NALCOR ENERGY - OIL AND GAS INC.
FINANCIAL STATEMENTS
December 31, 2021

Deloitte.

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Independent Auditor's Report

To the Shareholder of Nalcor Energy – Oil and Gas Inc.

Opinion

We have audited the financial statements of Nalcor Energy – Oil and Gas Inc. (the "Company"), which comprise the statement of financial position as at December 31, 2021, and the 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, 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

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

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

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

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

Auditor’s Responsibilities for the Audit of the Financial Statements

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

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

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

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

Deloitte LLP

Chartered Professional Accountants
March 21, 2022

NALCOR ENERGY - OIL AND GAS INC.
STATEMENT OF FINANCIAL POSITION

As at December 31 (thousands of Canadian dollars)	Notes	**2021**	2020
ASSETS			
Current assets			
Cash		**15,836**	9,591
Trade and other receivables	5	**27,020**	41,067
Inventories	6	**15,563**	14,858
Prepayments		**5,478**	7,525
Derivative assets	16	**-**	2,600
Total current assets		**63,897**	75,641
Non-current assets			
Property, plant and equipment	7	**804,737**	870,349
Other long-term assets		**378**	378
Total assets		**869,012**	946,368
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	8	**15,030**	19,623
Current portion of long-term payable	10	**33,743**	300
Derivative liabilities	16	**31,074**	8,758
Total current liabilities		**79,847**	28,681
Non-current liabilities			
Decommissioning liabilities	9	**111,934**	108,416
Long-term payable	10	**38,444**	250
Total liabilities		**230,225**	137,347
Shareholder's equity			
Share capital		**110,000**	110,000
Shareholder contributions		**906,112**	906,112
Reserves		**(12,645)**	(6,158)
Deficit		**(364,680)**	(200,933)
Total equity		**638,787**	809,021
Total liabilities and equity		**869,012**	946,368

Commitments and contingencies (Note 18)

See accompanying notes

On behalf of the Board:

DIRECTOR

DIRECTOR

NALCOR ENERGY - OIL AND GAS INC.
STATEMENT OF LOSS AND COMPREHENSIVE LOSS

For the year ended December 31 (thousands of Canadian dollars)	Notes	**2021**	2020
Petroleum and natural gas sales		**298,175**	243,096
Royalties	17	**(38,167)**	(26,764)
Other revenue		**-**	118
Revenue, net		**260,008**	216,450
Operating costs	12	**10,268**	4,280
Production, marketing and transportation costs	13	**30,865**	38,582
Depreciation, depletion, amortization and impairment		**79,634**	330,115
Net finance expense	14	**3,856**	2,966
Other expense (income)	15	**144,132**	(47,135)
Expenses		**268,755**	328,808
Loss for the year		**(8,747)**	(112,358)
Other comprehensive (loss) income			
Total items that may or have been reclassified to profit or loss:			
Net fair value (losses) gains on cash flow hedges	16	**(61,113)**	45,650
Reclassification adjustments related to:			
Cash flow hedges recognized in profit or loss	16	**54,626**	(46,603)
Other comprehensive loss for the year		**(6,487)**	(953)
Total comprehensive loss for the year		**(15,234)**	(113,311)

See accompanying notes

NALCOR ENERGY - OIL AND GAS INC.
STATEMENT OF CHANGES IN EQUITY

(thousands of Canadian dollars)	Note	Share Capital	Shareholder Contributions	Fair Value Reserve	Deficit	Total
Balance at January 1, 2021		**110,000**	**906,112**	**(6,158)**	**(200,933)**	**809,021**
Loss for the year		**-**	**-**	**-**	**(8,747)**	**(8,747)**
Other comprehensive loss		**-**	**-**	**(6,487)**	**-**	**(6,487)**
Total comprehensive loss for the year		**-**	**-**	**(6,487)**	**(8,747)**	**(15,234)**
Dividends	**11**	**-**	**-**	**-**	**(155,000)**	**(155,000)**
Balance at December 31, 2021		**110,000**	**906,112**	**(12,645)**	**(364,680)**	**638,787**
Balance at January 1, 2020		110,000	906,112	(5,205)	91,425	1,102,332
Loss for the year		-	-	-	(112,358)	(112,358)
Other comprehensive loss		-	-	(953)	-	(953)
Total comprehensive loss for the year		-	-	(953)	(112,358)	(113,311)
Dividends	11	-	-	-	(180,000)	(180,000)
Balance at December 31, 2020		110,000	906,112	(6,158)	(200,933)	809,021

