ANNUAL REPORT

nalcor energy

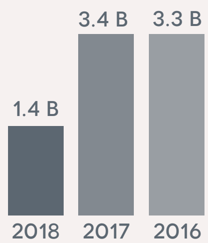
WE ARE COMMITTED TO DEVELOPING AND MANAGING NEWFOUNDLAND AND LABRADOR'S ENERGY RESOURCES SAFELY AND RESPONSIBLY.

nalcor energy

CONTENTS

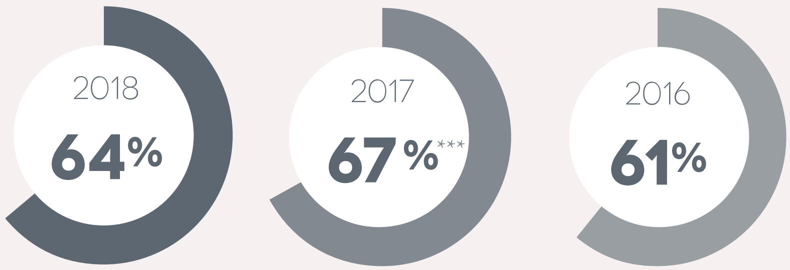
2018 ACHIEVEMENTS

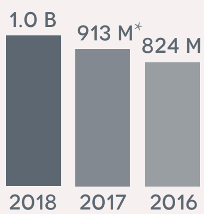
FINANCIAL



CAPITAL EXPENDITURE

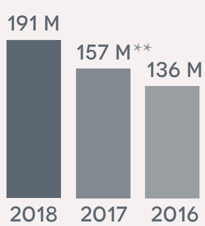
DEBT TO CAPITAL





REVENUE

TOTAL ASSETS



OPERATING PROFIT

* Previously reported as $930 million, adjusted following the application of IFRS 15 effective January 1, 2018.

** Previously reported as $169 million, adjusted following the application of IFRS 15 effective January 1, 2018.

*** Previously reported as 66%, adjusted following the application of IFRS 9 effective January 1, 2018.

MUSKRAT FALLS

COMPLETION

2016
66%
COMPLETE

2017
89%
COMPLETE

2018
96%
COMPLETE

TRANSMISSION ASSETS ENERGIZED across Newfoundland and Labrador

HISTORY MADE with the flow of power from Churchill Falls to the island

ASSEMBLY AND INSTALLATION of turbines and generators started

FINAL CONCRETE PLACED on the North Dam

Since January 2013, **43 MILLION HOURS** worked project-wide without a lost-time injury

85% of the project workforce are **NEWFOUNDLANDERS AND LABRADORIANS**

HYDRO

- Providing more than 80% of the province's electricity
- 93% satisfaction with service reliability and 89% satisfaction overall among residential customers
- Approximately 150 capital projects carried out in 2018
- Refurbishments and upgrades of key assets, including Bay d'Espoir hydroelectric and Holyrood thermal plants
- Comprehensive study on future reliability and resource adequacy in Newfoundland and Labrador completed

CHURCHILL FALLS

- 95% of capital projects completed

ENERGY MARKETING

- 96% of available recapture energy delivered to market

OIL & GAS

- Bay du Nord Framework Agreement finalized
- Record single license round bid of $621 million
- $3.9 billion in operator work commitments over the last four years and eight new entrants

BULL ARM

- Short-term agreement for Fabrication Yard signed
- Semi-submersible drilling rig, West Aquarius, arrives at the Site

SAFETY

New mental health strategy and psychological health and safety policy

Zero lost-time injuries maintained in several areas

PEOPLE

Continued to build a diverse and inclusive workforce

COMMUNITY

Through our Community Investment Program, over 60 not-for-profit organizations were supported across Newfoundland and Labrador

SUSTAINABILITY & ENVIRONMENT

Received the Sustainable Electricity Company™ brand designation from the Canadian Electricity Association

Sustainable Electricity Company™ APPROVED | Canadian Electricity Association

Started an electric car pilot program

WE ARE WORKING TO SAFELY INTEGRATE THE MUSKRAT FALLS ASSETS INTO THE ELECTRICITY SYSTEM.

LOWER CHURCHILL PROJECT

The Lower Churchill River is one of the most attractive hydroelectric resources in North America. Muskrat Falls and Gull Island combined have a capacity of more than 3,000 megawatts. The development of the Muskrat Falls Project includes construction of an 824 megawatt hydroelectric dam and more than 1,600 kilometres of transmission lines that will provide long-term, clean renewable energy.

NEWFOUNDLAND AND LABRADOR HYDRO

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

CHURCHILL FALLS

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

ENERGY MARKETING

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

OIL AND GAS

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

BULL ARM

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

MESSAGE FROM THE CHAIR

BRENDAN PADDICK, CHAIR, BOARD OF DIRECTORS

On behalf of the Board of Directors of Nalcor Energy, we are pleased to present the 2018 annual report. A company's annual report serves several purposes: a summary of achievements, a review of areas for growth and improvement, and an opportunity to reflect on the past and to plan for the future. Most importantly for Nalcor Energy, our annual report serves as a tool for transparency and accountability; an instrument by which to demonstrate how we have done our work and why.

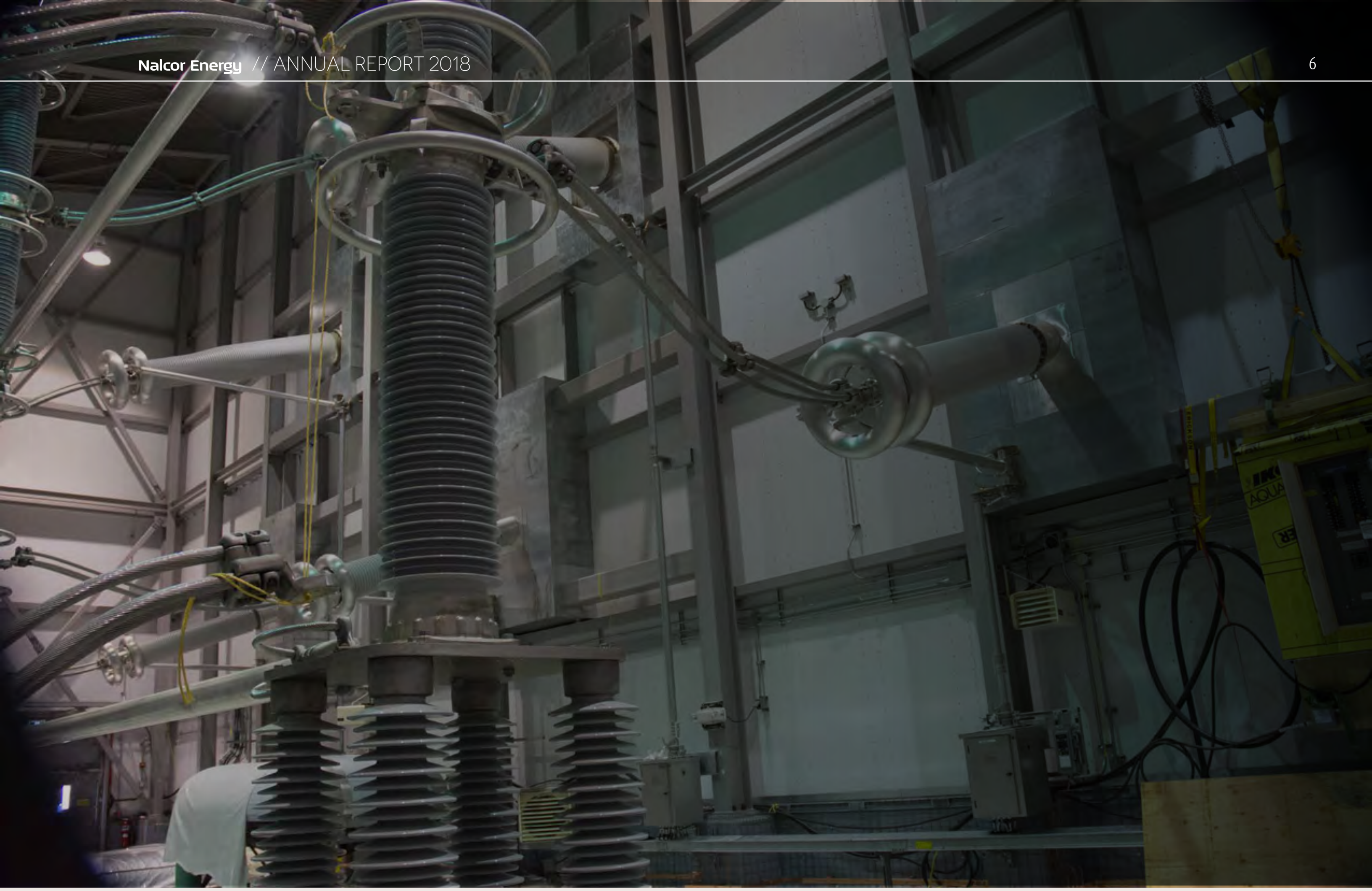
At Nalcor, we continue to focus on our mandate to manage our province's energy resources effectively and responsibly for the benefit of the people in this province.

Since our appointments to the board in late 2016, we have applied five key principles to guide all of our decisions in overseeing Nalcor and its many subsidiary companies. This foundation for sound governance includes: (i) setting a clear **vision** (including establishing objectives, goals, strategies and plans), (ii) enforcing strong **financial** controls and cost discipline, (iii) ensuring forward-looking **human resource** assessment and capacity-building, (iv) **managing enterprise risk**, and (v) acting as brand ambassadors that shape a progressive and high-performing **corporate culture**.

It is important to recognize our work is not simply focused on short-term needs and challenges. Delivering on a plan that ensures the reliable generation of power and the safe delivery of this power to our customers requires a long-term vision; a vision that is focused on the effective and strategic stewardship of the province's energy resources for the people of Newfoundland and Labrador. Underpinning that vision is our unwavering commitment to safety, operating efficiency, sustainability and community engagement and partnership.

As a board representing diverse perspectives and offering relative and broad knowledge and expertise, we continue to be committed to open and transparent governance. Our work must be sound, focused and fiscally responsible. We must also be realistic and make decisions that are supported by both due diligence and due process.

We could not have achieved the many successes and significant progress made in 2018 without our CEO and our senior management team working effectively with our dedicated and talented employees; employees who have proven their resilience and steadfast dedication to the corporation and our customers through a year of significant challenges and changes. Not only did this team effectively manage and operate a diverse and complex organization during challenging times, but they also worked diligently to meet the demands and cooperate with several concurrent external processes such as a public inquiry, the forensic audit and the spin off of a major operating division. It is people who build and operate our energy systems and serve our customers, and our people work hard every day to bring their best to their jobs, whatever the challenge and wherever the location.



Our efforts to date have been considerable and they have produced results we can all be proud of. We have met or exceeded targets with respect to the Muskrat Falls project. By the end of 2018, we achieved nearly 100% completion of our transmission assets and 96% overall completion of the Lower Churchill Project. In June, we saw successful flow of the first electricity from Labrador to the island, demonstrating the incredible potential these new transmission assets will bring to the province and its citizens.

As an energy company, we are also acutely aware of our duty to be responsible stewards through the pursuit of excellence in the areas of sustainability and environmental management. Our Sustainable Electricity Company brand designation from the Canadian Electricity Association demonstrates our commitment to responsible environmental, social and economic practices and to the principles of sustainable development.

Finally, I would like to thank my fellow directors for their continued commitment and diligence in guiding the province's energy company in the best interest of our shareholder and stakeholders. We are all very fortunate to have access to the knowledge and expertise of this talented and committed cast. And, on behalf of my fellow directors, thank you to our shareholder, and to the people of the province, for placing your trust in us. We collectively look forward to another year marked by successful milestones and accomplishments.

Brendan Paddick
Chair, Board of Directors

MESSAGE FROM THE CEO

STAN MARSHALL, PRESIDENT AND CEO

While 2018 was another challenging year, we remained focused on getting the job done safely. Last year, we made significant progress across all areas of the Muskrat Falls Project due to the hard work and dedication of thousands of skilled men and women. Excellent progress was made on the transmission and generation projects, reaching 96 per cent overall project completion at the end of 2018.

In June, power flowed for the first time from the existing Churchill Falls Generating Station in Labrador to the island over the Labrador-Island Transmission Link. The commissioning of these new transmission assets is ongoing. Our operations team is challenged with successfully integrating our new assets into the electrical system.

At the Muskrat Falls site, concrete placement on the North Dam was completed with a total of 243,000 m^3 placed. The North Dam is the third and final dam required for the generating facility and is now ready for operation. Work has commenced on the assembly and installation of the turbines and generators for the first of the four units.

As part of our commitment to reliability, Hydro continues to make substantial investments in the maintenance of our electricity equipment and infrastructure, and our people are busy year-round doing critical work according to annual and long-term planning objectives. In 2018, Hydro carried out approximately 150 capital projects across the system, including refurbishments and upgrades of several key assets. In 2018, we filed a Reliability and Resource Adequacy Study with the Board of Commissioners of Public Utilities. The study addresses our long-term approach to providing continued least-cost, reliable service. In keeping with our commitment to comprehensive approaches in planning, Hydro will work with the Board, our partners and stakeholders to determine which scenarios should drive capital investment. Our goal is to implement solutions, where possible and practical, to increase reliability for customers.

As we look forward to 2019, my commitment and focus is to build on the great success we saw in 2017 and 2018. We are well positioned to begin delivering power from the Muskrat Falls Generating Station, across our new transmission assets, to homes and businesses on the island in late 2019. As we move closer to first power, we are also focused on finding all reasonable measures to manage costs and minimize the impact on electricity rates for our customers. I have asked every person working in the company to focus on these objectives, and they have. This is in everyone's best interest – our shareholders, our customers, our families and our employees.

In 2019, we expect our mandate to change and bring more focus on the electricity business. We continue to work with our Shareholder to transition the Bull Arm business and a portion of the Oil and Gas business to a stand alone Crown Corporation.

Early in 2019, we made some changes to our leadership team to support the successful completion of the Muskrat Falls Project and to prepare the provincial electricity system for integration of power from Muskrat Falls. Jim Haynes was appointed as Executive Vice President of Nalcor Energy, Power Supply. Jim will take over responsibility for the completion of the transmission portion of the Muskrat Falls Project and integration to the now inter-connected electricity grid. Jennifer Williams was appointed as President of Hydro. As the first female to fill that position, this is a significant milestone on our path to continuing to build a diverse and inclusive company.

The competence and commitment of our employees, contractors and partners speak to the promise made to build and support a sustainable, reliable and safe energy system in the province.

I am proud of our exceptional team of employees who work on behalf of the people of the province. I look forward to continuing to work with them, our Board of Directors and our many diverse partners in the industry and community in the year ahead.

Stan Marshall
President and CEO

Mental Health MATTERS

SAFETY

OUR COLLECTIVE COMMITMENT TO SAFETY HAS NEVER BEEN STRONGER

The safety and health of our employees is more than a priority, it's a core value. Nothing is more important than safety – the safety of our employees, our customers, our contractors and the public.

World-class safety is not defined by achieving our safety metrics in a single year. It is about sustaining safety performance year after year and always striving to be better. It means every single employee goes home safely at the end of each day.

We recognize safety never stops. There is always more to learn and more to do. The families of our employees rely on us to ensure their loved ones make it home safely. The communities in which we operate have the right to believe our work is always done with their safety in mind. It is our duty to look out for the safety and well-being of ourselves and our colleagues.

The physical and psychological health and safety of our employees are key drivers of our success. We are committed to providing a positive working environment where consideration for the mental well-being of our employees is woven into the fabric of our organization.

As we move forward on our journey to safety excellence, we will embrace every opportunity for continuous improvement. We will focus on our high risk areas and our top trending injuries, while ensuring we take a holistic view of employee safety - considering not only the physical safety of our employees but also their mental well-being.

A CLEAR AND FOCUSED SAFETY VISION INSPIRES AND SUPPORTS OUR SAFETY-FOCUSED WORK CULTURE.

Our employees coming together to support our community.

SUPPORTING OUR LOCAL COMMUNITY IS A FAMILY AFFAIR

For the last several years, members of our Safety and Health Teams have raised thousands of dollars and participated in the local Threads for Life - Steps for Life Walk. This year, the event turned into a family affair with our children, partners, and even grandchildren joining us to raise much needed funds to support families who have experienced a workplace tragedy.

The walk is a national campaign which raises funds to provide programs and services for Canadian families who have suffered as a result of a workplace tragedy. We are always proud to participate in this event.

PARTNERING WITH THE COMMUNITY TO SUPPORT MENTAL HEALTH IN THE WORKPLACE

In September, we partnered with the St. John's Board of Trade and the Canadian Mental Health Association, Newfoundland and Labrador Division, to bring Mark Henick, mental health advocate and strategist, to St. John's.

Mark captured global attention when he shared his story of searching for "the man in the light brown jacket" who saved his life from a teenage suicide attempt. With over five million views, his TEDx talk, "Why We Choose Suicide," is among the most watched in the world.

Mark delivered a heartfelt and personal story to over 100 businesses, mental health support organizations, not-for-profits, and members of the public as he discussed what works and what doesn't in supporting employee mental health.

Mark Henick

OPEN REPORTING DRIVES CONTINUOUS IMPROVEMENT

Our safety culture rests on a foundation of open reporting through our Safe Workplace Observation Program (SWOP). Our employees see reporting as an important tool; as a result, in 2018 there was more than an 18 per cent increase in the number of safety observations entered into the SWOP database. Employees recorded more than 9,000 observations in 2018, providing continuous learning and improvement opportunities across our operations.

MENTAL HEALTH MATTERS

We care about the mental health and well-being of our employees and are committed to creating a safe, supportive work environment. Last year, to continue our focus and support for the mental well-being of our employees, we developed a new Mental Health Strategy and a Psychological Health and Safety Policy.

