

16. CLASS B LIMITED PARTNERSHIP UNITS

Debt and equity instruments issued by LIL LP are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

The Class B limited partnership units represent Emera NL's ownership interest in the Partnership. As described in the Partnership Agreement, these units have certain rights and obligations, including mandatory distributions, that indicate that the substance of the units represent a financial liability and are measured at amortized cost using the effective interest rate method. The return on the units is classified as a finance expense. All finance expenses associated with the units have been capitalized.

As at December 31 (millions of Canadian dollars)	**Units**	**2020**	Units	2019
Class B limited partnership units, beginning of the year	**25**	**578**	25	533
Accrued interest	**-**	**50**	-	45
Class B limited partnership units, end of the year	**25**	**628**	25	578

17. DEFERRED CREDITS

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

As at December 31, 2020 (millions of Canadian dollars)	Deferred Energy Sales	Deferred Lease Revenue	Other	Total
Deferred credits, beginning of the year	1,776	35	2	1,813
Additions	6	1	-	7
Amortization	-	1	(1)	-
Deferred credits, end of the year	1,782	37	1	1,820
Less: current portion	-	-	(1)	(1)
	1,782	37	-	1,819

Nalcor has recorded deferred energy sales of $1,782.2 million (2019 - $1,776.1 million) which equals the construction costs to date incurred by Emera Inc. related to the Maritime Link. Nalcor has determined that it controls the Maritime Link asset for financial reporting purposes, and as such, has recorded the costs as construction in progress within property, plant and equipment.

18. DECOMMISSIONING LIABILITIES

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

The reconciliation of the beginning and ending carrying amounts of decommissioning liabilities as at December 31, 2020 and 2019 are as follows:

As at December 31 (millions of Canadian dollars)	**2020**	2019
Decommissioning liabilities, beginning of the year	**102**	86
Accretion	**4**	3
Revisions	**18**	13
Decommissioning liabilities, end of the year	**124**	102

The total estimated undiscounted cash flows required to settle the HTGS obligations at December 31, 2020 are $15.2 million (2019 - $15.2 million). Payments to settle the liability are expected to occur between 2021 and 2025. The fair value of the decommissioning liabilities was determined using the present value of future cash flows discounted at a rate of 0.5% (2019 - 2.0%).

Oil and Gas' decommissioning liabilities result from net ownership interests in petroleum and natural gas properties and related well sites. The total undiscounted estimated cash flows required to settle the obligations, including a rate of inflation of 2%, at December 31, 2020 are $165.5 million (2019 - $162.5 million). Payments to settle the liabilities are expected to occur between 2032 and 2039. The fair value of the decommissioning liabilities was determined using the present value of future cash flows discounted at rates ranging from 2.5% to 3.0% (2019 – 3.5% to 3.9%).

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

19. EMPLOYEE FUTURE BENEFITS

19.1 Pension Plan

Employees participate in the Province's Public Service Pension Plan, a multi-employer defined benefit plan. The employer's contributions for the year ended December 31, 2020 of $13.0 million (2019 - $13.6 million) are expensed as incurred.

19.2 Other Benefits

Nalcor provides group life insurance and health care benefits on a cost shared basis to retired employees, and in certain cases, their surviving spouses, in addition to a retirement allowance. In 2020, cash payments to beneficiaries for its unfunded other employee future benefits were $4.4 million (2019 - $4.1 million). An actuarial valuation was performed as at December 31, 2020.

As at December 31 (millions of Canadian dollars)	**2020**	2019
Accrued benefit obligation, beginning of the year	**144**	123
Current service cost	**7**	6
Past service cost including curtailment	-	3
Interest cost	**4**	5
Defined benefit obligation extinguished on settlement	-	(1)
Benefits paid	**(4)**	(4)
Actuarial loss	**2**	12
Accrued benefit obligation, end of the year	**153**	144

For the year ended December 31 (millions of Canadian dollars)	**2020**	2019
Component of benefit cost		
Current service cost	**7**	6
Past service cost including curtailment	-	3
Interest cost	**4**	5
Total benefit expense for the year	**11**	14

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

	2020	2019
Discount rate - benefit cost	**3.20%**	3.90%
Discount rate - accrued benefit obligation	**2.70%**	3.20%
Rate of compensation increase	**3.50%**	3.50%

Assumed healthcare trend rates:

	2020	2019
Initial health care expense trend rate	**5.64%**	5.85%
Cost trend decline to	**3.60%**	3.60%

Current rate 5.64%, reducing linearly to 3.6% in 2040 and thereafter.