See accompanying note

NALCOR ENERGY - OIL AND GAS INC.
STATEMENT OF CASH FLOWS

For the year ended December 31 (thousands of Canadian dollars)	Notes	**2021**	2020
Operating activities			
Loss for the year		**(8,747)**	(112,358)
Adjustments to reconcile loss to cash provided from operating activities:			
Depreciation, depletion, amortization and impairment		**79,634**	330,115
Finance income	14	**(119)**	(518)
Finance expense	14	**128**	125
Accretion	14	**3,847**	3,359
(Gain) loss on disposal of property, plant and equipment	15	**(31,090)**	8
HSE Redetermination re-balancing adjustment	15	**89,486**	-
Increase in other long-term assets		**-**	(55)
		133,139	220,676
Changes in non-cash working capital balances	20	**26,148**	(4,313)
Other		**(249)**	(250)
Interest received		**119**	518
Interest paid		**(128)**	(125)
Net cash provided from operating activities		**159,029**	216,506
Investing activities			
Additions to property, plant and equipment	7	**(24,479)**	(37,174)
Proceeds on disposal of property, plant and equipment	7	**40,315**	988
Additions to intangible assets		**-**	(8)
Proceeds on disposal of intangible assets		**-**	1,149
Change in non-cash working capital balances	20	**(13,620)**	(5,470)
Net cash provided from (used in) investing activities		**2,216**	(40,515)
Financing activities			
Dividends paid	11	**(155,000)**	(180,000)
Net cash used in financing activities		**(155,000)**	(180,000)
Net increase (decrease) in cash		**6,245**	(4,009)
Cash, beginning of the year		**9,591**	13,600
Cash, end of the year		**15,836**	9,591

See accompanying notes

1. DESCRIPTION OF BUSINESS

Nalcor Energy - Oil and Gas Inc. (Oil and Gas or the Company) was incorporated under the Corporations Act of Newfoundland and Labrador (the Province). Oil and Gas has a mandate to engage in the upstream and downstream sectors of the oil and gas industry. Upstream includes exploration, development, and production activities while downstream includes transportation and processing activities. Oil and Gas is a 100% owned subsidiary of Nalcor Energy (Nalcor). Substantially all of Oil and Gas' activities are conducted jointly with others and, accordingly, these financial statements reflect only Oil and Gas' proportionate interest in such activities. The head office is located at 500 Columbus Drive, St. John's, Newfoundland and Labrador, A1B 0C9, Canada.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of Compliance and Basis of Measurement

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

These financial statements have been prepared on a historical cost basis, except for financial instruments at fair value through profit or loss (FVTPL) which have been measured at fair value. The financial statements are presented in Canadian Dollars (CAD) and all values rounded to the nearest thousand, except when otherwise noted. These financial statements were approved by the Oil and Gas' Board of Directors (the Board) on March 2, 2022.

2.2 Cash and Cash Equivalents

Cash consists 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.

2.3 Inventories

Inventories are carried at the lower of cost and net realizable value. Cost is determined on a weighted average basis and includes expenditures incurred in acquiring the inventories and bringing them to their existing condition and location. 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.

2.4 Property, Plant and Equipment

<u>Petroleum and Natural Gas Properties</u>

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

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

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

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

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

Costs incurred subsequent to the determination of technical feasibility and commercial viability are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to Oil and Gas and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Routine repairs and maintenance are charged to profit or loss during the period in which they are incurred.

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) the expected petroleum and natural gas production; and
- evidence that the necessary production, transshipment and transportation facilities are available or can be made available.

2.5 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, Oil and Gas estimates the recoverable amount of the cash generating unit (CGU) to which the asset belongs. The recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. Value in use is generally computed by reference to the present value of future cash flows expected to be derived from non-financial assets.

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 Statement of Loss and Comprehensive Loss.

2.6 Investments in Joint Arrangements

A joint arrangement is an arrangement of which two or more parties have joint control. Control exists when Oil and Gas 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.

Oil and Gas 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. Oil and Gas 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.

2.7 Provisions

A provision is a liability of uncertain timing or amount. A provision is recognized if Oil and Gas 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 current market assessments of the time value of money and the risks specific to the obligation. Provisions are remeasured at each Statement of Financial Position date using the current discount rate.