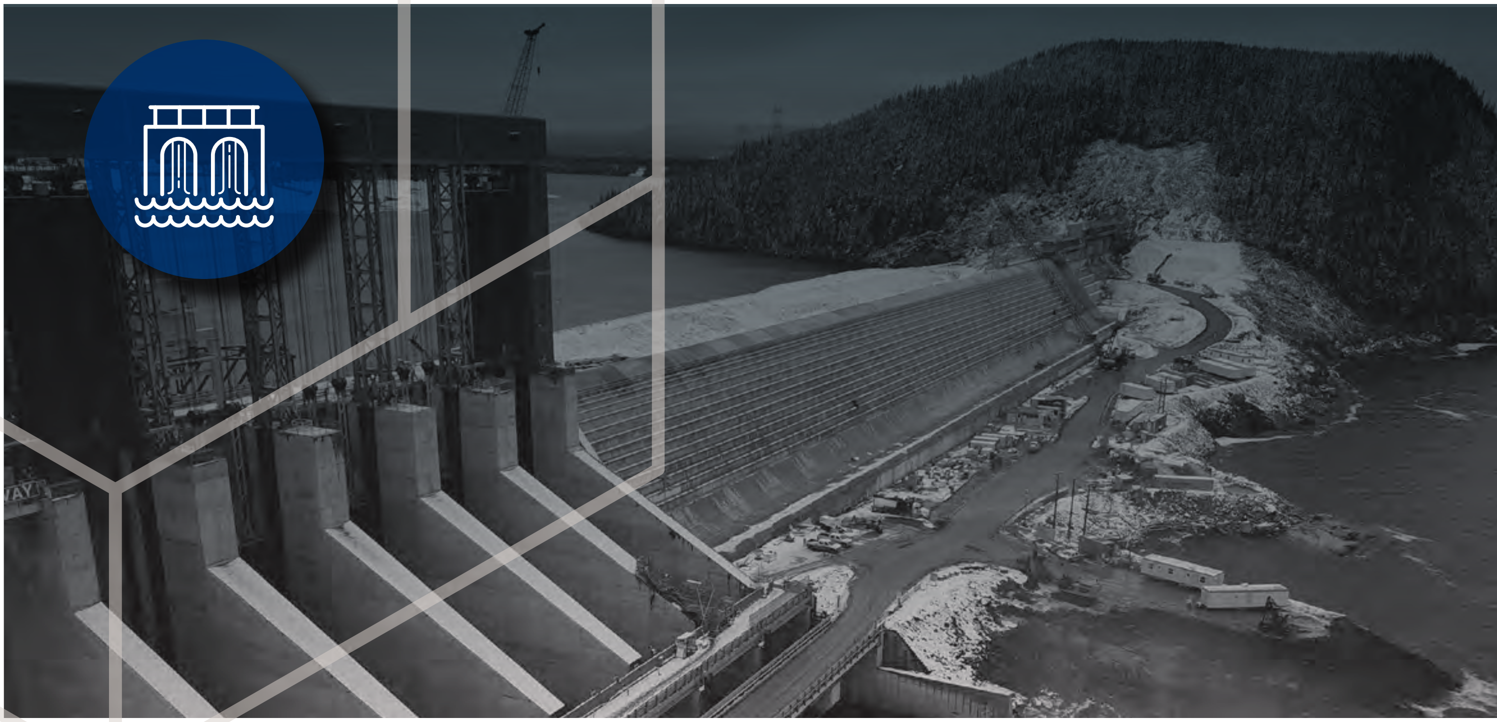
Our new policy sets our guiding principles and a sustainable approach to mental health as an organization while our Mental Health Strategy helps promote a workplace where employees can be healthy, productive and successful. These initiatives foster an environment in which our employees are comfortable talking about mental health and where they are encouraged to reach out if they need assistance.

OUR COMMUNITIES COUNT ON US TO BE SAFE

Safety awareness materials and communications aimed at enhancing contractor and public safety continued to be key priorities for us in 2018. Working in partnership with Newfoundland Power, Service NL, the Newfoundland and Labrador Construction Safety Association, and Workplace NL, we continued to educate and raise awareness about powerline safety and the dangers associated with working around powerlines.

Muskrat Falls Project

CONTINUED PROGRESS AND ACHIEVEMENTS



FROM ENHANCED RELIABILITY FOR ELECTRICITY CUSTOMERS TO REDUCED GREENHOUSE GAS EMISSIONS, THE COMPLETION OF THE MUSKRAT FALLS GENERATION AND TRANSMISSION PROJECTS WILL SIGNIFICANTLY TRANSFORM OUR PROVINCE'S ELECTRICITY SYSTEM.

We are on the cusp of transforming our electricity system. Through the construction and integration of our new transmission and generation assets, we are making the connections necessary to increase the supply of clean, reliable energy for Newfoundlanders and Labradorians.

Through outstanding leadership and commitment to team work, we have made excellent progress across the transmission and generation projects - reaching 96 per cent overall project completion at the end of 2018. We are well positioned to deliver power from the Muskrat Falls Generating Station, across our new transmission assets, to homes and businesses on the island in late 2019.

2018 KEY MILESTONES

Overall, the Muskrat Falls Project reached **96%** completion

SAFETY:

43 million hours worked project-wide without a lost-time injury (since January 2013 to December 2018)

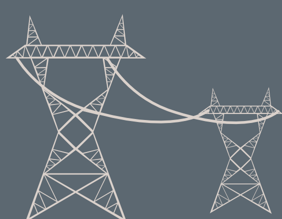
PEOPLE:

4,661 jobs filled by people from our province

85% of the project workforce are Newfoundlanders and Labradorians

- Over 600 women worked on the project in 2018
- Over 450 Indigenous people worked on the project in 2018

More than 120 trades and occupations including more than 500 apprentices



TRANSMISSION:

>99% CONSTRUCTION COMPLETE

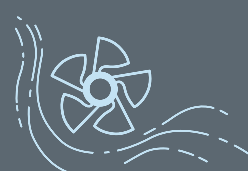
Transmission assets energized across Newfoundland and Labrador

History made with flow of power from Churchill Falls to the island

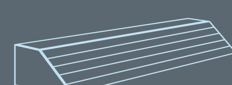
3.5 million hours (22 months) without a lost-time injury

GENERATION:

>92% CONSTRUCTION COMPLETE



Assembly and installation of turbines and generators started



Final concrete placed on the North Dam – TOTAL PLACED ~243,000 m^3

10.5 million hours (21 months) without a lost-time injury

TRANSMISSION

Construction of the Labrador-Island Transmission Link (LIL) and associated electrical assets began in 2014. The construction of major components of LIL reached significant completion in late 2017 and successful initial energization of the assets across the province took place through early 2018.

Following energization, we made history in June as power flowed for the first time from the existing Churchill Falls Generating Station in Labrador to the island over LIL. The commissioning and testing of these new transmission assets is ongoing while we bring power across LIL from Labrador to Hydro's customers on the island, adding to winter reliability. Our operations team is taking a cautious approach to commissioning the new transmission assets to ensure they are successfully integrated into our existing grid; this work is being carefully planned to minimize impacts to electricity customers.

Once power is produced from the Muskrat Falls generating facility later in 2019, it will flow across LIL and the new transmission system to electricity customers on the island.

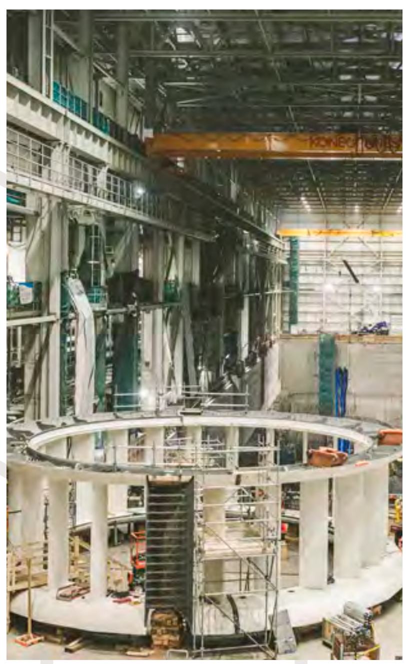
GENERATION

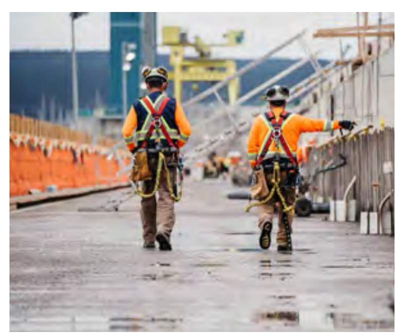
The powerhouse, spillway and three dams are the primary components of the generating facility. Throughout 2018, work on the Muskrat Falls generation project significantly progressed, reaching 92 per cent construction completion at the end of the year. In the powerhouse, the concrete and steel liners that form the foundations and water passages for the turbines were put in place. This completed the embedment phase for the turbines and generators. Work is ongoing on the assembly and installation of the turbine and generator for the first of the four units.

At the end of 2018, a significant milestone was reached when the concrete placement on the North Dam was completed – a total of 243,000m^3 of concrete was placed. The North Dam, the third and final dam required for the generating facility, is now ready for operation in 2019.

Another milestone reached last year was watering up the tailrace channel. The tailrace channel is the area between the downstream side of the powerhouse and the river. The rock located at the end of the channel (rockplug) is used to keep the powerhouse and tailrace channel dry during construction.

A tremendous amount of work by the generation team was completed last year and we are on track to delivering first power from the generation facility in 2019.





MAKING CONNECTIONS TO POWER OUR PROVINCE

Stretching over a thousand kilometres across rugged terrain and along the sea floor to connect Newfoundland and Labrador for the first time, the Labrador-Island Transmission Link is the most complex and robust transmission project in our province's history.

Moving from construction completion in 2017 to energization in 2018, we have transformed our electricity system. Our project team, along with our trades people, contractors, unions, partners and communities, have built a transmission network and integrated new assets and technology into existing infrastructure and systems.

MAKING HISTORY

In June, we gathered at Soldiers Pond to recognize the initial flow of electricity from Labrador to the island – a milestone that has been in the making since 2013. For the first time in history, power flowed from the existing Churchill Falls Generating Station to the island marking a significant step towards bringing our new transmission assets into service.

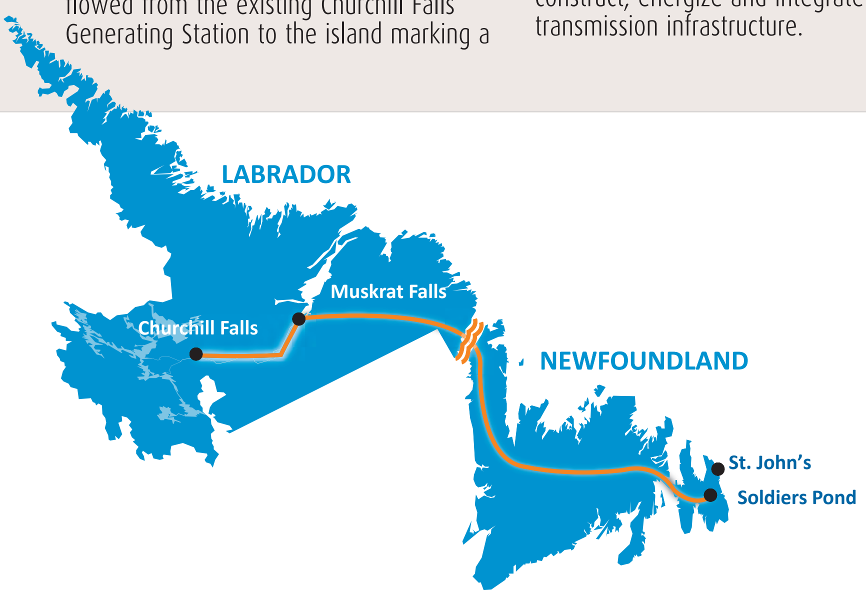
The in-service of LIL means we can deliver another reliable source of power for the people of our province while providing additional options to bring power to the island thus reducing our reliance on burning fuel.

This accomplishment is a testament to the competence and commitment of all those involved in the Transmission Link Project. Our diverse team of skilled individuals worked through rough, remote areas and harsh weather conditions to safely construct, energize and integrate our new transmission infrastructure.

MAKING IMPORTANT CONNECTIONS

We have come a long way and we have covered a lot of ground. We look forward to completing the next phase of work on the transmission project. We will continue to work hard to finish the work needed to fully commission the new transmission system with safety, quality and the environment at the forefront.

It is the power of people who are driving the successful completion of this history-making project. Workers from all corners of the province and across Canada came together to be part of something big. Together we are making the critical connections to improve reliability for customers and to maximize the benefits for Newfoundlanders and Labradorians.

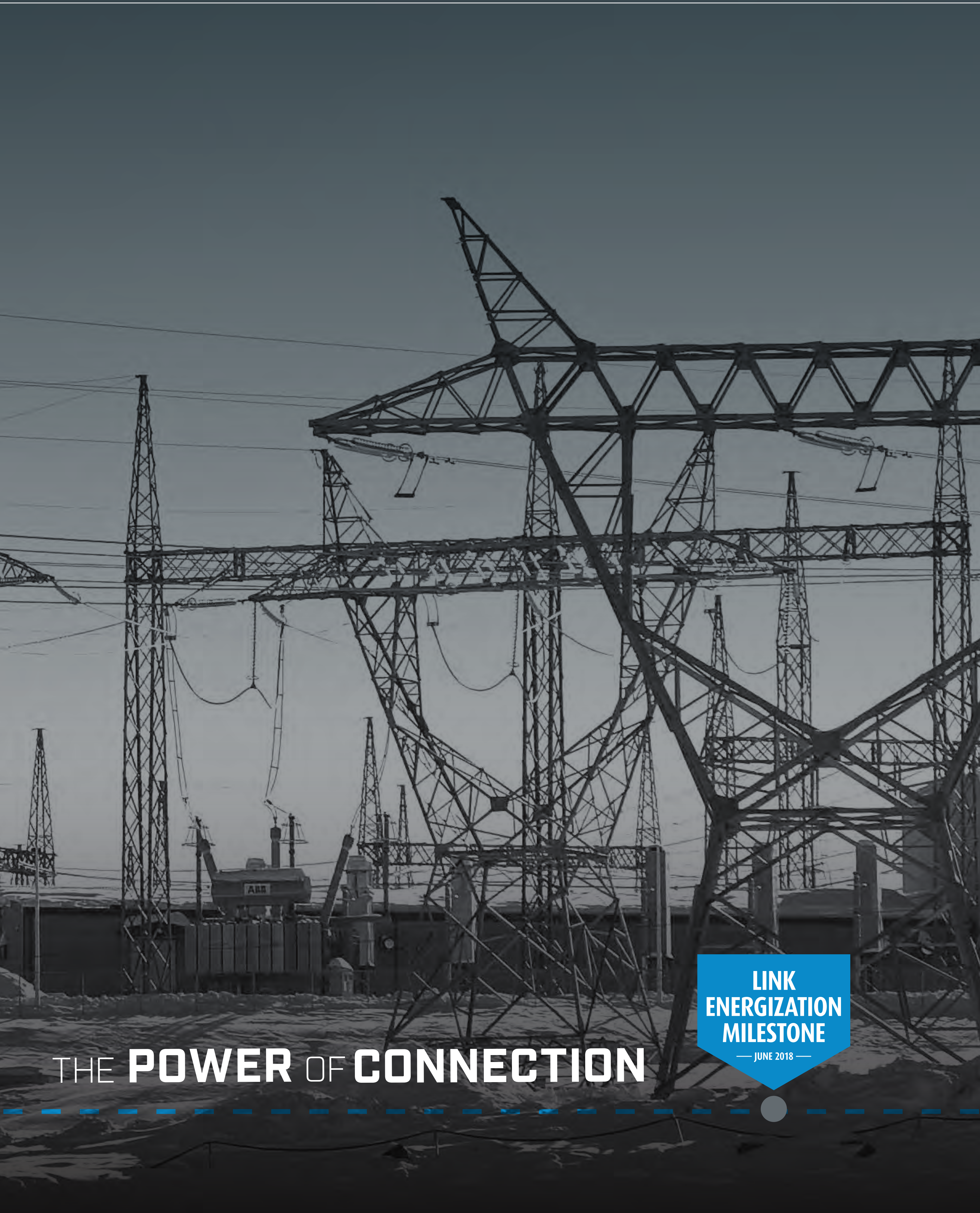


PATH OF POWER

- The new transmission system brings power from the Churchill Falls Generating Station across the new alternating current (AC) transmission line to Muskrat Falls, Labrador.
- From here, it is converted to direct current (DC) power and travels on LIL to the Strait of Belle Isle.
- The power then travels across the submarine cables laid along the sea floor between Forteau and Shoal Cove.
- Once on the island, it travels across the island to Soldiers Pond where it is converted to AC power and delivered to the island grid for distribution to homes and businesses.
- The initial successful transfer of power took place in early June.

HISTORY WAS MADE

IN JUNE, THE INITIAL FLOW OF ELECTRICITY FROM CHURCHILL FALLS, LABRADOR TO THE ISLAND WAS ACHIEVED.



THE POWER OF CONNECTION

LINK ENERGIZATION MILESTONE

— JUNE 2018 —

Newfoundland and Labrador Hydro

ENERGY YOU CAN COUNT ON

RESIDENTIAL CUSTOMER SATISFACTION
89%

WHY WE'RE HERE

AT HYDRO, WE KNOW HOW MUCH THE CUSTOMERS AND COMMUNITIES WE SERVE COUNT ON US EVERY DAY. AS A PUBLIC UTILITY, WE ARE CONTINUALLY STRIVING TO IMPROVE, TO MEET EXPECTATIONS, TO EARN OUR REPUTATION, AND TO BE RECOGNIZED AS A POWER COMPANY ON WHICH EVERYONE CAN RELY.

newfoundland labrador
hydro
a nalcor energy company

INVESTING IN THE SYSTEM TODAY

As part of our commitment to reliability, Hydro invests in the maintenance of our electricity equipment and infrastructure, and our people are busy year-round doing critical work according to annual and long-term planning objectives.

COMPLETING CRITICAL CAPITAL PROJECTS

In 2018, we completed a significant upgrade of the 230 kV transmission corridor connecting our Hardwoods terminal station in Paradise to the new station at Soldiers Pond. The project helps ensure reliable, long-term electricity supply for customers on the Northeast Avalon.