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

Increase (millions of Canadian dollars)	2020	2019
Current service and interest cost	**2.5**	2.4
Accrued benefit obligation	**26.3**	24.3

Decrease (millions of Canadian dollars)	2020	2019
Current service and interest cost	**(1.8)**	(1.7)
Accrued benefit obligation	**(19.9)**	(18.4)

20. OTHER LONG-TERM LIABILITIES

As at December 31 (millions of Canadian dollars)		2020	2019
Long-term payables	(a)	**39**	41
Deferred contributions	(b)	**26**	24
Non-current lease liabilities	(c)	**5**	5
		70	70

(a) Long-term payables:

As at December 31 (millions of Canadian dollars)	2020	2019
Long-term payables, beginning of the year	**49**	54
Payments	**(10)**	(8)
Additions and revisions	**6**	1
Accretion	**2**	2
Long-term payables, end of the year	**47**	49
Less: current portion	**(8)**	(8)
	39	41

As at December 31, 2020, long-term payables consist of a payable to the Innu Nation under the UCRA and a payable to the NunatuKavut Community Council under the Community Development Agreement. Under the UCRA, Nalcor is required to pay to the Innu Nation $2.0 million annually, escalating by 2.5% annually until 2041. At December 31, 2020, $2.5 million (2019 - $2.5 million) of the amount is current and is recorded in trade and other payables. Nalcor has sinking funds in the amount of $36.1 million (2019 - $36.6 million) to fund these future obligations. The present value of the remaining payments using a discount rate of 2.4% (2019 - 3.3%) is $37.8 million (2019 - $31.5 million).

(b) Deferred contributions:

As at December 31 (millions of Canadian dollars)	2020	2019
Deferred contributions, beginning of the year	**26**	28
Additions	**3**	(1)
Amortization	**(2)**	(1)
Deferred contributions, end of the year	**27**	26
Less: current portion	**(1)**	(2)
	26	24

Nalcor has received contributions in aid of construction of property, plant and equipment. These contributions are deferred and amortized to other revenue over the life of the related property, plant and equipment asset.

(c) Non-current lease liabilities:

As at December 31 (millions of Canadian dollars)	**2020**	2019
Maturity analysis - contractual undiscounted cash flows		
Less than one year	-	2
One to five years	**1**	1
More than five years	**13**	13
Total undiscounted lease liabilities	**14**	16
Lease liabilities included in the Consolidated Statement of Financial Position		
Current lease liabilities	-	1
Non-current lease liabilities	**5**	5
Total lease liabilities	**5**	6

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

For the year ended December 31 (millions of Canadian dollars)		**2020**	2019
Expenses relating to short-term leases		-	2
Variable lease payments not included in the measurement of leases	(i)	**28**	28

(i) Variable lease payments not included in the measurement of leases include payments made to the Province for power generated from assets which are owned by the Province. These variable lease payments are included in power purchased in the Consolidated Statement of (Loss) Profit and Comprehensive (Loss) Income.

The total cash outflow for leases amount to $30.0 million for the year ended December 31, 2020 (2019 - $32.0 million).

21. SHAREHOLDER'S EQUITY

21.1 Share Capital

As at December 31 (millions of Canadian dollars)	**2020**	2019
Common shares of par value $1 each		
Authorized - unlimited		
Issued and outstanding - 122,500,000	**123**	123

22. CAPITAL MANAGEMENT

Nalcor's principal business requires ongoing access to capital in order to maintain assets and ensure the continuity of its operations as a going concern. Nalcor also requires access to capital to fund its various development activities relating to the LCP. Therefore, Nalcor's primary objective when managing capital is to ensure ready access to capital at a reasonable cost, to minimize its cost of capital within the confines of established risk parameters, and to safeguard Nalcor's ability to continue as a going concern.

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

A summary of the consolidated capital structure is outlined below:

As at December 31 (millions of Canadian dollars)	**2020**		2019	
Debt				
Sinking funds (Hydro portion only)	**(183)**		(174)	
Short-term borrowings	**262**		233	
Current portion of long-term debt	**68**		37	
Long-term debt	**9,577**		9,649	
Class B limited partnership units	**628**		578	
Lease liabilities	**5**		6	
	10,357	**63%**	10,329	62%
Equity				
Share capital	**123**		123	
Shareholder contributions	**4,609**		4,608	
Reserves	**(98)**		(101)	
Retained earnings	**1,535**		1,625	
	6,169	**37%**	6,255	38%
Total Debt and Equity	**16,526**	**100%**	16,584	100%

Nalcor's committed operating facility has covenants restricting the issuance of debt such that the unconsolidated debt to total capitalization ratio cannot exceed 70.0%. The covenants further stipulate that the debt service coverage ratio should at all times be greater than 1.5 on an unconsolidated basis. As at December 31, 2020 and 2019, Nalcor was in compliance with these covenants.

22.1 Hydro

Hydro's principal business requires ongoing access to capital in order to maintain assets to ensure the continued delivery of safe and reliable service to its customers. Therefore, Hydro's primary objective when managing capital is to ensure ready access to capital at a reasonable cost, to minimize its cost of capital within the confines of established risk parameters, and to safeguard Hydro's ability to continue as a going concern.

The capital managed by Hydro is comprised of debt (long-term debentures, short-term borrowings, bank credit facilities and bank indebtedness) and equity (share capital, shareholder contributions, reserves and retained earnings).

Hydro's approach to capital management encompasses various factors including monitoring the percentage of floating rate debt in the total debt portfolio, the weighted average term to maturity of its overall debt portfolio, its percentage of debt to debt plus equity, and its interest coverage.

For the regulated portion of Hydro's operations, Management targets a capital structure comprised of 75% debt and 25% equity, a ratio which Management believes to be optimal with respect to its cost of capital. This capital structure is maintained by a combination of dividend policy, shareholder contributions and debt issuance. The issuance of any new debt with a term greater than one year requires prior approval of the PUB. Hydro's committed operating facility has a covenant requiring Hydro to ensure that its consolidated debt to total capitalization ratio does not exceed 85%. As at December 31, 2020 and 2019, Hydro was in compliance with this covenant.