2.8 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 Statement of Loss and Comprehensive Loss if the liability is short-term in nature.

2.9 Revenue Recognition

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 Oil and Gas has an interest with other producers is recognized on the basis of Oil and Gas' sales to customers. Under this method, when Oil and Gas 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 inventories not yet received and production expenses measured at cost. Similarly, the over-lift portion is recognized as a liability that represents an accrual for crude oil production received but not yet paid measured at cost.

2.10 Foreign Currencies

Transactions in currencies other than Oil and Gas' 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 are included in the Statement of Loss and Comprehensive Loss as other (income) expense.

2.11 Income Taxes

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

2.12 Financial Instruments

Classification and Initial Measurement

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

Financial assets are classified at amortized cost, FVTPL, FVTOCI 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.

Oil and Gas's financial assets at amortized cost include cash and trade and other receivables.

Financial Assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortized cost 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.

Oil and Gas' financial assets measured at FVTPL include derivative instruments not part of a designated hedging relationship.

Financial Assets at FVTOCI

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

Oil and Gas does not hold any financial assets at FVTOCI.

Financial Liabilities at FVTPL

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

Oil and Gas's financial liabilities measured at FVTPL include derivative instruments not part of a designated hedging relationship

Financial Liabilities at Amortized Cost

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

Oil and Gas's financial liabilities at amortized cost include trade and other payables.

Derecognition of Financial Instruments

Oil and Gas 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.

Oil and Gas 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

Oil and Gas 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.

Oil and Gas always recognizes lifetime ECL for trade and other receivables. The ECL on these financial assets are estimated based on Oil and Gas'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. Oil and Gas 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 class of financial assets that has been identified to have low credit risk is cash.

For all other financial instruments, Oil and Gas 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, Oil and Gas 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

Oil and Gas 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 Oil and Gas actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item. Oil and Gas 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 (loss) income, while any ineffective portion is recognized immediately in the Statement of Loss and Comprehensive Loss for the period in other (income) expense. Amounts recognized in other comprehensive (loss) income are transferred to the Statement of Loss and Comprehensive Loss for the period when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognized or when a forecast sale occurs.

Oil and Gas does not hold any fair value hedges.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of these 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. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is reviewed if the revision affects only that period or future periods.

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

3.1 Use of Judgments

(i) Asset Impairment and Reversals
Oil and Gas 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 cost of disposal and its value in use. Management uses factors including expected future oil prices, proved and probable reserves evaluated by independent reserve engineers, 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
Oil and Gas’ accounting policy relating to property, plant and equipment is described in Note 2.4. 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. Judgment is also used in determining the appropriate componentization structure for Oil and Gas’ property, plant and equipment.

(iii) Functional Currency
Functional currency was determined by evaluating the primary economic environment in which Oil and Gas operates. As Oil and Gas 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.

(iv) Determination of CGUs
Oil and Gas’ accounting policy relating to impairment of non-financial assets is described in Note 2.5. In applying this policy, Oil and Gas 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.

(v) Discount Rates
Certain of Oil and Gas' financial liabilities are discounted using discount rates that are subject to Management's judgment.

3.2 Use of Estimates

(i) Property, Plant and Equipment
Amounts recorded for depreciation are based on the useful lives of Oil and Gas' assets. The useful lives of property, plant and equipment are determined in relation to the proved and probable reserves and reviewed annually by Oil and Gas. These useful lives are Management's best estimate of the service lives of these assets. Changes to these lives could materially affect the amount of depreciation recorded.

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

(iii) Decommissioning Liabilities
Oil and Gas recognizes a liability for the amount 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 Statement of Loss and Comprehensive Loss through net finance expense. Differences between the recorded decommissioning liability and the actual retirement costs incurred are recorded as a gain or loss in the settlement period.

4. CURRENT AND FUTURE CHANGES IN ACCOUNTING POLICIES

The following is a list of standards/interpretations that have been issued and are effective for accounting periods commencing on or after January 1, 2021, as specified.

- *IAS 37 – Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Costs of Fulfilling a Contract (Amendments to IAS 37)*[1]
- *IAS 1 – Presentation of Financial Statements – Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)*[2]
- *IAS 1 – Presentation of Financial Statements– Disclosure of Accounting Policies (Amendments to IAS 1)*[2]
- *IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Accounting Estimates (Amendments to IAS 8)*[2]

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

4.1 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 Oil and Gas, however, may apply to future transactions.