The ongoing modernization of our terminal stations throughout the province also continued in 2018. Several transformers have been refurbished or upgraded, and work was also completed on circuit breakers and grounding systems. We continued our breaker replacement initiative – new breakers were installed and commissioned at several terminal stations, including Wabush, Bay d’Espoir and Sunnyside; and breakers were refurbished at the Bear Cove station. We did other substantial work throughout our transmission and distribution system, including replacing aging and damaged insulators on wood pole structures. As part of our ongoing Wood Pole Line Management program, more than 2,800 pole inspections were carried out in 2018.

IMPROVING EFFICIENCY AND RELIABILITY AT OUR GENERATING FACILITIES

Hydro continued to carry out refurbishment projects at our hydraulic generation facilities in 2018. Substantial work was done to repair and refurbish penstocks at the Bay d’Espoir hydroelectric generating plant. Turbine and generator overhauls were also completed at the Bay d’Espoir and Cat Arm plants, and control structure refurbishment at Bay d’Espoir and Hinds Lake.

At the thermal generating station in Holyrood, a unit condition assessment and upgrades were conducted last year, resulting in enhanced reliability from the facility. These projects help ensure these key facilities are continuing to operate efficiently and reliably.

Equipment upgrades were also carried out in remote diesel locations, including Makkovik and Port Hope Simpson, and scheduled diesel engine overhauls were completed for several plants.

Photo: Aubrey Dawe

WORKING WITH A NATIONAL PARK TO RE-ROUTE LINES AND ENSURE RELIABILITY

In 2018, major rainstorms caused significant flooding in the Gros Morne National Park area and changed the paths of several rivers, including one near the right-of-way for the two primary transmission lines that provide electricity to the Northern Peninsula. Erosion of the soil holding the wood poles in place posed a significant risk to the lines. Hydro devised the right plan and obtained regulatory approval and environmental assessment release by Parks Canada then we successfully re-routed one kilometre of the parallel lines to higher ground outside the flood zone.

Consulting closely with Gros Morne National Park, Hydro completed the work in a timely manner, stabilizing the lines and maintaining reliability, while ensuring minimal impact on the local environment.

MEETING LABRADOR'S ELECTRICITY NEEDS

On the Labrador interconnected electricity system, aging infrastructure and increasing customer demand from mining, data centres, and other new developments are impacting transmission capacity and reliability in both Labrador West and Upper Lake Melville.

Hydro has been closely analyzing transmission needs in Labrador; in fall 2018, we submitted a transmission expansion study to the Board of Commissioners of Public Utilities, which outlines our action plan to increase capacity and meet future demand in Labrador.

In central Labrador, we have a proposed transmission tie-in project awaiting regulatory approval that will provide a least-cost solution to improve reliability and address capacity constraints in the Happy Valley-Goose Bay area. We took other steps in 2018 to meet immediate-term power needs in the region. Hydro has been keeping key customers and stakeholders informed of this, and we'll continue to do so as we partner to enable more growth in Labrador.

INVESTING IN RELIABILITY AT EXPLOITS

At the Grand Falls Generating Station, another multi-year project concluded last year with a major refurbishment of the turbine and generator for Unit 4.

The project required the generator to be disassembled in order to install a new runner. The refurbishment was completed in several stages with the final stage completed and the unit commissioned and returned to service in February 2018.

2017 RATE APPLICATION

Hydro's 2017 General Rate Application (GRA) is now in the final stages. Hydro filed its closing submission on February 1, 2019. It demonstrates that Hydro's proposed costs are justified based on the evidence provided to the Board of Commissioners of Public Utilities and intervenors during the GRA process. A final order on 2019 electricity rates is expected soon.

GRAND FALLS MAIN DAM REHABILITATION

Last year saw the completion of a multi-year project to rehabilitate and modernize the more than 100-year-old main dam in Grand Falls-Windsor. The project included reinforcement of the existing structure and installation of a new inflatable spillway.

Hydro continues to be a close partner in the stewardship of the Exploits River and the Atlantic salmon run, which is so important to Grand Falls-Windsor and the region.

Throughout the 2018 fishing season, there was careful oversight and effort taken to ensure that dam construction activities did not negatively impact the annual salmon run.

The new upgrades further stabilize the dam, improve flood handling capability, and facilitate fish passage. The project extends the operating life of the dam by 50 years, ensuring the safe and reliable operation of the hydroelectric facilities well into the future.

PLANNING AHEAD FOR FUTURE RELIABILITY

In 2018, Hydro completed and submitted its Reliability and Resource Adequacy Study to the Board of Commissioners of Public Utilities. The study addresses both the near-term and longer-term approaches to ensure electricity customers in Newfoundland and Labrador continue to receive least-cost, reliable service into the future. Preparing for future electrical system growth is complex and our objective will always be to strike an appropriate balance between investing in reliability and managing costs to our customers.

One of many influencing factors in this process is the fact that the province's electricity system is changing. For the first time, the island and Labrador networks will be tied together and fully interconnected to the North American grid. This changing reality means we must shift how we operate and plan for system requirements. Going forward, planning will be done on the basis of operating this integrated system.

Included in Hydro's reliability study was a comprehensive resource plan that considers a range of possible scenarios over a 10-year planning horizon (2019 – 2028). The study took into account a number of critical inputs, including Hydro's existing assets and retirements, the provincial economic outlook and customers' expectations regarding reliability and cost.

The various options considered as part of the resource planning study included generation sources that are more conventional to Newfoundland and Labrador (such as installing more gas turbines and building new hydro plants, or expanding existing ones) as well as newer alternatives like wind and solar. It also considered other solutions, such as capacity assistance, external market purchases, customer demand management and time-of-use rates.

CUSTOMER INPUT

Hydro relies on best available engineering and technical data to make our recommendations about costs, investment and reliability. We also recognize the value and importance of considering the opinions of the province's electricity consumers to help inform our decision-making. In 2018, Hydro launched ElectricityFeedbackNL.com as an easy way for electricity customers to share their input and opinions with us about the future of electricity in Newfoundland and Labrador. The feedback was included in the report filed with the Public Utilities Board. We value this engagement as part of our planning approach, and Newfoundlanders and Labradorians can sign up at ElectricityFeedbackNL.com to be a member of Hydro's new Electricity Consumer Panel, so that we can hear from them on a more regular basis.

A regulatory process has commenced in 2019 to follow up and review the findings of the Reliability and Resource Adequacy Study and proposed new planning criteria. Hydro will continue to work with stakeholders and the Board as we determine which scenarios will guide future capital investment in our electrical system.

STRIVING FOR EXCELLENCE IN EVERYTHING WE DO

OUR RESPONSIBILITY AS A REGULATED UTILITY

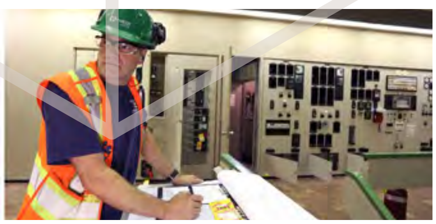
Hydro has always been committed to building and strengthening our commitment to reliability and to safety. Likewise, as a public utility owned by the people of the province, we also have an obligation to operate responsibly and manage costs as best we can. Over the past couple of years, we have put a renewed, dedicated effort into this as we look for opportunities to increase efficiency and productivity by focusing on finding quality improvements, streamlining processes, and reducing costs of operating where possible. Whether the impact is big or small, this initiative will continue as we keep our sights trained on finding newer, better, more efficient ways of doing things – and ultimately, on providing better service to our customers.

LIVE LINE WORK IN LABRADOR

Following detailed training and in-the-field practice, our line crew in Happy Valley-Goose Bay safely and successfully completed live line work last June. Live line work involves performing repairs and upgrades while a power line is still energized. The benefit is being able to complete work safely without having to shut off electricity to customers in the area. The Happy Valley-Goose Bay crew replaced insulators and a cross arm on a distribution feeder without any service disruption – a job that would have otherwise involved a six-hour outage for customers. The live line training was also delivered to the Springdale-based crew as we make an effort to expand our capabilities and minimize customer interruptions.

Churchill Falls

AN UNDERGROUND POWERHOUSE



The Churchill Falls Generating Station is one of the largest underground hydro electric powerhouses in the world. It has 11 turbines that have been safely producing and delivering 5,428 megawatts of clean, renewable energy for nearly half a century. Our employees' dedication to safety and operational excellence will drive the successful delivery of safe, reliable power every day for another 50 years and more from this world-class facility. Maintaining this massive operation requires sound asset management practices and long-term planning to ensure our assets remain strong, reliable, and operate safely year after year.

Through our comprehensive maintenance and capital programs, we have successfully and safely executed various refurbishments, replacements and upgrades to our infrastructure over the years.

In 2018, we embarked on one of our biggest and most challenging capital projects yet — the runner replacement of generating unit 3 and minor refurbishment. Despite a challenging schedule, our diverse and dedicated team worked diligently to ensure minimal impact to our operational requirements. As a result, we exceeded our GWAC (Guaranteed Winter Availability Contract) target of 92.5 per cent.

In addition to operational excellence, we recognize the importance of being an environmental leader. The environmental impacts of our operations are governed by ISO 14001 Certified Environmental Management Systems. This past year marked nine consecutive years of completing 100 per cent of our environmental targets and milestones, with a focus on environmental stewardship and continuous improvement.

THE CHURCHILL FALLS GENERATING STATION IS THE SECOND LARGEST UNDERGROUND HYDROELECTRIC PLANT IN NORTH AMERICA AND ONE OF THE LARGEST UNDERGROUND POWERHOUSES IN THE WORLD.

2018 HIGHLIGHTS

98% Guaranteed Winter Availability Contract (GWAC) was met.

95% Capital projects performance completion rate was reached.

In May, an 18-month electric car pilot program began in efforts to explore its viability for the company and future sustainability.

Oil and Gas

OFFSHORE DEVELOPMENT

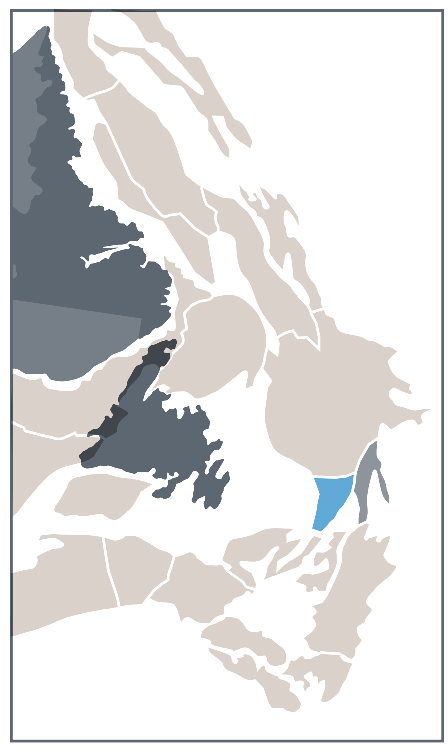
Our offshore has significant geological diversity which is spread over 1.8 million square kilometres – making Offshore Newfoundland and Labrador (Offshore NL) 1.5 times larger than the bustling oil and gas region of the U.S. Gulf of Mexico.

New basins have been mapped and play types that have never been seen before are being imaged. We have identified over 20 basins throughout our vast geographic area. The basin responsible for creating our oil and gas industry is the Jeanne d'Arc Basin off the Grand Banks. Development opportunities have led to a skilled workforce of dedicated Newfoundlanders and Labradorians and a network of local businesses and innovators who are now the foundation on which our industry will continue to build.

As a result of decades of success in the Jeanne d'Arc Basin, attention has now shifted to slope and deepwater areas. In July, the Government of Newfoundland and Labrador announced it had finalized a framework agreement for the development of the Bay du Nord Project. This project will open a new frontier basin – Flemish Pass – in water depths of approximately 1,200 metres. It represents an evolution in our industry not only because of the opening of a new basin, but it will be the first remote, deepwater project in our offshore. The project is expected to be sanctioned in 2020, with first oil in 2025.

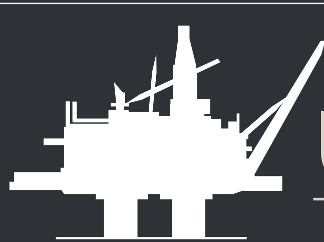
Our current ownership interests offshore Newfoundland and Labrador include Hibernia South Extension (10%), Hebron (4.9%) and the White Rose Growth Project (5%). These partnerships to date have provided us with $1 billion in revenue and we still have 82 per cent of our estimated barrels left to produce.

As a partner in the White Rose Growth Project, along with our partners Husky Energy and Suncor Energy, we are looking to increase our reserves through the development of the West White Rose Project. The project is currently being built in Argentia and Marystown with the support of many skilled Newfoundlanders and Labradorians. Through 2018, construction work on the drilling and wellhead platform, topsides and living quarters were advanced, and first oil is anticipated in 2022.



BASIN MAP

- Flemish Pass
- Jeanne d'Arc
- Sedimentary Basins



UNLOCKING THE POTENTIAL:

OFFSHORE NEWFOUNDLAND AND LABRADOR

49.2 BILLION BARRELS OF OIL

193.8 TRILLION CUBIC FEET OF GAS

In-place resource estimates identified in independent resource assessments representing less than 7% of Offshore NL potential.

EXPLORING FOR THE FUTURE

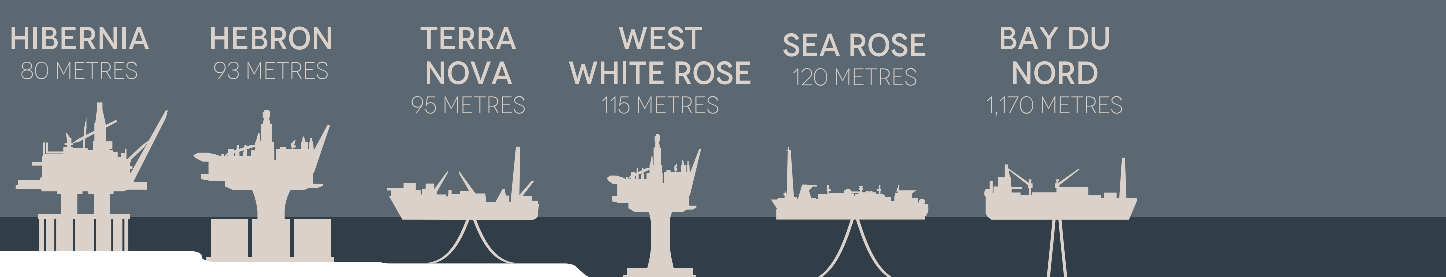
New production in our offshore is only possible through years of exploration. Until recently, little was known about many of our frontier basins. Throughout the last nine years, our team has focused on opening new areas for industry exploration and potential future development for our province. As a result of this commitment, we are just starting to understand the full potential of our resources and the role they will play in building a strong future for the people of our province.

Our exploration strategy is built on the collection of seismic data, seabed coring, and other geological studies in the areas identified for future license rounds. By the end of 2018, over 175,000 line kilometres of new 2D multi-client data and over 21,000 square kilometres of 3D data were acquired off Labrador and down the southeast coast over the Orphan Basin, Flemish Pass, Flemish Cap and South Coast.

As a result of our 3D data investments, we uncovered new leads and prospects in the area of focus for the 2018 license round. In September, we released the 2018 Oil and Gas Independent Resource Assessment. This assessment identified an additional 11.7 billion barrels of oil and 60.2 trillion cubic feet of gas potential offshore, bringing the combined potential in less than seven per cent of our offshore to 49.2 billion barrels of oil and 193.8 trillion cubic feet of gas.

The annual license round in November brought record bids for exploration licenses to our province – specifically in the Eastern Newfoundland Region and Jeanne d'Arc Regions. There was a record cumulative total of $1.38 billion in bids and a record single bid of $621 million from BHP Billiton Petroleum. BHP is one of eight new entrants in the past three years, and their record bid has helped to bring $3.9 billion in work commitments over the last four years to our province.

In an effort to define fully the opportunity being identified offshore, global oil and gas companies have submitted numerous exploratory drilling plans to the offshore regulator. These exploration programs, coupled with our continued data acquisition, will further build our knowledge surrounding our resources and where the next producing basins may be.



OFFSHORE PLATFORMS WATER DEPTHS

OUR OIL AND GAS PARTNERSHIPS HAVE PROVIDED US WITH $1 BILLION IN REVENUE AND WE STILL HAVE 82% OF OUR ESTIMATED BARRELS LEFT TO PRODUCE.