Legislation stipulates that the total of the Government guaranteed short-term loans issued by Hydro and outstanding at any time shall not exceed a limit as fixed by the Lieutenant-Governor in Council. Short-term loans are those loans issued with a term not exceeding two years. On February 20, 2020, the Lieutenant-Governor in Council issued Order in Council OC2020-18 to increase the level of short-term borrowings permitted by Hydro from $300 million to $500 million, effective until March 31, 2022. As a result, the current limit is now $500.0 million and $262.0 million is outstanding as at December 31, 2020 (2019 - $233.0 million). The Act limits Hydro's total borrowings outstanding at any point in time, which includes both short-term borrowings and long-term debt. Bill 33 passed on March 26, 2020 increased Hydro's total borrowing limit under the Act from $2.1 billion to $2.6 billion.

Historically, Hydro Regulated addressed longer-term capital funding requirements by issuing government guaranteed long-term debt in the domestic capital markets. However, in December 2017, Hydro Regulated's process changed; the Province now issues debt in the domestic capital markets, on Hydro Regulated's behalf, and in turn loans the funds to Hydro Regulated on a cost recovery basis. Any additional funding to address long-term capital funding requirements, will require approval from the Province and the PUB.

22.2 Oil and Gas

Oil and Gas' objective when managing capital is to maintain the ability to fund operating costs and expenditures related to development and production assets, on a timely basis. Oil and Gas maintains an unsecured demand credit facility, which is used to finance operations in the short-term. Long-term capital includes share capital, shareholder contributions and retained earnings. Additional requirements will be funded through Oil and Gas' credit facility.

22.3 Energy Marketing

Energy Marketing's objective when managing capital is to maintain its ability to continue as a going concern. Energy Marketing's capital consists of shareholder's equity, specifically, share capital, and retained earnings. Capital resource requirements are limited to working capital needs, which are funded through cash from operations, support from its parent, and a $20.0 million demand operating facility with its primary banker.

22.4 Churchill Falls

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

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

22.5 Muskrat Falls

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

22.6 LCP Transmission

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

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

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

The capital structure of LIL Opco and LIL GP includes share capital and shareholder contributions. LIL Opco's and LIL GP's objectives when managing capital are to maintain its ability to continue as a going concern and ensure timely payment of its contractual obligations as it relates to the operations and maintenance of the LIL.

23. ENERGY SALES

For the year ended December 31 (millions of Canadian dollars)	**2020**	2019
Electricity sales	**697**	752
Petroleum and natural gas sales	**243**	303
Royalty expense	**(27)**	(39)
Total energy sales	**913**	1,016

24. OPERATING COSTS

For the year ended December 31 (millions of Canadian dollars)	**2020**	2019
Salaries and benefits	**142**	144
Maintenance and materials	**31**	36
Professional services	**19**	25
Insurance	**7**	6
Travel and transportation	**5**	8
Other operating costs	**7**	7
	211	226

25. PRODUCTION, MARKETING AND TRANSPORTATION COSTS

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

For the year ended December 31 (millions of Canadian dollars)	**2020**	2019
Project operating costs	**26**	25
Processing and marketing	**6**	5
Transportation and transshipment	**7**	6
	39	36

26. NET FINANCE EXPENSE

For the year ended December 31 (millions of Canadian dollars)	**2020**	2019
Finance income		
Interest on investments	**17**	16
Interest on restricted cash	**12**	29
Other interest income	**3**	7
	32	52
Finance expense		
Interest on long-term debt	**357**	357
Interest on Class B limited partnership units	**50**	45
Debt guarantee fee	**23**	23
Other	**8**	10
	438	435
Interest capitalized during construction	**(297)**	(291)
	141	144
Net finance expense	**109**	92

27. OTHER (INCOME) EXPENSE

For the year ended December 31 (millions of Canadian dollars)	**2020**	2019
Settlement of commodity price swap contracts	**(49)**	2
Other	**12**	16
Other (income) expense	**(37)**	18

28. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

28.1 Fair Value

The estimated fair values of financial instruments as at December 31, 2020 and 2019 are based on relevant market prices and information available at the time. Fair value estimates are based on valuation techniques which are significantly affected by the assumptions used including the amount and timing of future cash flows and discount rates reflecting various degrees of risk. As such, the fair value estimates below are not necessarily indicative of the amounts that Nalcor might receive or incur in actual market transactions.

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

Establishing Fair Value

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

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

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

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

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value. For assets and liabilities that are recognized at fair value on a recurring basis, Nalcor determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. There were no transfers between Level 1, 2 and 3 during the year ended December 31, 2020 and 2019.

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
As at (millions of Canadian dollars)		**December 31, 2020**		December 31, 2019	
Financial assets					
Derivative assets	2	3	3	4	4
Sinking funds - investments in Hydro debt issue	2	73	88	63	75
Sinking funds - other investments	2	219	279	211	253
Reserve fund	2	39	39	25	25
Other investments	2	100	101	100	100
Financial liabilities					
Derivative liabilities	2	9	9	9	9
Long-term debt including amount due within one year (before sinking funds)	2	9,718	12,543	9,749	11,576
Class B limited partnership units	3	628	628	578	578
Long-term payables	2	39	41	41	37

The fair value of cash and cash equivalents, restricted cash, short-term investments, trade and other receivables, short-term borrowings and trade and other payables approximates their carrying values due to their short-term maturity.