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

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

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

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

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

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

5. TRADE AND OTHER RECEIVABLES

As at December 31 (thousands of Canadian dollars)	**2021**	2020
Trade receivables	**26,876**	35,118
Other receivables	**147**	218
Due from related parties	**5,729**	5,731
Loss allowance (Note 17)	**(5,732)**	-
	27,020	41,067

As at December 31 (thousands of Canadian dollars)	**2021**	2020
0-60 days	**20,987**	29,590
60+ days	**6,033**	11,477
	27,020	41,067

Other receivables are comprised primarily of harmonized sales tax (HST).

As at December 31 (thousands of Canadian dollars)	**2021**	2020
Loss allowance, beginning of year	-	-
Change in balance during the year	**(5,732)**	-
Loss allowance, end of the year	**(5,732)**	-

6. INVENTORIES

Inventories consist of crude oil, materials and supplies to be consumed during production at Oil and Gas' petroleum and natural gas properties.

As at December 31 (thousands of Canadian dollars)	**2021**	2020
Materials	**11,220**	12,003
Crude oil	**4,343**	2,855
	15,563	14,858

7. PROPERTY, PLANT AND EQUIPMENT

(thousands of Canadian dollars)	Petroleum and Natural Gas Properties	Other	Total
Cost			
Balance at January 1, 2020	1,573,781	2,183	1,575,964
Additions	37,174	-	37,174
Disposals	-	(2,183)	(2,183)
Decommissioning liability revisions	18,219	-	18,219
Balance at December 31, 2020	1,629,174	-	1,629,174
Additions	**24,479**	**-**	**24,479**
Disposals	**(46,390)**	**-**	**(46,390)**
Decommissioning liability revisions	**499**	**-**	**499**
Balance at December 31, 2021	**1,607,762**	**-**	**1,607,762**
Depreciation, depletion and impairment			
Balance at January 1, 2020	432,125	1,195	433,320
Depreciation and depletion	101,278	-	101,278
Impairment	225,422	-	225,422
Disposals	-	(1,195)	(1,195)
Balance at December 31, 2020	758,825	-	758,825
Depreciation and depletion	**81,365**	**-**	**81,365**
Disposals	**(37,165)**	**-**	**(37,165)**
Balance at December 31, 2021	**803,025**	**-**	**803,025**
Carrying value			
Balance at January 1, 2020	1,141,656	988	1,142,644
Balance at December 31, 2020	870,349	-	870,349
Balance at December 31, 2021	**804,737**	**-**	**804,737**

As part of HSE Redetermination, Oil & Gas was reimbursed for its revised share of historical capital costs, resulting in a gain on disposal of assets offset by additional royalties payable. HSE redetermination is further discussed in Note 10.

On a quarterly basis, the Company assesses its cash generating units (CGUs) for indicators of impairment or when events or changes in circumstances indicate the carrying amount may exceed its recoverable amount. As at March 31, 2020 the impact of the COVID-19 pandemic resulted in a significant decline in global demand for crude oil, and in the same time-frame, an over-supply of crude oil resulted in a significant decrease in crude oil commodity prices, which was considered an indicator of impairment. 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. As at December 31, 2021, management determined that no further adjustments to provisions were required.

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

	2020	2021	2022	2023	2024	Average Annual Change thereafter
Brent Price (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 – (Decrease) Increase	(10.7)	9.9	19.4	(23.4)

8. TRADE AND OTHER PAYABLES

As at December 31 (thousands of Canadian dollars)	**2021**	2020
Trade payables and accruals	**9,662**	14,771
Due to related parties	**1,713**	3,131
Other payables	**3,655**	1,721
	15,030	19,623

Other payables are comprised of harmonized sales tax (HST).