Bull Arm Fabrication

ATLANTIC CANADA'S LARGEST INDUSTRIAL FABRICATION SITE

SUPPORTING WHAT'S TO COME

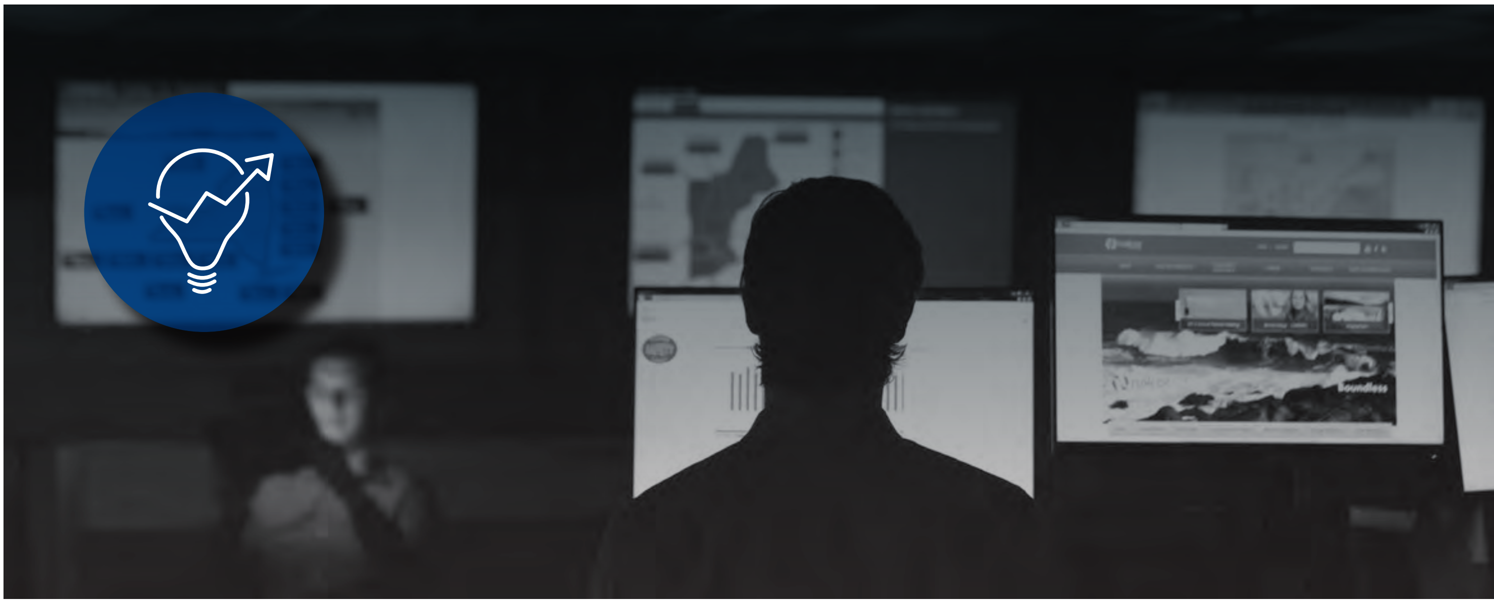
Many skilled trades people and workers from across this province have spent time at the Bull Arm Fabrication Site building mega-projects like Hibernia and Hebron or readying drill rigs for exploration. The Site is Atlantic Canada's largest fabrication yard with a history of supporting oil and gas opportunities. Throughout the years, the Site has played a key role in helping us realize our potential and we look forward to continuing to support what is to come.

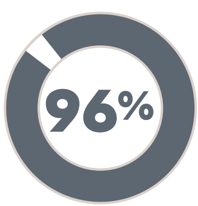
In November, a short-term agreement for the Fabrication Yard was signed with DF Barnes that resulted in the ultra-deepwater semi-submersible drilling rig, West Aquarius, coming to the Site. The focus of this work is to prepare the rig for upcoming drilling activity expected to take place in our waters this summer.

New growth and opportunity is on the horizon for Offshore NL and the Bull Arm team is looking forward to playing a part. Separate from this short-term agreement with DF Barnes, there is a request for proposals process ongoing as part of the planning for the future use of the Site. A decision is pending as discussions continue with two proponents – DF Barnes and Canadian Supply Base Company – in an effort to maximize Site use.

Energy Marketing

SELLING NEWFOUNDLAND AND LABRADOR’S SURPLUS ELECTRICITY





OF AVAILABLE ENERGY SOLD TO MARKETS

NEW YORK
NEW ENGLAND
ONTARIO
THE MARITIMES

We continue to pursue opportunities to optimize the value of the province’s surplus electricity by actively participating in energy markets in eastern Canada and the United States. Last year, 96 per cent of available recapture energy was delivered to market. Approximately 1.6 terawatt hours of recapture energy from Churchill Falls was sold to customers in New York, New England, Ontario and the Maritimes – realizing revenues of $58 million.

MAXIMIZING BENEFITS FOR THE PEOPLE OF NEWFOUNDLAND AND LABRADOR

Pre-commissioning activities for the Labrador-Island Link began in late spring of 2018 and the first flow of electricity from the existing Churchill Falls Generating Station in Labrador to the island took place in June.

Our Energy Marketing team works 24/7 alongside Hydro Production to maximize the transfer of low-cost recapture energy to the island for Hydro’s customers. Since June, low cost energy from Churchill Falls has been put to good use on the island – increasing hydraulic energy stores and displacing fuel at the Holyrood Thermal Generating Station.

We continue to coordinate with our industry counterparts and with Hydro to enable energy purchases over the Maritime Link when there are cost savings to be realized. Last year, we leveraged our market knowledge and capabilities to import low-cost energy from various regions across eastern Canada and the northeastern United States, for the benefit of Newfoundland and Labrador’s electricity customers.

In the later part of 2018, Hydro was given the green light for ponding. As of December 2018, no ponding activities were undertaken, as Hydro consumed all imported energy to offset thermal generation.

Ponding allows Hydro to store low-cost energy purchased by Energy Marketing from external markets in its vast hydraulic reservoirs. This is later used to produce the energy sold by our Energy Marketing team when market pricing conditions are favourable. Our ability to maximize the value of the island’s reservoir assets on behalf of the people of Newfoundland and Labrador is one of the many benefits of being interconnected to the North American grid.

COMMUNITY

COMING TOGETHER FOR OUR COMMUNITIES

Corporate social responsibility is a big part of shaping positive relationships with our customers, our communities and our province as a whole. Our Community Investment Program (CIP) allows us to make charitable donations to registered not-for-profits throughout Newfoundland and Labrador.

nalcor energy COMMUNITY INVESTMENT PROGRAM

OUR FOCUS

- YOUTH LEADERSHIP & ANTI-BULLYING INITIATIVES
- DIVERSITY & INCLUSION
- SCIENCE, TECHNOLOGY, ENGINEERING & MATH (STEM) EDUCATION
- HEALTH & SAFETY
- ENVIRONMENTAL EDUCATION

These pillars complement our core values and business priorities while supporting youth – the future leaders and workforce of our province.

HELPING THOSE WHO NEED IT MOST

Canadian Red Cross
Engaged more than 10,000 students and community members across the province through youth leadership initiatives.

Jimmy Pratt Outreach Program
Served hundreds of hot meals, with employees volunteering over 30 hours to this important cause.

Ronald McDonald House
Led walks and raised funds for the annual Red Shoe Crew Walk for Families, helping raise a grand total of $263,000.

YWCA's Power of Being You
Held a session and workshops on Relationships with Self: Exploring Gender, Healthy Relationships and Consent as well as Creating Safe Spaces at St. Paul's School.

Choices for Youth
Supported 62 mothers and 90 children in St. John's and Conception Bay South through Mama Moments.

Acts of Kindness Week
Volunteered more than 120 person hours to numerous not-for-profits across the province.

Kids Eat Smart Foundation
Supported breakfast programs in schools across the province providing children with the energy they need to start their day right.

Women in Resource Development Corporation
Offered six scholarships of $1,500 to female trades students from the province in addition to continued support for Techsploration - STEM programming for girls.

THANKFUL SMILES BRING NALCOR EMPLOYEES TOGETHER TO GIVE BACK

There's no better feeling than starting your day with a warm and thankful smile, which is what our employees look forward to when they volunteer at the Jimmy Pratt Outreach Centre in St. John's.

For the last two years, our employees have been dedicating a morning a month to preparing and serving hot meals, provided by Nalcor and Hydro, to the patrons of Jimmy Pratt Outreach Centre, some of the most vulnerable people in our city.

There's always a patron waiting with a friendly smile welcoming our arriving volunteers. It's not uncommon to end up in conversation with many of them, learning about their lives, which often starts with the anticipation of a hot meal from the Jimmy Pratt Outreach Centre. For some of the patrons, this may be the only meal they have in any given day.

The kitchen is often filled with laughter, smiles and sometimes even a sing-a-long with staff and volunteers from the Salvation Army who are always there to help our employee volunteers and put them to work!

"It's a humbling experience to serve these people, and to take the time to give back to those who need our time, our help and our attention even for a short time. If you haven't yet experienced Jimmy Pratt Outreach Centre, it's time to reach out and give back. It's time to volunteer."

– Nalcor Employee Volunteer

PEOPLE

We are committed to fostering a safe, supportive and inclusive work environment where employees can be healthy, productive and successful. We work hard to ensure our employees feel comfortable bringing their whole selves to work every day, and we believe diversity and inclusion strengthens us. We are committed to taking actions to make sustainable progress in our company and the communities we serve.

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OUR TRUE STRENGTH COMES FROM OUR PASSIONATE, DEDICATED TEAM OF EMPLOYEES WHO ARE COMMITTED TO THE PEOPLE OF THIS PROVINCE.

1/ Signing the Electricity Human Resources Canada Leadership Accord on Gender Diversity in the Electricity Industry.
2/ Members of the Diversity and Inclusion Council demonstrating their support for Pride Week.

A RESPECTFUL WORKPLACE

We are committed to a safe and respectful workplace where all our employees are valued and treated with dignity and respect.

In 2018, we continued to build an inclusive work environment and to work with diverse groups within our workplace and communities. In addition to featuring respectful workplaces as a main topic for our first Diversity and Inclusion Day, our annual Safety Summit focused on mental health in the workplace. This included a session titled, "A Safe and Respectful Workplace," which outlined the strong link between a respectful work environment and the physical and psychological safety of our people. These presentations are part of a broader respectful workplace strategy, which also includes a continued focus on awareness and training.

GENDER EQUITY TARGETS

The advancement of women into leadership roles and positions where women are typically under-represented remains our priority. To help us achieve this, in 2017 we set gender equity targets as part of a corporate diversity and inclusion strategy.

In 2018, we took proactive efforts to ensure our continued progress towards achieving these targets.

We are committed to attracting and retaining talented women in leadership, skilled trades, and engineering positions throughout the company and to supporting and enabling their advancement. As a result of these efforts, we have made progress in increasing female representation in several key areas.

GENDER EQUITY TARGETS

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

*Notes: Includes Nalcor Energy and subsidiaries representation as of December 2018.

OUR FIRST ANNUAL DIVERSITY AND INCLUSION DAY

We collectively believe diversity of backgrounds, ideas and experiences enriches our company and contributes to an innovative, high performance environment. We embrace individual differences and enable each other to reach our full potential. Over the past couple of years, we have been enhancing our focus on diversity and inclusion and in October we held our first company-wide Diversity and Inclusion (D&I) Day.

D&I Day provides us with the opportunity to demonstrate our commitment to diversity and inclusion, and to engage employees in foundational and important topics, which support a diverse and inclusive work environment. The day included guest speakers from two of our community partner organizations.

The Women in Science, Engineering, Trades and Technology (WinSETT) Centre presented on the topic of "Unconscious Bias," and the Canadian Centre for Diversity and Inclusion (CCDI) spoke on the topic of "What a Respectful Workplace

Looks Like." Diversity and inclusion moments and posters on these significant topics were also distributed throughout the organization.

ENVIRONMENT

OUR SUSTAINABILITY JOURNEY

At Nalcor, corporate sustainability is about developing and managing Newfoundland and Labrador's energy resources in the most responsible way. This is something we take very seriously. How we do our work is as important as what we do.

Aligning our sustainability strategy with our core values and corporate goals, our sustainability approach balances safety, environment, business excellence, people and community while providing a way to formalize these considerations, demonstrate our performance, and identify opportunities for improvement. We have taken several steps to formalizing our sustainability focus. We started with the Canadian Electricity Association's (CEA) Sustainable Electricity Program which addresses the three components of sustainability – environment, society and economy – and which enables the electricity industry to take a holistic approach to managing its impacts and securing a collective energy future.

In 2018, we developed a Sustainability Policy which embodies how our daily operations impact the communities in which we operate. We work each day to minimize our impact and to ensure we develop our resources in a sustainable way for the maximum benefit of the people of our province.

We are also committed to providing a timely review of sustainable business operating procedures and practices. Prior to 2018, we published an annual Environmental Performance Report (EPR) to report on our achievements. In 2018, we replaced the EPR with the Corporate Sustainability Report. This report includes our environmental performance data, and also details our employees' commitment to safety and health, business excellence, people and community.

PRESTIGIOUS SUSTAINABILITY DESIGNATION

In 2018, we received the Sustainable Electricity Company™ brand designation from the Canadian Electricity Association (CEA), a designation established by the CEA and one based primarily on ISO 26000 Guidance on Social Responsibility. Nalcor is the seventh Canadian electrical utility to receive this award, which recognizes significant achievement in sustainability.

The brand designation demonstrates our commitment to responsible environmental, social and economic practices, and to the principles of sustainable development. Every five years, a verification audit will be completed by the CEA to ensure we uphold the standards and commitments as required.

APPROVED Sustainable Electricity Company™ | Canadian Electricity Association

NEW ENVIRONMENTAL STANDARDS

In 2018, Nalcor, Hydro and Power Supply achieved ISO 14001:2015 registration, which also includes the registration of Power Supply Engineering, Menihek and Exploits, a new grid area. The transition and successful registration to the new version of the ISO 14001:2015 is a huge accomplishment, given the changes required to both elements of the standard as well as to the commitments we are required to demonstrate.

The new standard allows for more flexibility and integration into core business processes. It also allows for easier integration of other ISO standards such as the ISO 9001 or ISO 45001. The transition of the ISO 14001:2015 to the new standard includes four key changes. These are:

- Increasing the prominence of environmental management within the organization's strategic planning processes
- Focusing more on leadership
- Adding proactive initiatives to protect the environment from harm and degradation, such as sustainable resource use and climate change mitigation
- Adding improved environmental performance through a life cycle perspective when considering environmental aspects.

Training to the new standard will create a competitive advantage. Through effective and efficient environmental management, we expect to see improved relationships with interested parties and stakeholders.

ELECTRIC CAR PILOT PROGRAM

Environmental protection is a global effort we are proud to be a part of. We are committed to seeking opportunities where we can be proactive in reducing our environmental footprint. In May 2018, staff in Churchill Falls did just that by launching an 18-month electric car pilot program.

It's always easy to plug in the electric car for a quick charge before lunch.

The pilot program looks at the viability of electric vehicles, particularly where the winter season is long and where temperatures can drop to minus 40˚C. For the trial, the Town Manager for Churchill Falls is using the vehicle to test mileage and to oversee costs of operation and maintenance in comparison to gas-powered vehicles.

Our goal is to ensure we are developing a feasible, environmentally-friendly vehicle system.

REDUCING LIGHT POLLUTION MAKES A DIFFERENCE TO TINY SEABIRDS

Protecting our environment and the wildlife which live within it is important to us. In 2018, we took steps to reduce the impact of our terminal station infrastructure on Leach's Storm-Petrels *(Oceanodroma leucorhoa)*.

These small seabirds with relatively long wings are excellent fliers. However, Leach's Storm-Petrels are attracted to lights, particularly on foggy nights, and they can crash into buildings with lighted areas. Fortunately, this type of accident does not often result in mortality.

The period of greatest risk of attraction to lights occurs at the end of the breeding season when adults and newly fledged chicks leave their colonies to migrate to their offshore wintering grounds.

Past experience suggests that any foggy or windy night during September and October could pose a risk. Our employees took several steps to reduce the occurrence of these events at the Soldiers Pond Terminal Station. They reduced any unnecessary lighting around the site, changed the angle on lighting to reduce any upward glow, and carried out searches for stranded birds and released them back to the ocean.

Image: These birds are dark brown in colour and show a conspicuous white patch at the base of the tail. Given their size, Leach's Storm-Petrels are easy prey. To protect themselves from predation, they are only active at night when on land.

Years ended December 31	**2018**	2017	2016	2015	2014
INSTALLED GENERATING CAPACITY (rated megawatts)					
Churchill Falls	**5,428**	5,428	5,428	5,428	5,428
Hydro - Hydraulic					
Hydraulic	**956**	956	956	956	956
Thermal	**741**	741	741	741	617
Diesel	**67**	67	66	66	64
Menihek	**19**	19	19	19	19
Total	**7,211**	7,211	7,210	7,210	7,084
ELECTRIC ENERGY GENERATED, NET (gigawatt hours GWh)					
Churchill Falls	**35,598**	30,927	33,806	33,470	32,192
Hydro					
Hydraulic	**4,944**	4,507	4,380	4,823	4,658
Thermal	**1,118**	1,725	1,740	1,500	1,316
Diesel	**52**	50	53	52	54
Menihek	**49**	45	46	46	48
Total	**41,761**	37,254	40,025	39,891	38,268
ELECTRIC ENERGY SALES (GWh)					
Churchill Falls Export	**28,970**	28,970	27,995	28,692	27,568
Hydro					
Utility	**5,839**	5,895	5,845	6,072	5,852
Rural	**1,186**	1,148	1,099	1,092	1,089
Industrial	**2,117***	2,386*	2,300*	2,231*	535
Export	**1,579**	1,578	1,649	1,645	1,545
Menihek Export	**49**	45	45	45	45
Twin Falls Industrial	**-**	-	-	-	1,607
Total	**39,740**	40,022	38,933	39,777	38,241
TRANSMISSION LINES (kilometres)					
Churchill Falls					
735 kV	**608**	608	608	608	608
230 kV	**-**	-	471	471	471
Hydro					
230 kV	**2,267**	2,267	1,609	1,609	1,609
138 kV	**1,500**	1,500	1,500	1,500	1,500
69 kV	**634**	634	634	634	634
Menihek					
69 kV	**39**	39	39	39	39
Total	**5,048**	5,048	4,861	4,861	4,861
PEAK ELECTRICITY DEMAND (megawatts)					
Churchill Falls	**5,531**	5,611	5,670	5,610	5,620
Hydro System	**1,503**	1,540	1,521	1,550	1,535
Island System	**1,640**	1,714	1,673	1,705	1,687
PETROLEUM AND NATURAL GAS PROPERTIES					
Oil Production (Thousands Barrels of Oil Equivalent (BOE)/day)					
White Rose Growth Lands	**0.80**	1.38	0.86	0.98	1.52
Hibernia Southern Extension	**5.05**	7.38	5.22	0.46	0.29
Hebron	**3.02**	1.10	-	-	-
Remaining Reserves (Proven and Probable) (Millions BOE)					
White Rose Growth Lands	**7.36**	8.43	5.66	2.85	3.63
Hibernia Southern Extension	**15.25**	18.20	23.53	24.98	25.10
Hebron	**35.49**	36.03	34.35	33.17	33.17
STAFFING LEVELS					
Full-time equivalents	**1,566**	1,528	1,490	1,460	1,394

*Includes sales former Twinco Bloc.