The fair values of Level 2 financial instruments are determined using quoted prices in active markets, which in some cases are adjusted for factors specific to the asset or liability. Level 2 derivative instruments are valued based on observable commodity future curves, broker quotes or other publicly available data. Level 2 fair values of other risk management assets and liabilities and long-term debt are determined using observable inputs other than unadjusted quoted prices, such as interest rate yield curves and currency rates.

Level 3 financial instruments include Class B limited partnership units.

The Class B limited partnership units are carried at amortized cost calculated using the effective interest rate method. The effective interest rate of 8.5% (2019 – 8.5%) is defined in the Newfoundland and Labrador Development Agreement as Emera NL's rate of return on equity, and is equal to the rate approved by the PUB for privately-owned regulated electrical utilities. Due to the unobservable nature of the effective interest rate and cash flows associated with the units, the fair value is assumed to approximate carrying value and the instruments have therefore been classified as Level 3.

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

(millions of Canadian dollars)	1% Increase	1% Decrease
Class B limited partnership units	(31.3)	30.0

28.2 Risk Management

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

Credit Risk

Nalcor's expected future cash flows are exposed to credit risk through its operating activities, primarily due to the potential for non-performance by its customers, and through its financing and investing activities, based on the risk of non-performance by counterparties to its financial instruments. The degree of exposure to credit risk on cash and cash equivalents, restricted cash, short-term investments, long-term investments and derivative assets as well as from the sale of electricity to customers, including the associated accounts receivable, is determined by the financial capacity and stability of those customers and counterparties. The maximum exposure to credit risk on these financial instruments is represented by their carrying values on the Consolidated Statement of Financial Position at the reporting date.

The COVID-19 pandemic has increased the credit risk of the Company, as the potential risk for non-performance of the Company's customers has increased with the current economic slowdown. Nalcor established flexible collection practices when the COVID-19 pandemic was declared for its customers including flexible bill payment arrangements and waiving interest on overdue accounts for residential and general service customers, which is recoverable from the Province. In September 2020, Nalcor returned to its normal customer collections practices, but continues to waive interest on overdue accounts, which is recoverable from the Province. Nalcor is continuing to monitor the risk of non-performance by its customers, as at December 31, 2020 the impact on the Company's expected credit loss allowance is not considered material. Nalcor is continuing to monitor the implications of COVID-19, including the risk of credit losses, pronouncements from governments and regulators and if required, will make adjustments to the expected credit loss allowance in future periods.

Credit risk on cash and cash equivalents is considered to be minimal, as Nalcor's cash deposits are held by a Schedule 1 Canadian Chartered bank with a rating of A+ (Standard and Poor's). Credit risk on restricted cash is considered to be minimal, as Nalcor's restricted cash deposits are held by Schedule 1 Canadian Chartered banks with a rating of A+ to AA- (Standard and Poor's). Restricted cash also includes funds held in trust by solicitors of the Company. Credit risk on short-term investments is minimized by limiting holdings to high-quality, investment grade securities issued by the Federal and Provincial governments, as well as BAs and term deposits issued by Schedule 1 Canadian Chartered banks. The Financial Risk Management Policy as approved by the Board, also restricts the aggregate principal amount of permitted investments issued by a single Canadian Schedule 1 or 2 bank from exceeding 30% of the total principal amount of all investments on a consolidated basis.

Credit exposure on Nalcor's sinking funds is limited by restricting the holdings to long-term debt instruments issued by the Government of Canada or any province of Canada, Crown corporations and Schedule 1 Canadian Chartered banks. The following credit risk table provides information on credit exposures according to issuer type and credit rating for the remainder of the sinking fund's portfolio:

	Issuer Credit Rating	**Fair Value of Portfolio (%)**	Issuer Credit Rating	Fair Value of Portfolio (%)
	2020		2019	
Provincial governments	**AA-to AAA**	**17.80%**	AA-to AAA	17.86%
Provincial governments	**A -to A+**	**26.75%**	A- to A+	27.22%
Provincially owned utilities	**AA-to AAA**	**26.45%**	AA-to AAA	28.03%
Provincially owned utilities	**A- to A+**	**29.00%**	A- to A+	26.89%
		100.00%		100.00%

Credit exposure on the reserve fund is mitigated by adhering to an investment policy which restricts the holdings to long-term debt instruments issued or guaranteed by the Government of Canada or any province of Canada. Investments in the long-term debt instruments of Canadian banks are also permitted, provided the bank is rated A or higher by Standard and Poor's. With the exception of the Government of Canada, holdings of any one issuer are limited to 10.0% of the total principal amount of the portfolio.