9. DECOMMISSIONING LIABILITIES

Oil and Gas' decommissioning liabilities result from net ownership interests in petroleum and natural gas properties and related well sites. The total undiscounted estimated cash flows required to settle the obligations, including a rate of inflation of 2%, at December 31, 2021 are $185.5 million (2020 - $165.5 million). Payments to settle the liabilities are expected to occur between 2032 and 2040. The fair value of the decommissioning liabilities was determined using the present value of future cash flows discounted at rates ranging from 3.1% to 3.5% (2020 – 2.5% to 3.0%). The reconciliation of the beginning and ending amounts of decommissioning liabilities is as follows:

As at December 31 (thousands of Canadian dollars)	**2021**	2020
Decommissioning liabilities, beginning of the year	**108,416**	86,838
Accretion	**3,019**	3,359
Revisions	**499**	18,219
Decommissioning liabilities, end of the year	**111,934**	108,416

10. LONG-TERM PAYABLE

The addition to the long-term payable is a result of First Redetermination under the Hibernia South Extension (HSE) Operating Agreement, which became effective on March 1, 2021 and resulted in a reduction in Oil and Gas' working interest in the HSE field from 10% to 8.7%. The change in working interest triggers the re-balancing of historic barrels of oil over an estimated 30 month period. As of May 2021, Oil and Gas is required to return the excess barrels received above the revised working interest, through clawback of entitled production over the course of the following 30 months. The balance of the liability as at December 31, 2021 is $71.9 million (December 31, 2020 - $nil) with $33.4 million recorded as current and included in the current portion of long-term payable.

As at December 31 (thousands of Canadian dollars)	**2021**	2020
Payable, beginning of the year	**550**	800
Additions	**100,081**	-
Revisions	**(153)**	-
Settlements	**(29,120)**	(250)
Accretion	**829**	-
	72,187	550
Less: current portion	**(33,743)**	(300)
Long-term payable, end of the year	**38,444**	250

11. SHAREHOLDER'S EQUITY

11.1 Share Capital

As at December 31 (thousands of Canadian dollars)	**2021**	2020
Common shares without nominal or par value		
Authorized - unlimited		
Issued, fully paid and outstanding - 100	**110,000**	110,000

11.2 Dividends

For the year ended December 31 (thousands of Canadian dollars)	**2021**	2020
Declared and paid during the year	**155,000**	180,000

12. OPERATING COSTS

For the year ended December 31 (thousands of Canadian dollars)	**2021**	2020
Professional services	**4,256**	4,247
Other operating costs	**5,948**	38
Insurance	**47**	24
Salaries and benefits	**17**	(29)
	10,268	4,280

13. PRODUCTION, MARKETING AND TRANSPORTATION COSTS

For the year ended December 31 (thousands of Canadian dollars)	**2021**	2020
Project operating costs	**19,176**	24,709
Transportation and transshipment	**7,249**	7,145
Processing and marketing	**2,756**	5,487
Insurance	**1,684**	1,241
	30,865	38,582

14. NET FINANCE EXPENSE

For the year ended December 31 (thousands of Canadian dollars)	**2021**	2020
Finance income		
Other interest income	**(119)**	(518)
Finance expense		
Accretion	**3,847**	3,359
Other finance expense	**128**	125
	3,975	3,484
Net finance expense	**3,856**	2,966

15. OTHER EXPENSE (INCOME)

For the year ended December 31 (thousands of Canadian dollars)		**2021**	2020
HSE Redetermination re-balancing adjustment	(a)	**89,486**	-
HSE Redetermination royalty adjustment	(a)	**30,635**	-
(Gain) loss on disposal of property, plant and equipment	(a)	**(31,090)**	8
Settlement of commodity swap contracts		**58,964**	(48,649)
Other		**(3,863)**	1,506
Other expense (income)		**144,132**	(47,135)

(a) On March 1, 2021 First Redetermination under the HSE Operating Agreement became effective, resulting in a reduction in Oil and Gas' working interest in the HSE field from 10% to 8.7%. The impact of the decrease in working interest included a historical true-up of production, capital costs and royalties.

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

16.1 Fair Value

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

As a significant number of Oil and Gas' assets and liabilities do not meet the definition of a financial instrument, the fair value estimates below do not reflect the fair value of Oil and Gas 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 price and (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, the Company determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. There were no transfers between Level 1, 2 and 3 fair value measurements for the year ended December 31, 2021 and the year ended December 31, 2020.

As at December 31, 2021 and December 31, 2020, the Company did not have any Level 3 instruments.