FINANCIAL STATISTICS

Years ended December 31 (millions of dollars)	2018	2017	2016	2015	2014
OPERATING RESULTS					
Continuing operations					
Revenue					
Energy sales[1]	**994**	841	779	761	756
Other revenue	**24**	23	24	30	25
	1,018	864	803	791	781
Expenses					
Fuels and power purchased	**265**	288	229	254	336
Operating costs	**220**	218	206	243	215
Production, marketing and transportation costs[1]	**45**	30	26	12	11
Transmission rental and market fees	**25**	25	22	22	22
Depreciation, depletion, amortization and impairment	**186**	300	135	159	93
Exploration and evaluation	**29**	1	2	1	1
Net finance expense	**83**	66	72	74	67
Other expense (income)	**29**	23	(4)	1	3
Regulatory adjustments	**(46)**	(91)	(1)	58	(66)
	836	860	687	824	682
Profit (loss) for the year from continuing operations	**182**	4	116	(33)	99
Discontinued operations					
(Loss) profit for the year from discontinued operations	**(2)**	47	20	17	17
Profit (loss) for the year	**180**	51	136	(16)	116
SEGMENT EARNINGS[2]					
Continuing operations					
Hydro	**30**	36	16	(27)	19
Hydro Regulated	28	36	19	(26)	18
Hydro Non-Regulated	2	-	(3)	(1)	1
Power Development	**(2)**	(53)	(1)	(1)	(1)
Muskrat Falls	(2)	(2)	(1)	(1)	(1)
Other - Power Development	-	(51)	-	-	-
Power Supply	**58**	43	62	63	53
LCP Transmission	2	(1)	1	(2)	(1)
Churchill Falls	32	33	41	45	20
Energy Trading	23	15	17	21	32
Other - Power Supply	1	(4)	3	(1)	2
Offshore Development	**125**	(3)	58	(49)	37
Oil and Gas	125	(3)	58	(49)	37
Corporate	**(29)**	(19)	(19)	(19)	(9)
Profit (loss) for the year from continuing operations	**182**	4	116	(33)	99
Discontinued operations					
Offshore Development	**(2)**	47	20	17	17
Bull Arm Fabrication	(2)	47	20	17	17
Profit (loss) for the year	**180**	51	136	(16)	116
FINANCIAL POSITION					
Total current assets[1]	**2,493**	2,751	2,098	3,395	3,357
Total current liabilities	**687**	970	1,750	1,339	740
Net working capital	**1,806**	1,781	348	2,056	2,617
Property, plant and equipment, cost	**17,119**	15,760	12,414	9,202	6,307
Accumulated depreciation, depletion and impairment	**1,364**	1,195	997	877	648
Property, plant and equipment, net	**15,755**	14,565	11,417	8,325	5,659
Sinking funds (long-term portion)[1]	**200**	192	230	282	267
Long-term investments	**130**	332	34	91	1,116
Regulatory deferrals (net)	**88**	38	(184)	(186)	(128)
Other assets	**56**	34	120	85	120
Long-term debt	**9,688**	9,386	5,873	6,008	6,241
Other liabilities	**2,590**	2,529	1,828	1,170	688
Shareholder's equity	**5,757**	5,027	4,264	3,475	2,722
CAPITAL EXPENDITURES[3]	**1,399**	3,424	3,286	2,790	2,035

[1] 2017 comparative figures have been restated following the application of IFRS 15 and IFRS 9, which became effective January 1, 2018.

[2] The operating structure as of December 31, 2018 reflects organizational changes that resulted in revised operating segments effective for reporting on April 1, 2018. The revised structure is comprised of five business segments, as compared to the six previously reported. Offshore Development is comprised of Oil and Gas and Bull Arm Fabrication, of which Bull Arm Fabrication represents a discontinued operation. The designation of segments is based on a combination of regulatory status and management accountability. Previously reported segmented information has been presented to conform with the current operating structure.

[3] Capital expenditures includes tangible and intangible expenditures.

EXECUTIVE, DIRECTORS AND OFFICERS
(listed as at Dec. 31, 2018)

NALCOR ENERGY BOARD OF DIRECTORS

BRENDAN PADDICK
Chairperson
CEO, Columbus Capital Corp.

JOHN GREEN [2]
Lawyer, McInnes Cooper

GEOFF GOODYEAR [2, 4]
Retired

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

JACK HILLYARD [1, 3]
Retired BMO Executive

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

STAN MARSHALL
President and CEO, Nalcor Energy

BRIAN MAYNARD [1, 3]
Retired Oil and Gas Executive

DEBBIE MOLLOY [1, 2, 4]
Vice President, Corporate Services, Eastern Health

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

EDNA TURPIN [4]
Psychologist/Corporate Director

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

NALCOR ENERGY OFFICERS

STAN MARSHALL
President and CEO, Nalcor Energy

DERRICK STURGE
Executive Vice President, Finance and Chief Financial Officer

GILBERT BENNETT
Executive Vice President, Power Development

JOHN MACISAAC *
Executive Vice President, Power Supply

JIM KEATING
Executive Vice President, Corporate Services and Offshore Development

PETER HICKMAN
Vice President, General Counsel and Corporate Secretary

ROBERT HENDERSON
Vice President, Transition to Operations

MIKE ROBERTS
Chief Human Resources Officer and Vice President, Safety, Health and Sustainability

CARLA RUSSELL
Chief Accounting Officer, Finance

AUBURN WARREN
Director, Financial Planning, Treasury and Risk Management, Finance

MEREDITH BAKER
Assistant Corporate Secretary

* As of publication date, no longer in this position (effective February 15, 2019).

EXECUTIVE, DIRECTORS AND OFFICERS
(listed as at Dec. 31, 2018)

NEWFOUNDLAND AND LABRADOR HYDRO BOARD OF DIRECTORS

JOHN GREEN
Chairperson
Lawyer, McInnes Cooper

STAN MARSHALL
President and CEO, Nalcor Energy

DONNA BREWER
Retired

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

BRENDAN PADDICK
CEO, Columbus Capital Corp.

DAVID OAKE
President, Invenio Consulting Inc.

FRASER EDISON
President and CEO, Rutter Inc.

JOHN MALLAM
Retired

WILLIAM NIPPARD
President & CEO, Renfrew Hydro Inc.

BRIAN WALSH
Retired

NEWFOUNDLAND AND LABRADOR HYDRO OFFICERS

STAN MARSHALL
Chief Executive Officer

DAWN DALLEY
Vice President, Regulatory Affairs and Corporate Services

TERRY GARDINER
Vice President, Engineering Services

JIM HAYNES *
President

LISA HUTCHENS
Vice President, Finance

MICHAEL LADHA
Assistant Corporate Secretary

RONALD LEBLANC
Vice President, Transmission, Distribution & NL System Operator

JENNIFER WILLIAMS **
Vice President, Production

GEOFF YOUNG
Corporate Secretary and General Counsel

* As of publication date, Executive Vice President, Power Supply, Nalcor Energy (effective February 15, 2019).

** As of publication date, President, Hydro (effective February 15, 2019).

CORPORATE GOVERNANCE

BOARD OF DIRECTORS

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

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

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

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

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

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

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

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

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

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

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

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

The Board also has four standing committees:

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

Nalcor has the following subsidiary companies (in addition to Newfoundland and Labrador Hydro), each with its own Board of Directors (listed as at Dec. 31, 2018).[3]

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

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

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

CORPORATE GOVERNANCE

CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED

BRENDAN PADDICK
Chairperson
CEO, Columbus Capital Corp.

DAVID MURRAY
COO, President, Hydro-Québec Production

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

JOHN GREEN
Lawyer, McInnes Cooper

STAN MARSHALL
President and CEO, Nalcor Energy

BOB WARR
Managing Director, Nor-Lab Limited

GEOFF GOODYEAR
Retired

DAVID OAKE
President, Invenio Consulting Inc.

NALCOR ENERGY – OIL & GAS INC.

BRENDAN PADDICK
Chairperson
CEO, Columbus Capital Corp.

JUSTIN LADHA
Vice President, KMK Capital Inc.

MARK MACLEOD
Formerly President and CEO, C-Core

STAN MARSHALL
President and CEO, Nalcor Energy

BRIAN MAYNARD
Retired Oil and Gas Executive

NALCOR ENERGY – BULL ARM FABRICATION INC.

EDNA TURPIN
Chairperson
Psychologist/Corporate Director

MARK MACLEOD
Formerly President and CEO, C-Core

STAN MARSHALL
President and CEO, Nalcor Energy

DEBBIE MOLLOY
Vice President, Corporate Services, Eastern Health

DAVID OAKE
President, Invenio Consulting Inc.

TWIN FALLS POWER CORPORATION LIMITED

ROBERT HULL
President
Director, Commercial Management and Integration, Nalcor Energy

VAN ALEXOPOULOS
Director, Commercial Services, Iron Ore Company of Canada

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

JEANNINE FITZGERALD
Senior Manager, Commercial and Strategy, Nalcor Energy

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

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

MIKE ROBERTS
Chief Human Resources Officer and Vice President, Safety, Health and Sustainability, Nalcor Energy

CORPORATE GOVERNANCE

LOWER CHURCHILL MANAGEMENT CORPORATION

JOHN MACISAAC *
Chairperson
Executive Vice President, Power Supply, Nalcor Energy

GILBERT BENNETT
Executive Vice President, Power Development, Nalcor Energy

STAN MARSHALL
President and CEO, Nalcor Energy

JUNE PERRY
President and CEO, Pilot Communications

MIKE ROBERTS
Chief Human Resources Officer and Vice President, Safety, Health and Sustainability, Nalcor Energy

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

JOHN GREEN
Chairperson
Lawyer, McInnes Cooper

LIBBY BURNHAM
Lawyer

RON ELLSWORTH
Business Person

STAN MARSHALL
President and CEO, Nalcor Energy

EDNA TURPIN
Psychologist/Corporate Director

GEOFF GOODYEAR
Retired

LABRADOR-ISLAND LINK HOLDING CORPORATION

JACK HILLYARD
Chairperson
Retired BMO Executive

SHEILA KELLY-BLACKMORE
Business Person

JOHN MACISAAC
Executive Vice President, Power Supply, Nalcor Energy

DERRICK STURGE
Executive Vice President, Finance and Chief Financial Officer, Nalcor Energy

BRENDAN PADDICK
CEO, Columbus Capital Corp.

LABRADOR-ISLAND LINK OPERATING CORPORATION

BRENDAN PADDICK
Chairperson
CEO, Columbus Capital Corp.

CHRISTOPHER HICKMAN
CEO, Marco Group of Companies

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

DAVID OAKE
President Invenio Consulting Inc.

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

GEOFF GOODYEAR
Retired

* As of publication date, no longer in this position (effective February 15, 2019).

CORPORATE GOVERNANCE

LABRADOR TRANSMISSION CORPORATION

RONALD COLE
Chairperson
Lawyer, Cole Law Offices

JOHN MACISAAC *
Executive Vice President, Power Supply, Nalcor Energy

STAN MARSHALL
President and CEO, Nalcor Energy

DERRICK STURGE
Executive Vice President, Finance and Chief Financial Officer, Nalcor Energy

BRENDAN PADDICK
CEO, Columbus Capital Corp.

MUSKRAT FALLS CORPORATION

CHRISTOPHER HICKMAN
Chairperson
CEO, Marco Group of Companies

RICHARD DAW
Chartered Professional Accountant,
Certified Management Consultant

JACK HILLYARD
Retired BMO Executive

STAN MARSHALL
President and CEO, Nalcor Energy

JOHN QUAICOE
Professor, Faculty of Engineering and Applied Science,
Memorial University of Newfoundland and Labrador

EDNA TURPIN
Psychologist/Corporate Director

NALCOR ENERGY MARKETING CORPORATION

BRIAN MAYNARD
Chairperson
Retired Oil and Gas Executive

GREGORY CONNORS
Lawyer, McInnes Cooper

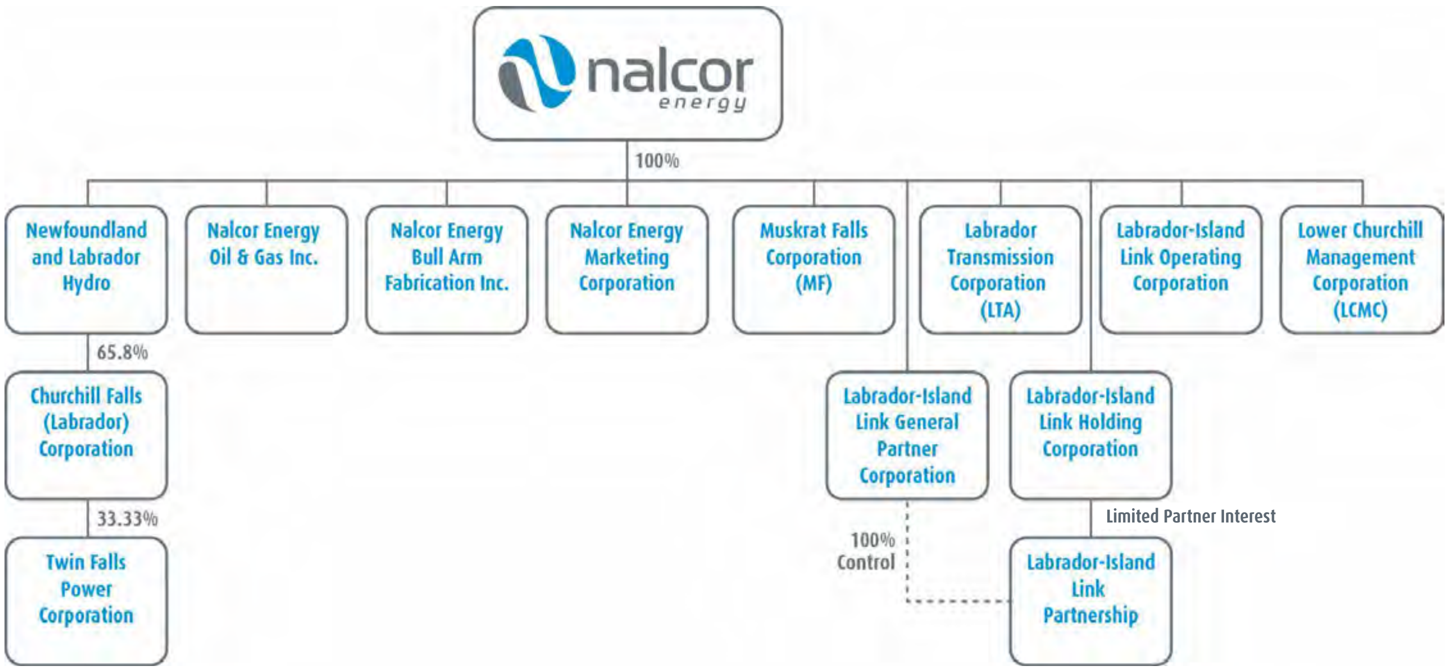
JOHN GREEN
Lawyer, McInnes Cooper

STAN MARSHALL
President and CEO, Nalcor Energy

DEBBIE MOLLOY
Vice President, Corporate Services, Eastern Health

* As of publication date, no longer in this position (effective February 15, 2019).

CORPORATE GOVERNANCE



AUDIT COMMITTEE

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

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

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

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

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

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

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

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE COMMITTEE

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

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

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

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

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

HUMAN RESOURCES AND COMPENSATION COMMITTEE

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

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

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

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

d) Review and assess annually corporate performance metrics;

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

f) Review the approach to employment diversity and inclusion;

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

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

SAFETY, HEALTH, ENVIRONMENT AND COMMUNITY COMMITTEE

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

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

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

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

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

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

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

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

POLICY ON INDEPENDENCE OF EXTERNAL AUDITORS

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

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

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

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

d) establishing a process for hiring current or former members of the Audit Management Team of the External Auditor in a financial reporting oversight role to ensure auditor independence is maintained.

EXTERNAL AUDITOR'S FEES

The external auditor of Nalcor and its subsidiaries is Deloitte. Deloitte has been the external auditor since 2003. Professional fees incurred in 2018 in connection with audit and audit-related services were $1.0 million (2017 - $1.0 million) and fees related to non-audit services were $0.1 million (2017 - $nil).

ENERGY PORTFOLIO

LEGEND

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

* OPERATED UNDER LICENCE FROM THE GOVERNMENT OF NEWFOUNDLAND AND LABRADOR

PPA POWER PURCHASE AGREEMENT

APPENDIX 1

nalcor energy

Table of Contents

HEAD OFFICE

NALCOR ENERGY
Hydro Place. 500 Columbus Drive
P.O. Box 12800. St. John's, NL
Canada A1B 0C9

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F. 709.737.1800
E. info@nalcorenergy.com
W. nalcorenergy.com

SECTION 1: CORPORATE OVERVIEW

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

Nalcor's legal structure as at December 31, 2018 included the entities listed below:

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

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

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

Effective September 30, 2018, the Offshore Development segment, which included Oil and Gas and Bull Arm Fabrication, was classified as a discontinued operation based on the expectation that the full segment would be distributed to the Province. On March 11, 2019, the Province announced the structure of the new provincial oil and gas Crown corporation, which resulted in the existing Oil and Gas operations, specifically existing equity interests in offshore developments, remaining with Nalcor. As a result, Oil and Gas no longer met the criteria for a discontinued operation and its results are reported within the continuing operations of Nalcor at December 31, 2018. The classification of Bull Arm Fabrication as a discontinued operation was not impacted by this change and as a result was reported as a discontinued operation at December 31, 2018.

The following summary provides a brief overview of the nature of the operations included in each of the Company's operating segments.

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

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

Power Development – is comprised of the following:

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

Power Supply – is comprised of the following:

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

Offshore Development – is comprised of the following:

- **Oil and Gas** - 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.

<u>Discontinued Operations</u>

Effective September 30, 2018, the Offshore Development segment, including Oil and Gas and Bull Arm Fabrication, was classified as a discontinued operation and was expected to be distributed to the Province. Subsequently the Province announced the structure of the new Crown corporation, which resulted in only Bull Arm Fabrication meeting the criteria for a discontinued operation. Bull Arm Fabrication was classified as a disposal group held for distribution and results have been presented in accordance with IFRS 5 – *Non-current assets held for sale and discontinued operations*.