The following credit risk table provides information on credit exposures according to issuer type and credit rating for the reserve fund:

	Issuer Credit Rating	**Fair Value of Portfolio (%)**	Issuer Credit Rating	Fair Value of Portfolio (%)
	2020		2019	
Provincial governments	**A- to A+**	**40.58%**	A- to A+	40.50%
Provincially owned utilities	**AA- to AAA**	**8.26%**	AA- to AAA	8.93%
Provincially owned utilities	**A- to A+**	**6.00%**	A- to A+	4.54%
Schedule 1 Canadian banks	**AA- to AAA**	**18.53%**	AA- to AAA	12.17%
Schedule 1 Canadian banks	**A- to A+**	**26.63%**	A- to A+	33.86%
		100.00%		100.00%

Credit exposure on Nalcor's long-term and short-term investments is considered to be limited as the investments are held by Schedule 1 Canadian Chartered banks and Provincially owned utilities with investment grade ratings of A- or higher (Standard and Poor's). The following credit risk table provides information on long-term and short-term investment credit exposures according to issuer type and credit rating:

	Issuer Credit Rating	**Fair Value of Portfolio (%)**	Issuer Credit Rating	Fair Value of Portfolio (%)
	2020		2019	
Provincial governments	**A- to A+**	**0.20%**	A- to A+	-
Schedule 1 Canadian Banks	**A- to A+**	**99.80%**	A- to A+	100.00%
		100.00%		100.00%

Credit exposure on derivative assets is limited by a Financial Risk Management Policy as approved by the Board, which restricts available counterparties for hedge transactions to Schedule 1 Canadian Chartered banks and Federally Chartered US banks.

Nalcor does not have any significant amounts that are past due and uncollectable, for which a provision has not been recognized as at December 31, 2020.

Liquidity Risk

Nalcor is exposed to liquidity risk with respect to its contractual obligations and financial liabilities, including any derivative liabilities related to hedging activities. Liquidity risk management is aimed at ensuring cash is available to meet those obligations as they become due.

Short-term liquidity for Nalcor and its subsidiaries is mainly provided through cash and cash equivalents on hand, funds from operations, an operating credit facility which Nalcor maintains with its banker, and shareholder contributions. Nalcor maintains a $250.0 million (2019 - $250.0 million) committed revolving term credit facility, with a maturity date of January 31, 2022. There were no amounts drawn on this facility at December 31, 2020 (2019 - $nil). In addition, Hydro has access to a $300.0 million promissory note program and a $200.0 million (2019 - $200.0 million) committed revolving term credit facility. On April 17, 2020, Hydro signed a credit agreement with the Bank of Nova Scotia to establish an additional credit facility in the amount of $300.0 million with a maturity date of April 17, 2021. These two credit facilities are held with its primary banker in order to meet any requirements beyond those forecasted for a given period. Oil and Gas, Energy Marketing and Churchill Falls also maintain demand operating facilities of $30.0 million (2019 - $30.0 million), $20.0 million (2019 - $20.0 million) and $10.0 million (2019 - $10.0 million), respectively. In addition, Churchill Falls maintains a $23.0 million minimum cash balance (2019 - $23.0 million).

Liquidity risk for Muskrat Falls, Labrador Transco, and Labrador Island Link is considered to be minimal due to the prefunded equity reserves held in the respective COREA accounts as instructed in the Project Finance Agreements as well as the equity support guarantees with the Province of Newfoundland and Labrador.

Long-term liquidity risk for Hydro is managed by the issuance of a portfolio of debentures with maturity dates ranging from 2026 to 2048. Sinking funds have been established for these issues, with the exception of the issues maturing in 2045 and 2048.

Churchill Falls long-term liquidity risk is managed by maintenance of the reserve fund in accordance with the Shareholders' Agreement and a dividend management policy that meets long-term liquidity requirements associated with Churchill Falls' capital expenditure program.

The following are contractual maturities of Nalcor's financial liabilities as at December 31, 2020:

(millions of Canadian dollars)	< 1 Year	1-3 Years	3-5 Years	> 5 Years	Total
Trade and other payables	409	-	-	-	409
Short-term borrowings	262	-	-	-	262
Long-term debt (including sinking funds)	139	420	423	8,713	9,695
Interest and guarantee fees	380	756	750	5,945	7,831
Class B partnership units	-	159	168	3,220	3,547
Long-term payables	6	3	2	36	47
	1,196	1,338	1,343	17,914	21,791

Market Risk

In the course of carrying out its operating, financing and investing activities, Nalcor is exposed to possible market price movements that could impact expected future cash flow and the carrying value of certain financial assets and liabilities. Market price movements to which Nalcor has significant exposure include those relating to prevailing interest rates, foreign exchange rates, most notably USD/CAD, and current commodity prices, most notably the spot prices for oil, No. 6 fuel, diesel fuel and electricity. These exposures are addressed as part of the Financial Risk Management Strategy.

Interest Rates

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

Foreign Exchange and Commodity Exposure

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

As at December 31, 2020, trade and other receivables included balances of $29.3 million (2019 - $35.9 million) denominated in USD. As at December 31, 2020, trade and other payables included balances of $1.2 million (2019 - $6.1 million) denominated in USD, $0.7 million (2019 - $2.6 million) denominated in Euros and $0.2 million (2019 - $nil) denominated in British Pounds (GBP). Nalcor does not have significant exposure to fluctuations in foreign exchange with respect to its trade and other receivables and trade and other payables.

During 2020, total energy sales denominated in USD were $21.0 million (2019 - $26.3 million). As at December 31, 2020, Energy Marketing had no remaining foreign currency forward contracts or commodity price swap contracts. No hedging was entered into for 2020.

During 2020, total oil sales denominated in USD were $182.3 million (2019 - $227.7 million). To mitigate foreign exchange risk and commodity price risk on a portion of these sales, Oil and Gas used foreign currency forward contracts and fixed price commodity swaps, respectively.