	Level	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
(thousands of Canadian dollars)		**December 31, 2021**		December 31, 2020	
Financial assets					
Derivative assets	**2**	**-**	**-**	2,600	2,600
Financial liabilities					
Derivative liabilities	**2**	**31,074**	**31,074**	8,758	8,758
Long-term payable including amount due	**2**	**72,187**	**90,616**	550	550

The fair values of cash, trade and other receivables, and trade and other payables approximate 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 are determined using observable inputs other than unadjusted quoted prices, such as interest rate yield curves and currency rates.

16.2 Risk Management

Oil and Gas is exposed to certain credit, liquidity and market risk 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 Oil and Gas' expected future cash flows.

<u>Credit Risk</u>
Oil and Gas’ expected future cash flows are exposed to credit risk through its operating activities, primarily through the potential for non-performance by its customers. The degree of exposure to credit risk on cash and the sale of crude oil, 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 Statement of Financial Position at the reporting date.

Credit risk on cash is considered to be minimal, as Oil and Gas' cash deposits are held by a Schedule 1 Canadian Chartered bank with a rating of A+ (Standard and Poor's). Receivables resulting from oil sales are carried out under oil marketing agreements with major oil and gas companies whose creditworthiness has been appropriately assessed prior to execution of the related agreements. In cases where there may be concerns regarding the creditworthiness of a customer, Oil and Gas mitigates this credit risk by insuring the sale under the provisions of its marketing agreements.

Liquidity Risk

Oil and Gas 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 activities are directed to ensuring cash is available to meet those obligations as they become due. Short-term liquidity is mainly provided through cash on hand, funds from operations, and a $30.0 million (2020 - $30.0 million) unsecured demand operating facility with the Company's bank. As at December 31, 2021 Oil and Gas had no borrowings outstanding on the credit facility (2020 - $nil), and $20.9 million of the borrowing limit had been used to issue two irrevocable letters of credit (2020 - $22.2 million) to ensure compliance with service agreements and regulations relating to petroleum and natural gas exploration and production activities.

The following are contractual maturities of Oil and Gas' financial liabilities, including principal and interest as at December 31, 2021:

(thousands of Canadian dollars)	< 1 Year	1-3 Years	3-5 Years	> 5 Years	Total
Trade and other payables	15,030	-	-	-	15,030
Current portion of long-term payable	33,743	-	-	-	33,743
Long-term payable	-	38,444	-	-	38,444
	48,773	38,444	-	-	87,217

Market Risk

In the course of carrying out its operating, financing and investing activities, Oil and Gas 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 Oil and Gas 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.

Foreign Exchange and Commodity Exposure

Oil and Gas is exposed to foreign exchange and commodity price risk on its sales, which are denominated in USD and based on prevailing market oil prices. Commodity price exposure on USD denominated oil sales is addressed through the use of fixed price commodity swaps and foreign exchange exposure on sales is partially offset by USD denominated capital expenditures and foreign exchange forward contracts.

During 2021, total oil sales denominated in USD were $238.2 million (2020 - $182.3 million). To mitigate foreign exchange risk and commodity price risk on a portion of sales, Oil and Gas have used foreign currency forward contracts and fixed price commodity swaps, respectively.

On March 29, 2021 Oil and Gas entered into a series of commodity price swap contracts with a notional value of $47.8 million USD and an average price of $60.97 USD per barrel. On June 29, 2021, Oil and Gas entered into a series of commodity price swap contracts with a notional value of $43.3 million USD and an average price of $70.46 USD per barrel. On September 28, 2021, Oil and Gas entered into a series of commodity price swap contracts with a notional value of $36.8 million USD and an average price of $74.60 USD per barrel. On December 16, 2021 Oil and Gas entered into a series of commodity price swap contracts with a notional value of $34.4 million USD and an average price of $71.94 USD per barrel.

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

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

As at December 31, 2021, Oil and Gas has 32 foreign exchange forward contracts remaining hedging foreign exchange risk on 51.64% of anticipated USD cash flows from oil sales from January 2022 to January 2023. The remaining contracts have a notional value of $126.9 million USD, and an average fixed exchange rate of $1.26 CAD per USD. As the contracts have been designated as hedging instruments, changes in fair value has been recorded in other comprehensive income (loss). During 2021, $4.3 million in realized gains (2020 - $2.0 million in realized losses) have been recorded in other expense (income) and $0.2 million in unrealized losses (2020 - $2.6 million in unrealized gains) remain in other comprehensive income (loss).