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

Nalcor maintains appropriate systems of internal control, policies and procedures which provide Management with reasonable assurance that assets are safeguarded and its financial information is reliable. The following discussion and analysis includes results as of December 31, 2018 with subsequent event and outlook information updated to March 26, 2019. The Management Discussion and Analysis (MD&A) is the responsibility of Management and the Board of Directors carries out its responsibility for review of this disclosure principally through its Audit Committee. This MD&A was reviewed by the Audit Committee and approved by the Board of Directors on March 1, 2019.

This MD&A should be read in conjunction with the annual audited consolidated financial statements of Nalcor for the year ended December 31, 2018.

Basis of Presentation

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

Discontinued Operations

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

IFRS standard. The following outlines the appropriate criteria and treatment for assets classified as discontinued operations.
When the sale or distribution is highly probable and the asset or disposal group is available for immediate sale or distribution in its present condition, it is said to have met the criteria as held for sale or distribution. The facilitation of the sale or distribution should be highly probable, prior to classifying the asset or asset group as a discontinued operation, and Management must be committed to the plan and expects the transaction to occur within one year from the date of classification. Non-current assets and disposal groups should be classified as held for sale if their carrying amounts will be recovered principally through a sale transaction or distribution, rather than through continuing use. Assets and liabilities classified as held for sale or distribution are presented separately as current items in the Consolidated Statement of Financial Position. Discontinued operations are excluded from the results of continuing operations and are presented as a single amount with the title profit or loss from discontinued operations in the Consolidated Statement of Profit or Loss. For further details on the designation of Bull Arm Fabrication as a discontinued operation, refer to Note 5 of the annual audited consolidated financial statements of Nalcor for the year ended December 31, 2018.

Non-GAAP Financial Measures

Certain financial measures in this MD&A are not prescribed by IFRS as contained within Part I of the Chartered Professional Accountants of Canada Handbook. These non-generally accepted accounting principles (Non-GAAP) financial measures are defined in Section 8 – Non-GAAP Financial Measures.

Forward-Looking Information

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

Forward-looking information involves significant risks, uncertainties and assumptions. Nalcor cautions readers that a number of factors could cause actual results, performance and achievements to differ materially from the results discussed or implied in forward-looking information. These factors should be considered carefully and undue reliance should not be placed on the forward-looking information. Risk factors which could cause results or events to differ from current expectations are detailed under "Key Business Risks" heading in this MD&A. Key Risk factors for 2018 include, but are not limited to: uncertainty regarding the outcome of regulatory proceedings in Hydro; the impact of fluctuations in oil; and electricity prices and foreign exchange rates and risk associated with the completion of Nalcor's capital expenditure program, including completion of major capital projects in the timelines anticipated and the expected amounts.

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

SECTION 2: SUMMARY OF FINANCIAL HIGHLIGHTS AND RECENT DEVELOPMENTS

FINANCIAL HIGHLIGHTS

Key Profit Drivers

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

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

Certain development, operating and interest costs incurred during the construction of LCP assets are not eligible for capitalization under IFRS in advance of full project commissioning. As a result, until the arrangements for recovery of these costs come into effect and are recovered through customer rates in Hydro Regulated, they may directly impact Nalcor's profit in the period incurred and may be material.

Hydro Regulated filed for a deferral account in its original 2017 General Rate Application (GRA or Application) to defer all pre-commissioning operating costs and savings associated with off-island power purchases. In a supplemental GRA settlement agreement dated July 16, 2018, which is subject to final PUB approval, all parties agreed for Hydro Regulated to remove its Application for the deferral account and include all pre-commissioning operating costs and savings in current rates. On October 25, 2018, the Province issued an Order in Council to the PUB to adopt a policy, upon application by Hydro Regulated, that results in the deferral of all costs, expenditures and payments incurred by Hydro Regulated associated with the usage of the LIL and LTA prior to the completion of the Muskrat Falls hydroelectric generating station. In Q4 2018, Hydro Regulated filed an application for this deferral, which was approved by the PUB on December 12, 2018. Disposition of the amounts deferred will be addressed in a subsequent application.

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

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2018**	2017	2016	**2018**	2017	2016
Revenue, inclusive of discontinued operations	**262**	257	227	**1,018**	913	824
Operating profit[1]	**49**	31	62	**191**	157	136
Profit (loss)	**40**	(101)	62	**180**	51	136
Funds from operations (FFO)[1]	**91**	79	103	**372**	358	279
Earnings before interest, taxes, depreciation, depletion, amortization, impairment and accretion (EBITDA)[1]	**110**	94	117	**449**	417	343
Return on capital employed (ROCE)[1,2]				**6.5%**	7.6%	7.9%
Capital expenditures[3]	**250**	673	761	**1,384**	2,836	2,801
Oil production (thousands of bbls)[5]	**643**	757	733	**3,421**	3,023	2,226
Realized oil price (CAD/bbl)	**71**	75	69	**84**	69	64
Electricity sales (GWh):						
Regulated	**2,150**	2,076	2,032	**7,662**	7,626	7,461
Export sales – Hydro-Québec[4]	**7,302**	7,302	7,302	**28,970**	28,970	27,995
Export deliveries – Hydro-Québec[4]	**8,383**	7,811	8,831	**30,959**	26,218	27,995
Export – other markets	**305**	359	378	**1,562**	1,594	1,627
Realized electricity price – Other Export Markets (CAD/MWh)	**42**	37	28	**38**	31	29

[1]See Section 8 – Non-GAAP Financial Measures

[2]Rolling 12 month average

[3]Excluding Maritime Link

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

[5]Oil production for the three months ended December 31, 2018 was lower compared to the same period in 2017 and 2016 due to a maintenance shutdown at Hibernia South Extension (HSE) during Q4 2018, partially offset by a full fourth quarter of production at Hebron. Oil production for the year ended December 31, 2016, was lower compared to the same period in 2017 and 2018 as a result of strong water injection support at HSE in 2017 and Hebron moving into the production phase during Q4 2017, providing additional volumes throughout 2018.

Profit

Nalcor's profit for the three months ended December 31, 2018 was $40 million compared to a loss of $101 million for the same period in 2017, an increase of $141 million. Key drivers of the increase include non-recurring expenses recognized in 2017 related to the impairment of exploration intangible assets and Gull Island project costs and costs associated with the Community Development Agreement (CDA) between the NunatuKavut Community Council (NCC) and Nalcor. The increase for the quarter was also driven by Hydro Regulated and the approval of a 2018 cost deferral, implementation of new interim rates and lower supply costs. These increases were partially offset by lower revenues in Oil and Gas, the conclusion of the sublease with ExxonMobil Canada Properties (EMCP) in Q4 2017 and increased financing and operating costs related to Hydro Regulated.

Nalcor's profit for the year ended December 31, 2018 was $180 million compared to $51 million for the same period in 2017, an increase of $129 million. Key drivers of the annual increase include non-recurring expenses recognized in 2017 related to the impairment of exploration intangible assets and Gull Island project costs. The increase for the year was also driven by higher revenues in Oil and Gas as a result of higher average Dated Brent prices and increased production volumes; an increase in Energy Trading revenue due to higher export prices; and approval of a 2018 cost deferral, implementation of new interim rates and lower supply costs in Hydro Regulated. These increases were partially offset by lower revenues in Bull Arm Fabrication as a result of the sublease with EMCP concluding in Q4 2017; higher production and exploration costs in Oil and Gas; and increased financing and operating costs related to Hydro Regulated.

A detailed discussion of the performance of each of Nalcor's segments is contained in Section 4 – Segmented Results and Analysis.

FFO and EBITDA

FFO for the three months ended December 31, 2018 was $91 million compared to $79 million for the same period in 2017, an increase of $12 million. FFO for the year ended December 31, 2018 was $372 million compared to $358 million for the same period in 2017, an increase of $14 million.

EBITDA for the three months ended December 31, 2018 was $110 million compared to $94 million for the same period in 2017, an increase of $16 million. EBITDA for the year ended December 31, 2018 was $449 million compared to $417 million for the same period in 2017, an increase of $32 million.

The change in these metrics for the quarter and year was primarily due to the drivers noted in the profit analysis above.

ROCE

ROCE for the year ended December 31, 2018 was lower than the same period in 2017 as a result of higher capital employed due to Hebron moving into production late in 2017.

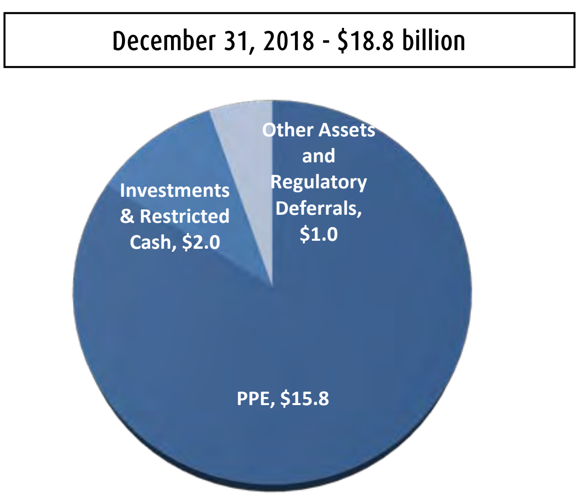
Capital Expenditures

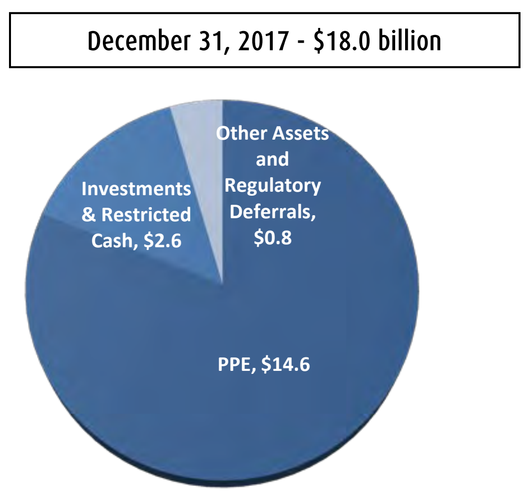
Capital expenditures for the three months ended December 31, 2018, excluding Maritime Link, were $250 million compared to $673 million for the same period in 2017, a decrease of $423 million. Capital expenditures for the year ended December 31, 2018 were $1,384 million compared to $2,836 million for the same period in 2017, a decrease of $1,452 million. The decrease for the quarter and year-to-date was primarily due to decreases in capital incurred in LCP Transmission and Muskrat Falls, as we get closer to in-service of these assets; and lower capital growth for Hydro Regulated and Oil and Gas. A detailed discussion of the segmented capital expenditures is provided in Section 5 – Liquidity and Capital Resources.

Statement of Financial Position

As at (millions of Canadian dollars)	**December 31 2018**	December 31 2017
Total assets	**18,793**	17,991
Capital assets, net	**15,755**	14,565
Total debt (net of sinking funds)	**10,253**	10,097
Shareholder's equity	**5,757**	5,027
Debt to capital (%)	**64%**	67%

Total Assets





Nalcor's total assets of $18.8 billion as at December 31, 2018 were comparable to $18.0 billion as at December 31, 2017. The composition of the Company's assets as at December 31, 2018 included property, plant and equipment of $15.8 billion (December 31, 2017 - $14.6 billion), investments and restricted cash primarily from the proceeds of the Muskrat Falls and LCP Transmission financing of $2.0 billion (December 31, 2017 - $2.6 billion), and other assets and regulatory deferrals totaling $1.0 billion (December 31, 2017 - $0.8 billion). Further details on changes in the Consolidated Statement of Financial Position are included in Section 3 – Consolidated Financial Results.

Total Liabilities and Equity

Total liabilities and equity of $13.0 billion and $5.8 billion, respectively, at December 31, 2018 are comparable to $13.0 billion and $5.0 billion at December 31, 2017. Further details on changes in the Consolidated Statement of Financial Position are included in Section 3 – Consolidated Financial Results.

Debt to Capital

Debt to capital of 64% as at December 31, 2018 is slightly lower than 67% as at December 31, 2017. See Section 5 – Liquidity and Capital Resources for further details.

RECENT DEVELOPMENTS

HYDRO REGULATED

2017 General Rate Application

Hydro Regulated filed its 2017 General Rate Application in July 2017, using 2018 and 2019 Test Years. Hydro Regulated filed interim rate proposals in the first half of 2018. Order No. P.U. 7(2018) approved interim rates for Island Industrial Customers effective April 1, 2018. For Hydro Regulated's customers on the Island Interconnected System, Order No. P.U. 15(2018) approved both interim rates and the annual rate change as a result of normal operation of the RSP, effective July 1, 2018.

In 2018, Hydro Regulated signed three settlement agreements with intervenors relating to the 2017 GRA. These agreements deal with certain issues arising from the Application that the parties have settled through negotiations. The financial impacts associated with these agreements are subject to PUB approval through the final GRA Order.

Any adjustments to the requested revenue requirement from January 1, 2018, until final rates are approved, will be addressed through the 2017 GRA process. The hearing portion of Hydro Regulated's 2017 GRA has concluded and final customer rates are not expected to be in place until the latter half of 2019.

On October 25, 2018, the Province issued an Order in Council to the PUB to adopt a policy, upon application by Hydro Regulated, that results in the deferral of all costs, expenditures and payments incurred by Hydro Regulated associated with the usage of the LIL and LTA prior to the completion of the Muskrat Falls hydroelectric generating station. An application pursuant to this Order in Council was filed by Hydro Regulated during Q4 2018, which was approved by the PUB issued Order No. P.U. 47(2018) on December 12, 2018. Disposition of the balance is subject to a future PUB Order.

On October 26, 2018, Hydro Regulated filed an application seeking approval of a 2018 Cost Deferral and updated interim rates for Island Industrial customers to be implemented on January 1, 2019. The 2018 Cost Deferral will provide Hydro Regulated with the opportunity to earn a reasonable return in 2018 due to the delayed implementation of final customer rates and represents the difference between the proposed depreciation methodology as outlined in one of the GRA settlement agreements and the 2018 actual depreciation expense. The proposal for updated interim rates for Island Industrial customers will allow for a base rate decrease to reflect the Island Industrial customers 2019 cost of service in conjunction with an RSP rate increase resulting from the normal operation of the RSP. On December 13, 2018, the PUB issued Order No. P.U. 48(2018) approving this application

The 2017 GRA also includes proposals related to the disposition of the Energy Supply Cost deferrals approved in Order No. P.U. 22(2017). On July 2, 2018, the PUB's consultant Liberty filed their review of the Energy Supply Deferral for the period of 2015-2017. Liberty did not recommend any specific disallowance of the Energy Supply Deferral as their analysis revealed no evidence of imprudence.

July 1, 2018 Rate Change

On July 1, 2018, Hydro Regulated implemented a change in rates related to an interim base rate increase for Newfoundland Power customers and updated RSP recovery rates reflecting: (i) a change in the RSP in accordance with the normal operation of the RSP; (ii) an updated fuel forecast (reflecting updates to both price and quantity of No. 6 fuel); and (iii) conclusion of the 2017 RSP Mitigation

Adjustment. The combined effect of these changes resulted in an end-consumer increase of 6.8% as approved in Order No. P.U. 15(2018).

Rate Stabilization Plan Surplus Refund

In July 2016, Hydro Regulated filed an application with the PUB for approval of a plan to refund the balance in the RSP Surplus to Newfoundland Power and Hydro Regulated's Island Interconnected Rural customers. The RSP Surplus to be refunded was approximately $141 million, and refunds began in the first quarter of 2017. At the end of 2018, approximately $134 million of the balance had been refunded. The disposition of the RSP Surplus concluded at the end of 2018. The remaining balance will be applied to the RSP current account balance in 2019.

2018 Capital Budget

In Q1 2018, the PUB approved $181 million of the $206 million included in Hydro Regulated's 2018 Capital Budget Application and all proposed projects, excluding the Muskrat Falls to Happy Valley-Goose Bay Interconnection project, which has been deferred and expected to be dealt with during the first quarter of 2019; and a proposal regarding the provision of reliable service in Labrador East, which has since been approved.

2018 Supplemental Capital

During 2018, Hydro Regulated submitted supplemental capital applications totaling $6.3 million. Projects approved included restoration of the generating capacity of units 1, 2 and 3 at the HTGS for $2.6 million and completion of a Level 2 condition assessment of Penstocks 1 and 2 in Bay D'Espoir for $1.1 million. In addition, $5 million was approved under the Allowance for Unforeseen.

2019 Capital Budget

On July 31, 2018, Hydro Regulated filed its 2019 Capital Budget Application seeking approval for a $116 million capital budget. On December 10, 2018, the PUB issued Order No. P.U. 46(2018) approving this application.

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

The Phase II Investigation and Hearing into Supply Issues and Power Outages on the Island Interconnected System, which began in January 2014, is ongoing. The focus of this proceeding continues to be on the reliability and adequacy of the Island Interconnected System leading up to, and after, the interconnection of Muskrat Falls. Hydro Regulated continues to file requested progress updates and operational reports related to this matter and in November 2018 submitted a supply adequacy review as a component of its Phase II deliverables. Currently, quarterly updates on progress towards integration of the LCP assets into the Hydro system are provided by LCP to the Liberty Consulting Group (Liberty), which in turn, files a quarterly report to the PUB on progress. Beginning in October 2018, Hydro Regulated is also providing bi-weekly updates regarding the in-service plans for the LIL.

MUSKRAT FALLS

In Q3 2018, Nalcor directed Astaldi Canada Inc. (Astaldi) to stop work at the Muskrat Falls worksite given Astaldi's inability to pay its workers. Nalcor had been monitoring the financial situation of Astaldi following an application by its parent company to seek creditor protection in late September 2018, at which time it also filed a notice of arbitration against Muskrat Falls. Astaldi's work was nearing completion when the direction to stop work occurred; however, work activities by other contractors continued as planned. In November 2018, Muskrat Falls issued a demand for $184 million in letters of credit relating to a construction contract related to the Muskrat Falls generating station. The proceeds were received in February 2019. In December, Nalcor entered into a contract with Pennecon Limited to continue critical work on the Muskrat Falls generating facility to mitigate cost and schedule risks, as a result of Astaldi's shutdown. Nalcor does not anticipate any changes to the current schedule or budget as a result of this issue.