On November 30, 2020 Oil and Gas entered into a series of commodity price swap contracts to hedge commodity price risk on approximately 56% of anticipated 2021 production.

As at December 31, 2020, Oil and Gas has 48 commodity price swaps remaining with a notional value of $89.0 million USD, and an average fixed price of $47.24 USD per barrel. As the contracts have been designated as hedging instruments, changes in fair value have been recorded in other comprehensive income (loss).

During 2020, $48.6 million in realized gains on commodity price swap contracts (2019 - $2.3 million in realized losses) have been recorded in other (income) expense and $8.8 million in unrealized losses (2019 - $8.8 million in unrealized losses) remain in other comprehensive income (loss).

On November 27, 2019 Oil and Gas entered into a series of foreign exchange forward contracts to hedge foreign exchange risk on 50% of anticipated 2020 USD oil sales. At December 31, 2020, one contract remained unsettled with a notional value of $9.3 million USD and a fixed rate of $1.33 CAD per USD.

On November 30, 2020 Oil and Gas entered into a series of foreign exchange forward contracts to hedge foreign exchange risk on 62% of anticipated 2021 USD oil sales.

As at December 31, 2020, Oil and Gas has 13 foreign exchange forward contracts remaining with a notional value of $98.3 million USD (2019 - 13 foreign exchange forward contract with a notional value of $126.8 million), and an average fixed exchange rate of $1.30 CAD per USD (2019 - $1.33 CAD per USD). As the contracts have been designated as hedging instruments, the effective portion of changes in fair value have been recorded in other comprehensive income (loss).

During 2020, $2.0 million in realized losses related to foreign exchange forward contracts (2019 - $0.7 million in realized losses) have been included in other (income) expense and $2.6 million in unrealized gains (2019 - $3.6 million in unrealized gains) remain in other comprehensive income (loss).

During 2020, additional financial transmission rights with notional values of $1.6 million (2019 - $1.5 million) were purchased to mitigate risk on congestion for the remainder of 2020, and a significant portion of 2021 and 2022. As the rights have not been designated as hedging instruments, changes in fair value have been recorded in other (income) expense.

29. RELATED PARTY TRANSACTIONS

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

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

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

(a) Hydro is required to incur the costs of operations, hearings and application costs of the PUB, including costs of any experts and consultants engaged by the PUB. During 2020, Hydro incurred $1.1 million (2019 - $2.1 million) in costs related to the PUB and has included $0.1 million (2019 - $0.7 million) in trade and other payables.

(b) The Hydro debt guarantee fee paid to the Province for 2020 was $8.6 million (2019 - $8.6 million). Interest paid to the Province on series 1A long-term debt for 2020 was $22.2 million (2019 - $22.2 million).

(c) During 2020, Hydro has purchased $28.0 million (2019 - $28.0 million) of power generated from assets related to Exploits Generation, which are held by the Province. Nalcor operates these assets on behalf of the Province and recovered costs in 2020 of $25.5 million (2019 - $37.6 million).

(d) Hydro recorded $2.3 million (2019 - $2.2 million) as an energy rebate from the Province to offset the cost of basic electricity consumption for Labrador rural isolated residential customers under the Northern Strategic Plan. As at December 31, 2020, there is a balance of $0.2 million (2019 - $0.4 million) outstanding in trade and other receivables.

(e) During 2020, Churchill Falls generated revenue from Hydro-Québec of $95.0 million (2019 - $95.4 million) and Nalcor has recognized its share of $62.5 million (2019 - $62.8 million).

(f) Under the terms of the Churchill Falls (Labrador) Corporation Limited (Lease) Act, 1961 (the Lease) and amendments thereto, Churchill Falls is required to pay the Province an annual rental of 8% of the consolidated net profits before income taxes and an annual royalty of $0.50 per horsepower year generated, as defined in the Lease. At December 31, 2020, $6.5 million (2019 - $6.9 million) was payable to the Province. Nalcor has recognized its share of $4.3 million (2019 - $4.5 million).

(g) During 2020, Nalcor’s shareholder contributed capital in the amount of $nil (2019 - $383.5 million) in relation to capital expenditures.

(h) During 2020, Oil and Gas expensed $26.8 million (2019 - $39.3 million) to the Province for royalties on its oil and gas operations.

(i) As at December 31, 2020, Oil and Gas had a net receivable from Bull Arm Fabrication of $3.3 million (2019 - $2.8 million).

(j) As at December 31, 2020, Oil and Gas had a net receivable from the Oil and Gas Corporation of Newfoundland and Labrador of $2.5 million (2019 - $nil).

(k) During 2020, Oil and Gas was charged $4.2 million (2019 - $nil) by Oil and Gas Corporation of Newfoundland and Labrador for management services.

29.1 Key Management Personnel

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

For the year ended December 31 (millions of Canadian dollars)	**2020**	2019
Salaries and employee benefits	**8**	8
Post-employment benefits	**1**	1
	9	9

30. COMMITMENTS AND CONTINGENCIES

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

(b) Outstanding commitments for capital projects, excluding those related to Oil and Gas, total approximately $214.8 million as at December 31, 2020 (2019 - $208.3 million). Under the terms of the MF/LTA PFA and the LIL PFA, the Project is required to fund $347.9 million during 2021.