The components of change impacting the carrying value of financial instruments are as follows:

	Commodity and Forward Contracts	**Redetermination**	**Total**
(thousands of Canadian dollars)	**Level 2**	**Level 2**	**Level 2**
Balance at January 1, 2021	**(6,158)**	**-**	**(6,158)**
Changes to profit (loss)			
Mark-to-market	**-**	**(18,429)**	**(18,429)**
Total	**-**	**(18,429)**	**(18,429)**
Changes in other comprehensive loss			
Mark-to-market	**(61,113)**	**-**	**(61,113)**
Settlements realized in profit (loss)	**54,626**	**-**	**54,626**
Total	**(6,487)**	**-**	**(6,487)**
Balance at December 31, 2021	**(12,645)**	**(18,429)**	**(31,074)**
Balance at January 1, 2020	(5,205)	-	(5,205)
Changes in other comprehensive income			
Mark-to-market	45,650	-	45,650
Settlements realized in profit (loss)	(46,603)	-	(46,603)
Total	(953)	-	(953)
Balance at December 31, 2020	(6,158)	-	(6,158)

Included in derivative liabilities as at December 31, 2021 is $18.4 million (2020 - $nil) related to an embedded derivative associated with the HSE Redetermination re-balancing liability which is recorded in long-term payables, as disclosed in Note 10. The embedded derivative represents the change in fair value of the liability based on current forward oil prices. The offsetting unrealized loss is recorded in other expense (income). Also included in Derivative liabilities is the change in fair value of commodity price swap and foreign exchange forward contracts, as disclosed in the table above.

17. RELATED PARTY TRANSACTIONS

Oil and Gas 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 Oil and Gas transacts are as follows:

Related Party	Relationship
Nalcor	100% shareholder of Oil and Gas
Newfoundland and Labrador Hydro (Hydro)	Wholly-owned subsidiary of Nalcor
Oil and Gas Corporation of Newfoundland and Labrador	Wholly-owned subsidiary of the Province
Bull Arm Fabrication	Wholly-owned subsidiary of Oil and Gas Corporation of Newfoundland and Labrador
The Province	100% shareholder of Nalcor

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.

Significant related party transactions and balances are as follows:

(a) As at December 31, 2021, Oil and Gas had a net payable to Nalcor of $0.6 million (December 31, 2020 - $1.1 million net payable).

(b) For the year ended December 31, 2021, Oil and Gas expensed $38.2 million (December 31, 2020 - $26.8 million) to the Province for royalties on its oil and gas operations.

(c) As at December 31, 2021, Oil and Gas had a net receivable from Bull Arm Fabrication of $nil (December 31, 2020 - $3.3 million), with a gross value of $3.3 million. The net receivable of $nil is due to the receivable being allowed for in its entirety during 2021.

(d) As at December 31, 2021, Oil and Gas had a net receivable from the Oil and Gas Corporation of Newfoundland and Labrador of $nil (December 31, 2020 - $2.5 million), with a gross value of $2.4 million. The net receivable of $nil is due to the receivable being allowed for in its entirety during 2021.

(e) For the year ended December 31, 2021, Oil and Gas was charged $4.2 million (December 31, 2020 - $4.2 million) by Oil and Gas Corporation of Newfoundland and Labrador for management services.

18. COMMITMENTS AND CONTINGENCIES

(a) Oil and Gas is subject to various legal proceedings and claims in the normal course of business. Although the outcome of such actions cannot be predicted with certainty, Management believes Oil and Gas's exposure to such claims and litigation will not materially affect its financial position or results of operations.

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

(millions of Canadian dollars)	Capital and Operating
2022	107.3
2023	73.9
2024	67.9
2025	67.7
2026	67.7
Thereafter	90.0

19. CAPITAL MANAGEMENT

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 available 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' unsecured demand credit facility.

20. SUPPLEMENTARY CASH FLOW INFORMATION

For the year ended December 31 (thousands of Canadian dollars)	**2021**	2020
Trade and other receivables	**14,047**	4,279
Inventories	**1,026**	1,112
Prepayments	**2,047**	412
Trade and other payables	**(4,592)**	(14,770)
Deferred revenue	**-**	(816)
Changes in non-cash working capital balances	**12,528**	(9,783)
Related to:		
Operating activities	**26,148**	(4,313)
Investing activities	**(13,620)**	(5,470)
	12,528	(9,783)