Commission of Inquiry into the Muskrat Falls Project

The Commission of Inquiry Respecting the Muskrat Falls Project (the Inquiry) was established by the Province on November 20, 2017, with Justice Richard LeBlanc as the appointed Commissioner. The Terms of Reference and identification of those with standing in the Inquiry have been released. The Inquiry will take place in three phases throughout 2018 and 2019. Hearings for phase one started during September 2018, in Happy Valley-Goose Bay and St. John's, and concluded in December. The two remaining phases of hearings will take place in 2019 and commenced on February 18, 2019. The Inquiry will be ongoing for the remainder of 2019, with the final report due to be delivered to the Minister of Natural Resources on or before December 31, 2019.

Reference on Rate Mitigation Options and Impacts Relating to the Muskrat Falls Costs

On September 5, 2018, in accordance with the reference provided under Section 5 of the Electrical Power Control Act, the Province issued Terms of Reference to the PUB to review LCP rate mitigation options and related impacts. The terms of reference for the review and report include options to reduce the impact of LCP on electricity rates, the amount of required and surplus energy and capacity from the project and the rate impacts of the options based on the most recent project cost estimates. The PUB is required to provide two reports throughout the review, an interim report which was released on February 19, 2019 and a final report due on or before January 31, 2020.

On January 2, 2019, the PUB released two reports issued by Synapse Energy Economics Inc. (Synapse) and Liberty on rate mitigation options and impacts relating to the Muskrat Falls Project costs during Phase 1. The findings in both the Synapse and Liberty reports are largely in line with the work Nalcor has performed to date on mitigation of rates for customers. Nalcor will continue to work with the PUB and its consultants through Phase 2 of this work.

LCP TRANSMISSION

During Q2 2018, the energization phase of the new transmission assets commenced, which included the initial flow of electricity from the Churchill Falls Generating Station to the Province over the LIL. Commissioning is ongoing, which has enabled Hydro Regulated to repurpose Recapture energy in Q4 to service Island customers and partially offset the HTGS. Commissioning will continue throughout 2019 to ensure the new transmission assets are successfully integrated into the existing grid.

CHURCHILL FALLS

In February 2018, the power purchase agreements with Hydro were amended and executed to reflect changes in the metering methodology to allow for the use of power sold to Hydro to be used for sales to all customers in Labrador West, not solely the industrial customers. The amendment allows for increased utilization of the power when it is not being fully utilized by industrial customers in Labrador West and enables increased revenues for Churchill Falls.

In 2017, Churchill Falls appealed a ruling related to the 1969 Power Contract between Churchill Falls and Hydro-Québec to the Supreme Court of Canada. The Supreme Court of Canada case addresses the inequities of the pricing terms of the 1969 Power Contract and was presented in December 2017. On November 2, 2018, a final ruling was issued by the Supreme Court of Canada against Churchill Falls. This decision is final and brings an end to an eight year legal process.

In addition, Churchill Falls appealed a ruling of the Québec Superior Court related to the 1969 Power Contract and the associated Renewal Contract to the Québec Court of Appeal. The Québec Court of Appeal case addresses the interpretation of the 1969 Power Contract and the associated Renewal Contract. The appeal hearing was held on December 4, 2018 and a decision of the Court of Appeal is expected to be issued in 2019.

ENERGY TRADING

In January 2018, Energy Trading entered into a short-term contract with Hydro Regulated to procure cost effective off-island energy to displace energy production from HTGS. Following Emera putting the Maritime Link into service during February 2018, Energy Trading continues to work with Hydro Regulated to procure off-island energy to displace energy production from the HTGS. Energy Trading does not realize a profit on these transactions.

OTHER POWER SUPPLY

2018 marked a significant change to the Province's island electricity grid as energy was delivered over Emera's new Maritime Link transmission line to the island electricity customers. With the Maritime Link in service there is greater access for sharing of power across the Atlantic Provinces for the benefit of electricity customers.

OIL AND GAS

On March 27, 2018, the Province announced that the oil and gas subsidiary of Nalcor would be established as a stand-alone Crown corporation. Effective September 30, 2018, the Offshore Development segment, including Oil and Gas and Bull Arm Fabrication, was classified as a discontinued operation and was expected to be distributed to the Province. On March 11, 2019, the Province announced that the new structure would see existing equity interests in offshore developments remaining within the Nalcor corporate structure; while seismic and exploration activities, along with any future equity in offshore developments, being held within the new stand-alone Crown corporation. As a result of the announcement of the new Crown corporation's structure, Oil and Gas is no longer considered to be a discontinued operation of Nalcor. Until transition of seismic and exploration activities to the new Crown corporation occurs, financial results related to these activities will be reported by Nalcor. As of the date of this MD&A, a final decision on the date and specifics of the new Crown corporation has not been made by the Province.

Project activity continues to increase on the West White Rose Project. Construction of the concrete gravity structure began in the first half of 2018 and the structure's base slab was completed in mid-September. First production is expected in 2022.

BULL ARM FABRICATION

Based on the announcement by the Province on March 11, 2019, Bull Arm Fabrication will be established as a subsidiary of the new stand-alone oil and gas Crown corporation upon transition of operations to the Province. Activities to complete this transfer are ongoing, but as of the date of this MD&A, a final decision on the date has not been made.

Two proposals continue to be assessed related to the ongoing Request for Proposal (RFP) process, which commenced in Q4 2017. These proposals are currently being evaluated with a goal of securing one or more tenant(s) in 2019. While evaluation of these proposals is ongoing, Bull Arm Fabrication signed a short-term agreement with DF Barnes for the warm stacking of the West Aquarius drilling rig in Q4 2018 which will continue into Spring 2019.

SECTION 3: CONSOLIDATED FINANCIAL RESULTS

CONSOLIDATED STATEMENT OF PROFIT (LOSS) AND COMPREHENSIVE INCOME (LOSS) HIGHLIGHTS

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2018**	2017	Variance	**2018**	2017	Variance
Continuing Operations						
Revenue	**262**	250	12	**1,018**	864	154
Fuels	**65**	80	(15)	**189**	226	(37)
Power purchased	**20**	14	6	**76**	62	14
Operating costs	**62**	64	(2)	**220**	218	2
Production, marketing and transportation costs	**10**	11	(1)	**45**	30	15
Transmission rental and market fees	**7**	6	1	**25**	25	-
Depreciation, depletion, amortization and impairment	**50**	178	(128)	**186**	300	(114)
Exploration and evaluation	**1**	-	1	**29**	1	28
Net finance expense	**21**	16	5	**83**	66	17
Other expense	**10**	7	3	**29**	23	6
Profit (loss) before regulatory adjustments	**16**	(126)	142	**136**	(87)	223
Regulatory adjustments	**(24)**	(18)	(6)	**(46)**	(91)	45
Profit (loss) for the period from continuing operations	**40**	(108)	148	**182**	4	178
Discontinued operations						
Profit (loss) for the period from discontinued operations	**-**	7	(7)	**(2)**	47	(49)
Profit (loss) for the period	**40**	(101)	141	**180**	51	129
Other comprehensive income (loss) for the period	**24**	(8)	32	**19**	(68)	87
Total comprehensive income (loss) for the period	**64**	(109)	173	**199**	(17)	216

Non-GAAP Operating Profit Disclosure

Reconciliation of Nalcor's profit to operating profit for the three months and year ended December 31, 2018 and 2017 is as follows:

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2018**	2017	Variance	**2018**	2017	Variance
Profit (loss) for the period	**40**	(101)	141	**180**	51	129
Muskrat Falls Inquiry and PUB Reference costs	**3**	-	3	**5**	-	5
Impairment of property, plant and equipment	**4**	51	(47)	**4**	51	(47)
Impairment of intangible assets	**2**	81	(79)	**2**	81	(79)
Close-out of Hebron sublease agreement	**-**	-	-	**-**	(26)	26
Operating profit for the period	**49**	31	18	**191**	157	34

Revenue

Revenue for the three months ended December 31, 2018 was $262 million compared to $250 million for the same period in 2017, an increase of $12 million. Revenue for the year ended December 31, 2018 was $1,018 million compared to $864 million for the same period in 2017, an increase of $154 million. The increase for the quarter was related to higher revenues in Hydro Regulated as a result of the normal operation of the RSP and additional revenue from the implementation of interim rates; partially offset by lower revenues in Oil and Gas primarily related to a reduction in production volumes for HSE and White Rose, partially offset by an increase for Hebron, and lower average Dated Brent price per barrel compared to the same period in 2017. The increase for the year was related to higher revenues in Hydro Regulated as a result of the normal operation of the RSP and additional revenue from the implementation of interim rates and an increase in Oil and Gas related to higher average Dated Brent prices per barrel and higher production volumes. Annual revenue was also impacted by an increase in energy sales for Energy Trading due to higher average export electricity prices; partially offset by a decrease in volume of sales to Newfoundland Power from Hydro Regulated. Although activity in the RSP impacts the revenue line, it is largely offset in the regulatory adjustments line.

Fuels

Fuel costs for the three months ended December 31, 2018 were $65 million compared to $80 million for the same period in 2017, a decrease of $15 million. Fuel costs for the year ended December 31, 2018 were $189 million compared to $226 million for the same period in 2017, a decrease of $37 million. The decrease for both the quarter and year was primarily due to a reduction in consumption of gas turbine and No. 6 fuels; partially offset by increases in fuel prices and increased consumption of diesel. The majority of variances in fuel are either offset through the RSP or through other regulatory mechanisms in the regulatory adjustments line.

Power purchased

Power purchased for the three months ended December 31, 2018 were $20 million compared to $14 million for the same period in 2017, an increase of $6 million. Power purchased for the year ended December 31, 2018 was $76 million compared to $62 million for the same period in 2017, an increase of $14 million. The increase for the three months and year ended was primarily due to energy imported across the Maritime Link, increased purchases from Exploits and L'anse au Loup and increased costs associated with purchases from wind sources; partially offset by reduced purchases from Corner Brook Pulp & Paper. The annual increase was also driven by curtailable load contracts within Hydro Regulated.

Operating costs

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2018**	2017	Variance	**2018**	2017	Variance
Salaries and benefits	**34**	31	3	**139**	134	5
Maintenance and materials	**11**	12	(1)	**35**	39	(4)
Professional services	**10**	5	5	**23**	15	8
Travel and transportation	**2**	1	1	**8**	7	1
Insurance	**2**	2	-	**6**	6	-
Rental and royalty	**1**	1	-	**4**	4	-
Other operating costs	**1**	4	(3)	**3**	3	-
Advertising, donations and community involvement	**1**	8	(7)	**2**	10	(8)
Total operating costs	**62**	64	(2)	**220**	218	2

Operating costs for the three months and year ended December 31, 2018 were comparable with the same periods in 2017.

Production, marketing and transportation costs

Production, marketing and transportation costs for the three months ended December 31, 2018 were comparable to the same period in 2017. Production, marketing and transportation costs for the year ended December 31, 2018 were $45 million compared to $30 million for the same period in 2017, an increase of $15 million. The annual increase was primarily due to higher project operating costs for HSE and Hebron and transportation and transshipment costs for Hebron as a result of entering production in late 2017; partially offset by a decrease in processing fees for HSE and White Rose.

Transmission rental and market fees

Transmission rental and market fees for the three months and year ended December 31, 2018 were comparable to the same periods in 2017.

Depreciation, depletion, amortization and impairment

Depreciation, depletion, amortization and impairment for the three months ended December 31, 2018 was $50 million compared to $178 million for the same period in 2017, a decrease of $128 million. Depreciation, depletion, amortization and impairment for the year ended December 31, 2018 was $186 million compared to $300 million for the same period in 2017, a decrease of $114 million. The decrease for the quarter and year was primarily related to an impairment expense related to previously capitalized Gull Island costs and the write-down of exploration intangible assets in Oil and Gas during 2017; partially offset by increased depreciation in Hydro Regulated associated with increased investment in capital during 2017 and impairment of the Ramea Hydrogen Wind project at December 31, 2018.

Exploration and evaluation

Exploration and evaluation costs for the three months ended December 31, 2018 were comparable to the same period in 2017. Exploration and evaluation costs for the year ended December 31, 2018 were $29 million compared to $1 million for the same period in 2017, an increase of $28 million. The annual increase was primarily due to these costs being capitalized in 2017.

Net finance expense

Net finance expense for the three months ended December 31, 2018 was $21 million compared to $16 million for the same period in 2017, an increase of $5 million. Net finance expense for the year ended December 31, 2018 was $83 million compared to $66 million for the same period in 2017, an increase of $17 million. The increase for the three months and year ended was primarily due to increased interest costs in Hydro Regulated on long-term debt as a result of increased debt levels, lower capitalized interest due to the completion of significant capital projects in 2017 and higher debt guarantee fees associated with increased debt levels; partially offset by lower interest on promissory notes. The annual increase was also impacted by lower earnings on sinking fund investments as a result of a series retirement in Hydro Regulated.

Other expense

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2018**	2017	Variance	**2018**	2017	Variance
Settlement of commodity swap contracts	**5**	2	3	**20**	2	18
Settlement of foreign exchange forward contracts	**1**	(1)	2	**1**	(1)	2
Financial transmission rights income and amortization	**-**	-	-	**(1)**	(1)	-
Cash flow hedge ineffectiveness	**-**	-	-	**-**	1	(1)
Loss on disposal of property, plant and equipment	**7**	9	(2)	**12**	20	(8)
Unrealized foreign exchange gain	**(2)**	(1)	(1)	**(2)**	-	(2)
Realized foreign exchange (gain) loss	**(1)**	(1)	-	**(2)**	2	(4)
Other	**-**	(1)	1	**1**	-	1
Total other expense	**10**	7	3	**29**	23	6

Other expense for the three months ended December 31, 2018 was comparable to the same period in 2017. Other expense for the year ended December 31, 2018 was $29 million compared to $23 million for the same period in 2017, an increase of $6 million. The annual increase was primarily related to unfavourable settlements on oil commodity price contracts; partially offset by lower losses on asset disposals, a recovery in Q3 2017 related to a non-recurring settlement agreement and favourable USD/CAD exchange rates.

Regulatory adjustments

Regulatory recoveries for the three months ended December 31, 2018 were a recovery of $24 million compared to a recovery of $18 million for the same period in 2017, an increase of $6 million. Regulatory recoveries for the year ended December 31, 2018 were a recovery of $46 million compared to a recovery of $91 million for the same period in 2017, a decrease of $45 million. The increase for the three months ended was primarily due to the approval of a 2018 Cost Deferral by the PUB in December 2018 and an increase in energy supply deferrals; partially offset by RSP amortization and deferred fuel costs as a result of the normal operation of the RSP. The decrease for the year was primarily due to RSP amortization and deferred fuel costs as a result of the normal operation of the RSP and favourable impacts of the 2013 Amended GRA Order approving the 2014-2016 cost and energy supply deferrals; partially offset by approval of the 2018 Cost Deferral, a reduction in RSP interest and an increase in energy supply deferrals.

Profit (loss) from discontinued operations

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2018**	2017	Variance	**2018**	2017	Variance
Revenue	**-**	7	(7)	**-**	49	(49)
Operating costs	**-**	-	-	**2**	2	-
Profit (loss) for the period	**-**	7	(7)	**(2)**	47	(49)

Profit (loss) from discontinued operations for the three months ended December 31, 2018 was $nil compared to $7 million for the same period in 2017, a decrease in profit of $7 million. Profit (loss) from discontinued operations for the year ended December 31, 2018 was a loss of $2 million compared to profit of $47 million for the same period in 2017, a decrease in profit of $49 million. The decrease for the quarter and year primarily relates to the conclusion of the EMCP sublease of the Bull Arm Fabrication site at December 31, 2017. The annual decrease was also driven by a one-time sublease revenue adjustment related to the agreement with EMCP during Q2 2017.

Other comprehensive income (loss)

Other comprehensive income (loss) for the three months ended December 31, 2018 was a gain of $24 million compared to a loss of $8 million for the same period in 2017, resulting in an increase in overall gain of $32 million for the quarter. Other comprehensive income (loss) for the year ended December 31, 2018 was a gain of $19 million compared to a loss of $68 million for the same period in 2017, resulting in an increase in overall gain of $87 million for the year. The change for the quarter was primarily driven by higher market oil prices compared to the hedge contract price and actuarial gains versus losses on employee future benefits in 2018. The annual change was driven primarily by unfavourable fair value changes on cash flow hedges in Muskrat Falls and LCP Transmission in 2017, actuarial gains versus losses on employee future benefits in 2018 and higher market oil prices compared to hedge contract prices; partially offset by unfavourable foreign exchange fluctuations on cash flow hedges in Oil and Gas. These changes in fair value are primarily non-cash in nature and therefore do not materially impact the cash flows of Nalcor.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION HIGHLIGHTS

Significant changes in the Consolidated Statement of Financial Position between December 31, 2018 and December 31, 2017 include:

ASSETS *(millions of Canadian dollars)*	Increase (Decrease)	**Explanation**
Restricted cash	385	Increased primarily due to draw down of investments in LCP to fund construction costs of LCP Transmission and Muskrat Falls.
Short-term investments	(720)	Decreased primarily due to the drawdown of LCP structured deposit notes to fund construction costs in LCP Transmission and Muskrat Falls.
Trade and other receivables	64	Increased due to Muskrat Falls issuing a demand for $184 million in letters of credit related to a construction contract and timing of receipts in Oil and Gas; partially offset by lower HST receivables, a reduction in advances to suppliers in Muskrat Falls and timing of receipts in LCP Transmission and Exploits.
Property, plant and equipment	1,190	Increase was driven by capital expenditures related to LCP, Hydro Regulated, Churchill Falls and Oil and Gas; partially offset by depreciation and depletion.
Long-term investments	(202)	Decreased due to reclassification of structured deposit notes to short-term investments in accordance with the payment schedule of the project finance agreements in LCP.
Regulatory assets, net of regulatory deferrals	50	Increased as a result of approval of 2018 cost deferral and increased energy supply deferrals, recovery of which are subject to approval in a future PUB order.
LIABILITIES AND EQUITY		
Short-term borrowings	(180)	Decreased primarily due to repayment of a promissory note to the Province.
Trade and other payables	(98)	Decreased primarily due to lower payables related to Hydro Regulated and LCP assets as a result of timing and payment of milestones reached during the year and payout of contractor holdbacks; partially offset by an increase related to Exploits.
Long-term debt	302	Increased due to new debt issue in Hydro Regulated in March 2018.
Class B limited partnership units	42	Increased due to accrued interest on the Class B partnership units.
Shareholder contributions	531	Increased as a result of equity injections from the Province.
Retained earnings	180	Increased due to profit for the period ended December 31, 2018. Refer to discussion of profit drivers above.