(c) Nalcor and its subsidiaries have issued 18 irrevocable letters of credit with a total value of $33.7 million as per Note 15.1.

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

(millions of Canadian dollars)	Total Commitments
2021	14.9
2022	8.2
2023	5.6
2024	5.2
2025	5.2
Thereafter	12.6

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

Type	Rating	Effective Date	Term
Hydroelectric	3 MW	1995	25 years*
Hydroelectric	4 MW	1998	25 years
Cogeneration	15 MW	2003	20 years
Wind	390 kW	2004	Continual
Wind	27 MW	2008	20 years
Wind	27 MW	2009	20 years
Wind	300 kW	2010	Continual
Hydroelectric	175 kW	2019	15 years
Biomass	450 kW	2018	1 year post in-service of Muskrat Falls in-service date

* This agreement is currently in discussion for renewal

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

(millions of Canadian dollars)	2021	2022	2023	2024	2025
Power purchases	30.0	30.1	19.3	18.4	18.3

(f) In 2014, Hydro entered into three Capacity Assistance Agreements, one with Vale Newfoundland & Labrador Limited (Vale) and two with Corner Brook Pulp and Paper Limited (CBPP) for the purchase of relief power during the winter period. In February 2019, Hydro entered into a revised agreement with CBPP that expires the earlier of April 30, 2022 or the commissioning of the Muskrat Falls plant. In December 2020, Hydro entered into a revised agreement with Vale that expires in March of 2021. Payment for services will be dependent on the successful provision of capacity assistance for the winter period by Vale and CBPP.

(g) Energy Marketing holds firm transmission rights with a number of counterparties in order to gain additional access to export markets. As at December 31, 2020, commitments for firm transmission rights to third parties totaled $8.1 million (2019 - $5.6 million).

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

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

2021	$20.6 million
2022	$20.8 million
2023	$21.0 million
2024	$5.3 million

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

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

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

(l) In July 2012, Nalcor entered into the Energy and Capacity Agreement with Emera NL providing for the sale and delivery of the Nova Scotia Block, being 0.986 TWh of energy annually for a term of 35 years. In October 2015 Nalcor assigned this agreement to Muskrat Falls. As a result of this assignment, Nalcor and Muskrat Falls are jointly liable for the delivery of the Nova Scotia Block to Emera.

(m) Under the IBA, Nalcor is required to make implementation payments to the Innu Nation that commenced upon sanction of the Muskrat Falls plant of $5.0 million annually escalating by an annual consumer price index. Post first commercial power, when Nalcor begins earning revenue from the sale and delivery of capacity and energy from the facility, Nalcor is required to continue to make annual payments of the greater of $5.0 million escalating by an annual consumer price index and 5% of after debt net cash flow, as defined by the agreement.

31. SUPPLEMENTARY CASH FLOW INFORMATION

For the year ended December 31 (millions of Canadian dollars)	**2020**	2019
Trade and other receivables	**77**	194
Prepayments	**-**	7
Inventories	**12**	(13)
Trade and other payables	**(28)**	(52)
Changes in non-cash working capital balances	**61**	136
Related to:		
Operating activities	**32**	(13)
Investing activities	**29**	149
	61	136

32. SEGMENT INFORMATION

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

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

- **Hydro Regulated** activities encompass sales of electricity to customers within the Province that are regulated by the PUB.
- **Hydro Non-Regulated** activities include the sale of power to mining operations in Labrador West as well as costs related to operations that Hydro manages that are not subject to rate regulation by the PUB.

Power Development – is comprised of the following:

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

Power Supply – is comprised of the following:

- **LCP Transmission** includes the construction and operation of the LIL and LTA, which consists of transmission lines connecting the Muskrat Falls Generating Facility, the Churchill Falls Generating Plant, and certain portions of the transmission system in Labrador to the island of Newfoundland.
- **Churchill Falls** owns and operates a hydroelectric generating facility which sells electricity to Hydro-Québec and Hydro.
- **Energy Trading** includes energy trading and commercial activities related to securing and optimizing markets to extract the greatest value from Nalcor's existing generation resources through the participation in export electricity markets.
- **Other** includes revenues and costs recovered from Hydro-Québec associated with Nalcor's operation of the Menihek Generating Station, the Maritime Link (which is owned by Emera Inc. but consolidated by Nalcor), costs related to Power Supply management and administration, and community development costs related to Power Supply, and costs associated with the management of LCP construction.

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

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

	Hydro		Power Development		Power Supply							
(millions of Canadian dollars)	Regulated	Non-Regulated	Muskrat Falls	Other	LCP Transmission	Churchill Falls	Energy Trading	Other	Oil and Gas	Corporate	Inter-Segment	Total
					For the year ended December 31, 2020							
Energy sales	557	50	-	-	4	94	29	-	216	-	(37)	913
Other revenue	6	-	-	-	-	-	-	8	-	-	3	17
Revenue	563	50	-	-	4	94	29	8	216	-	(34)	930
Fuels	158	-	-	-	-	-	-	-	-	-	-	158
Power purchased	75	43	-	-	-	-	4	-	-	-	(31)	91
Operating costs	135	1	2	-	6	38	5	6	4	12	2	211
Production, marketing and transportation costs	-	-	-	-	-	-	-	-	38	-	1	39
Transmission rental	1	-	4	-	-	-	24	-	-	-	(3)	26
Depreciation, depletion, amortization and impairment	79	-	-	-	-	21	-	1	330	5	1	437
Net finance expense (income)	90	-	-	-	22	(1)	-	-	3	(3)	(2)	109
Other expense (income)	4	-	-	-	1	6	1	-	(47)	-	(2)	(37)
Preferred dividends	-	-	-	-	-	(3)	-	-	-	-	3	-
Expenses	542	44	6	-	29	61	34	7	328	14	(31)	1,034
Profit (loss) for the year before regulatory adjustments	21	6	(6)	-	(25)	33	(5)	1	(112)	(14)	(3)	(104)
Regulatory adjustments	(15)	-	-	-	-	-	-	-	-	-	1	(14)
Profit (loss) for the year from continuing operations	36	6	(6)	-	(25)	33	(5)	1	(112)	(14)	(4)	(90)
Capital expenditures*	90	-	434	-	245	42	-	9	37	2	(4)	855
Total assets**	2,780	9	6,588	140	5,987	683	29	1,846	946	434	(135)	19,307
Total debt***	1,854	-	3,697	-	4,806	-	-	-	-	-	-	10,357

*Capital expenditures (inclusive of property, plant and equipment and intangible assets) include non-cash additions of $6.2 million related to the Maritime Link, $49.7 million related to Class B Limited Partnership Unit accrued interest, and $247.6 million of interest capitalized during construction.
**Total assets include $1,784.5 million related to the Maritime Link and $218.4 million related to Class B Limited Partnership Unit accrued interest.
***Total debt includes short-term borrowings, long-term debt including current portion less Hydro's sinking funds of $182.6 million, Class B Limited Partnership Units, and lease liabilities.

	Hydro		Power Development		Power Supply							
(millions of Canadian dollars)	Regulated	Non-Regulated	Muskrat Falls	Other	LCP Transmission	Churchill Falls	Energy Trading	Other	Oil and Gas	Corporate	Inter-Segment	Total
	For the year ended December 31, 2019											
Energy sales	608	44	-	-	-	94	36	-	264	-	(30)	1,016
Other revenue	5	(1)	-	-	-	-	-	10	4	-	4	22
Revenue	613	43	-	-	-	94	36	10	268	-	(26)	1,038
Fuels	217	-	-	-	-	-	-	-	-	-	-	217
Power purchased	84	42	-	-	-	-	6	-	-	-	(30)	102
Operating costs	136	5	1	-	7	39	5	8	6	19	-	226
Production, marketing and transportation costs	-	-	-	-	-	-	-	-	36	-	-	36
Transmission rental	1	-	-	-	-	-	25	-	-	-	-	26
Depreciation, depletion and amortization	83	-	-	-	-	20	-	-	90	3	1	197
Exploration and evaluation	-	-	-	-	-	-	-	-	33	-	-	33
Net finance expense (income)	91	(1)	-	-	6	(1)	-	-	2	(5)	-	92
Other expense	8	-	-	-	-	4	-	-	5	-	1	18
Preferred dividends	-	-	-	-	-	(3)	-	-	-	-	3	-
Expenses	620	46	1	-	13	59	36	8	172	17	(25)	947
(Loss) profit for the year before regulatory adjustments	(7)	(3)	(1)	-	(13)	35	-	2	96	(17)	(1)	91
Regulatory adjustments	(37)	-	-	-	-	-	-	-	-	-	1	(36)
Profit (loss) for the year from continuing operations	30	(3)	(1)	-	(13)	35	-	2	96	(17)	(2)	127
Capital expenditures*	129	-	653	-	286	44	-	36	73	5	(3)	1,223
Total assets**	2,735	11	6,556	140	5,969	647	20	1,835	1,234	291	(98)	19,340
Total debt***	1,843	-	3,696	-	4,789	-	-	1	-	-	-	10,329

*Capital expenditures (inclusive of property, plant and equipment and intangible assets) include non-cash additions of $28.0 million related to the Maritime Link, $45.3 million related to Class B Limited Partnership Unit accrued interest, and $245.6 million of interest capitalized during construction.

**Total assets include $1,778.3 million related to the Maritime Link and $169.1 million related to Class B Limited Partnership Unit accrued interest less $1.0 million related to Bull Arm Fabrication.

***Total debt includes short-term borrowings, long-term debt including current portion less Hydro's sinking funds of $174.0 million, Class B Limited Partnership Units, and lease liabilities.

33. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform to the basis of presentation adopted during the current reporting period. Specifically, reserve fund and sinking fund investments, previously reported in other long-term assets, have been presented with investments.

Consolidated Statement of Financial Position

As at December 31, 2019 (millions of Canadian dollars)	As previously reported	Adjustment	**Reclassified 2019**
Non-current assets			
Right-of-use assets	6	(6)	-
Investments	100	234	**334**
Other long-term assets	236	(228)	**8**

34. SUBSEQUENT EVENT

On March 1, 2021 First Redetermination under the HSE Operating Agreement became effective, resulting in a reduction in Nalcor's working interest in the HSE field from 10% to 8.7%. The impact of the decrease in working interest will include a historical true-up of production and capital costs, as well as reduced future revenue through a reduction in volume entitlement, partially offset by a decrease in royalties, production and capital costs.