SECTION 4: SEGMENTED RESULTS AND ANALYSIS

The following presents an overview of the Company's profit (loss) for the three months and year ended December 31, 2018, by business segment, in comparison to the three months and year ended December 31, 2017. This discussion should be read in conjunction with Note 35 of the annual audited consolidated financial statements for the three months and year ended December 31, 2018:

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2018**	2017	Variance	**2018**	2017	Variance
Continuing Operations						
Regulated	**24**	2	22	**28**	36	(8)
Non-Regulated	**-**	(1)	1	**2**	-	2
Hydro	**24**	1	23	**30**	36	(6)
Muskrat Falls	**(1)**	(1)	-	**(2)**	(2)	-
Other-Power Development	**-**	(51)	51	**-**	(51)	51
Power Development	**(1)**	(52)	51	**(2)**	(53)	51
LCP Transmission	**1**	-	1	**2**	(1)	3
Churchill Falls	**10**	10	-	**32**	33	(1)
Energy Trading	**4**	6	(2)	**23**	15	8
Other-Power Supply	**-**	(5)	5	**1**	(4)	5
Power Supply	**15**	11	4	**58**	43	15
Oil and Gas	**16**	(62)	78	**125**	(3)	128
Offshore Development	**16**	(62)	78	**125**	(3)	128
Corporate	**(14)**	(4)	(10)	**(26)**	(16)	(10)
Inter-Segment	**-**	(2)	2	**(3)**	(3)	-
Profit from Continuing Operations	**40**	(108)	148	**182**	4	178
Discontinued Operations						
Bull Arm Fabrication	**-**	7	(7)	**(2)**	47	(49)
Profit (loss) from Discontinued Operations	**-**	7	(7)	**(2)**	47	(49)
Profit (loss) for the period	**40**	(101)	141	**180**	51	129

CONTINUING OPERATIONS

HYDRO

HYDRO REGULATED

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

Financial Highlights

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2018**	2017	Variance	**2018**	2017	Variance
Revenue	**170**	151	19	**564**	511	53
Fuels	**65**	80	(15)	**189**	226	(37)
Power purchased	**19**	15	4	**71**	62	9
Operating costs	**35**	32	3	**136**	130	6
Depreciation and amortization	**24**	22	2	**87**	78	9
Net finance expense	**22**	15	7	**87**	65	22
Other expense	**6**	3	3	**13**	6	7
Loss for the period	**(1)**	(16)	15	**(19)**	(56)	37
Regulatory adjustments	**(25)**	(18)	(7)	**(47)**	(92)	45
Profit for the period	**24**	2	22	**28**	36	(8)

Revenue

Revenue for the three months ended December 31, 2018 was $170 million compared to $151 million for the same period in 2017, an increase of $19 million. Revenue for the year ended December 31, 2018 was $564 million compared to $511 million for the same period in 2017, an increase of $53 million. The increase for the three months and year ended was primarily due to the normal operation of the RSP, combined with additional revenue from the implementation of interim rates on April 1, 2018 for Island Industrial customers and July 1, 2018, for the remainder of Hydro Regulated's customers. The annual revenue increase was partially offset by a decrease in volume for Newfoundland Power. Although activity in the RSP impacts the revenue line, it is largely offset in the regulatory adjustments line.

Energy supply is summarized below:

	Three months ended			Twelve months ended		
For the periods ended December 31 (GWh)	**2018**	2017	2016	**2018**	2017	2016
Customer:						
Newfoundland Power	**1,644**	1,600	1,583	**5,839**	5,896	5,845
Rural	**329**	315	316	**1,186**	1,142	1,105
Industrial	**177**	161	133	**637**	588	511
	2,150	2,076	2,032	**7,662**	7,626	7,461
Generation:						
Hydraulic generation[1]	**1,312**	1,114	1,216	**4,944**	4,507	4,381
Holyrood generation	**383**	594	460	**1,073**	1,671	1,621
Standby generation[1,2]	**9**	18	13	**45**	54	120
Thermal diesel generation	**14**	8	13	**52**	45	51
Purchases:						
Domestic[3]	**471**	417	426	**1,793**	1,683	1,613
Off-Island[4]	**72**	-	-	**113**	-	-
Gross generation	**2,261**	2,151	2,128	**8,020**	7,960	7,786
Losses	**111**	75	96	**358**	334	325
Net generation	**2,150**	2,076	2,032	**7,662**	7,626	7,461

[1] Includes Hydro generation only.

[2] Includes Gas Turbine and Diesel generation.

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

[4] Off-Island purchases include energy imported over the LIL and the Maritime Link for use on the Island Interconnected System.

Average revenue from base rates for Island Interconnected customers[1] is summarized below:

	Three months ended			Twelve months ended		
For the year ended December 31	**2018**	2017	2016	**2018**	2017	2016
Wholesale Utility:						
First Block Energy (¢/kWh)	**2.782**	2.226	3.506	**2.504**	2.226	3.506
Second Block Energy (¢/kWh)	**10.422**	10.422	9.509	**10.422**	10.422	9.509
Demand ($/kW)	**4.75**	4.75	4.32	**4.75**	4.75	4.32
Island Industrial:						
Energy (¢/kWh)	**3.971**	3.971	4.069	**3.971**	3.971	4.069
Demand ($/KW)	**9.95**	7.99	8.38	**9.46**	7.99	8.38

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

The above table illustrates the average base rate revenue per kWh and kW generated from Island Interconnected customers for the three months and years ended December 31, 2018, 2017 and 2016. Average base rate revenue excludes the impact of changes in customer rates as a result of activity in the RSP. First Block Energy and Island Industrial Demand rates for the three months and year ended December 31, 2018, vary from the same period in 2017 as a result of the implementation of interim rates.

Fuels

Fuel costs for the three months ended December 31, 2018 were $65 million compared to $80 million for the same period in 2017, a decrease of $15 million. Fuel costs for the year ended December 31, 2018 were $189 million compared to $226 million for the same period in 2017, a decrease of $37 million. The decrease for both the quarter and year was primarily due to a reduction in consumption of gas turbine and No. 6 fuels; partially offset by increases in fuel prices and increased consumption of diesel. The majority of variances in fuel are either offset through the RSP or through other regulatory mechanisms in the regulatory adjustments line.

The following tables summarize fuel consumed and average price:

	Three months ended			Twelve months ended		
For the periods ended December 31	**2018**	2017	2016	**2018**	2017	2016
No. 6 fuel consumption: Millions of barrels	**0.6**	1.0	0.8	**1.8**	2.8	2.7
Average price (CAD/bbl)	**88.33**	71.85	55.08	**82.40**	68.60	46.40
Gas Turbine fuel consumption: Millions of liters	**4.6**	9.1	6.2	**25.4**	28.3	50.1
Average price (CAD/liter)	**0.92**	0.72	0.64	**0.84**	0.69	0.58
Diesel fuel consumption: Millions of liters	**4.3**	3.8	4.2	**16.0**	15.3	16.1
Average price (CAD/liter)	**1.12**	0.96	0.92	**1.08**	0.94	0.89

Fuel costs are summarized below:

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2018**	2017	2016	**2018**	2017	2016
No. 6 fuel and other	**56**	70	43	**151**	192	125
Gas Turbine fuel	**4**	7	4	**21**	20	29
Diesel	**5**	3	3	**17**	14	14
	65	80	50	**189**	226	168

Power purchased

Power purchased for the three months ended December 31, 2018 was $19 million compared to $15 million for the same period in 2017 an increase of $4 million. Power purchased for the year ended December 31, 2018 was $71 million compared to $62 million for the same period in 2017, an increase of $9 million. The increase for the three months and year ended was primarily due to energy imported across the Maritime Link, increased purchases from Exploits and L'anse au Loup and increased costs associated with purchases from wind sources; partially offset by reduced purchases from Corner Brook Pulp & Paper. The annual increase is also driven by curtailable load contracts.

Operating costs

Operating costs for the three months ended December 31, 2018 were $35 million compared to $32 million for the same period in 2017, an increase of $3 million. Operating costs for the year ended December 31, 2018 were $136 million compared to $130 million for the same period in 2017, an increase of $6 million. The increase for the three months and year ended is primarily due to higher costs associated with salaries and benefits, a reduction in capitalization of equipment costs, increased intercompany fees and higher professional service fees as a result of lower PUB related costs in 2017. The annual increase is partially offset by a reduction in system equipment maintenance, primarily due to materials costs.

Depreciation and amortization

Depreciation and amortization for the three months ended December 31, 2018 was comparable to the same period in 2017. Depreciation for the year ended December 31, 2018 was $87 million compared to $78 million for the same period in 2017, an increase of $9 million. The increase for the year was a result of significant growth in capital, including new transmission assets brought into service late 2017.

Net finance expense

Net finance expense for the three months ended December 31, 2018 was $22 million compared to $15 million for the same period in 2017, an increase of $7 million. Net finance expense for the year ended December 31, 2018 was $87 million compared to $65 million for the same period in 2017, an increase of $22 million. The increase for the three months and year ended was primarily due to increased interest costs on long-term debt as a result of increased debt levels, lower capitalized interest due to the completion of significant capital projects in 2017 and higher debt guarantee fees associated with increased debt levels; partially offset by lower interest on promissory notes. The annual increase was also impacted by lower earnings on sinking fund investments as a result of a series retirement.

Other expense

Other expense for the three months ended December 31, 2018 was $6 million compared to $3 million for the same period in 2017, an increase of $3 million. Other expense for the year ended December 31, 2018 was $13 million compared to $6 million for the same period in 2017, an increase of $7 million. The increase for the three months ended was primarily due to losses on transactions denominated in foreign currencies, a portion of which are offset in the regulatory adjustment line, and higher asset disposal costs and write-downs. The annual increase was related to higher asset disposal costs; along with foreign exchange losses, a portion of which are offset in the regulatory adjustments line; partially offset by an asset write-down in Q3 2017 related to a settlement agreement that did not reoccur in 2018.

Regulatory adjustments

Regulatory recoveries for the three months ended December 31, 2018 were $25 million compared to $18 million for the same period in 2017, an increase of $7 million. Regulatory recoveries for the year ended December 31, 2018 were $47 million compared to $92 million for the same period in 2017, a decrease of $45 million. The increase for the three months ended was primarily due to the approval of a 2018 Cost Deferral by the PUB in December 2018 and an increase in energy supply deferrals; partially offset by RSP amortization and deferred fuel costs as a result of the normal operation of the RSP. The decrease for the year was primarily due to RSP amortization and deferred fuel costs as a result of the normal operation of the RSP and favourable impacts of the 2013 Amended GRA Order approving the 2014-2016 cost and energy supply deferrals; partially offset by approval of the 2018 Cost Deferral, a reduction in RSP interest and an increase in energy supply deferrals.

HYDRO NON-REGULATED

Hydro Non-Regulated activities include the sale of power, purchased from Churchill Falls, to mining operations in Labrador West as well as costs related to operations that Hydro manages that are not subject to rate regulation by the PUB.

Financial Highlights

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2018**	2017	Variance	**2018**	2017	Variance
Revenue	**10**	10	-	**34**	40	(6)
Power purchased	**10**	10	-	**33**	39	(6)
Operating costs	**-**	1	(1)	**-**	1	(1)
Net finance income	**-**	-	-	**(1)**	-	(1)
(Loss) profit for the period	**-**	(1)	1	**2**	-	2

Revenue
Revenue for the three months ended December 31, 2018 was comparable to the same period in 2017. Revenue for the year ended December 31, 2018 was $34 million compared to $40 million for the same period in 2017, a decrease of $6 million. The decrease for the year was primarily due to lower industrial customer sales as a result of the strike at IOC in Labrador West during the second quarter of 2018.

Power purchased
Power purchased for the three months ended December 31, 2018 was comparable to the same period in 2017. Power purchased for the year ended December 31, 2018 was $33 million compared to $39 million for the same period in 2017, a decrease of $6 million. The decrease for the year ended was primarily due to a reduction in industrial customer requirements as a result of the IOC strike in Labrador West during the second quarter of 2018.

Operating costs
Operating costs for the three months and year ended December 31, 2018, were comparable to the same periods in 2017.

Net finance income
Net finance income for the three months and year ended December 31, 2018, was comparable to the same periods in 2017.

POWER DEVELOPMENT

MUSKRAT FALLS

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

Financial Highlights

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2018**	2017	Variance	**2018**	2017	Variance
Operating costs	**1**	1	-	**2**	1	1
Other expense	**-**	-	-	**-**	1	(1)
Loss for the period	**(1)**	(1)	-	**(2)**	(2)	-

Results of Muskrat Falls for the three months and year ended December 31, 2018 were comparable with the same periods in 2017. See Section 5 – Liquidity and Capital Resources for additional details on capital expenditures incurred in the segment during the periods ended December 31, 2018.

OTHER – POWER DEVELOPMENT

Other – Power Development includes costs associated with potential future power development activities, such as costs and assets associated with Gull Island. Included in Other – Power Development are assets totaling $140 million (December 31, 2017 - $140 million), representing historical costs incurred from 1998 to 2018 related to pre-development activities for the Gull Island power development. These costs primarily relate to environmental assessments, impacts and benefits agreement, engineering, commercial, and related activities.

Financial Highlights

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2018**	2017	Variance	**2018**	2017	Variance
Depreciation, amortization and impairment	-	51	(51)	-	51	(51)
Loss for the period	-	(51)	51	-	(51)	51

Non-GAAP Operating Profit Disclosure

Reconciliation of Other-Power Development's profit to operating profit for the three months and year ended December 31, 2018 and 2017 is as follows:

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2018**	2017	Variance	**2018**	2017	Variance
Loss for the period	-	(51)	51	-	(51)	51
Impairment of property, plant and equipment	-	51	(51)	-	51	(51)
Operating profit for the period	-	-	-	-	-	-

Depreciation, amortization and impairment

Depreciation, amortization and impairment for the three months and year ended December 31, 2018 was $nil compared to $51 million for the same periods in 2017. The decrease is related to an impairment of older Gull Island costs, in 2017, that were previously capitalized and Management assessed as no longer having future economic benefit towards the project.

POWER SUPPLY

LCP TRANSMISSION

LCP Transmission includes the construction and operation of the LIL and LTA, which consist of transmission lines connecting the Muskrat Falls hydroelectric facility, the Churchill Falls hydroelectric facility, and certain portions of the transmission system in Labrador to the island of Newfoundland.

Financial Highlights

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2018**	2017	Variance	**2018**	2017	Variance
Operating costs	-	1	(1)	2	3	(1)
Net finance income	(1)	(1)	-	(4)	(2)	(2)
Profit (loss) for the period	1	-	1	2	(1)	3

Results of LCP Transmission for the three and twelve months ended December 31, 2018, were comparable with the same periods in 2017. See Section 5 – Liquidity and Capital Resources for additional details on capital expenditures incurred in the segment during the periods ended December 31, 2018.

CHURCHILL FALLS

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

Financial Highlights

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2018**	2017	Variance	**2018**	2017	Variance
Revenue	**27**	27	-	**89**	92	(3)
Operating costs	**12**	12	-	**41**	44	(3)
Depreciation and amortization	**5**	5	-	**19**	18	1
Net finance income	**-**	-	-	**(1)**	(1)	-
Other expense	**1**	-	1	**1**	-	1
Preferred dividends	**(1)**	-	(1)	**(3)**	(2)	(1)
Profit for the period	**10**	10	-	**32**	33	(1)

Revenue

Revenue for the three months ended December 31, 2018 was comparable with the same period in 2017. Revenue for the year ended December 31, 2018 was $89 million compared to $92 million for the same period in 2017, a decrease of $3 million. The annual decrease is primarily due to lower Twin Block energy sales to Hydro as a result of the strike at IOC in Labrador West which began in late March 2018 and ended in late May 2018.

For the three months ended December 31, 2018, Churchill Falls derived 35% of its revenue from sales to Hydro-Québec under the Power Contract and Renewal Contract (2017 – 36%), 36% from the GWAC (2017 – 36%) and 29% from other revenue (2017 – 28%). Other revenue includes the sale of energy to Hydro. For the year ended December 31, 2018, Churchill Falls derived 42% of its revenue from sales to Hydro-Québec under the Power Contract and Renewal Contract (2017 – 42%), 27% from the GWAC (2017 – 26%) and 31% from other revenue (2017 – 32%).

Operating costs

Operating costs for the three months ended December 31, 2018 were comparable with the same period in 2017. Operating costs for the year ended December 31, 2018 were $41 million compared to $44 million for the same period in 2017, a decrease of $3 million. The decrease is a result of increased internal capital labour charges, reduced contractor labour, lower professional fees associated with consulting, and higher cost recoveries; partially offset by increased travel and transportation costs and royalties.

Depreciation and amortization

Depreciation and amortization for the three months and year ended December 31, 2018 was comparable with the same periods in 2017.

Net finance income

Net finance income for the three months and year ended December 31, 2018 was comparable with the same periods in 2017.

Other expense

Other expense for the three months and year ended December 31, 2018 was comparable with the same periods in 2017.

Preferred dividends

Preferred dividends for the three months and year ended December 31, 2018 were comparable with the same periods in 2017.

ENERGY TRADING

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

Financial Highlights

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2018**	2017	Variance	**2018**	2017	Variance
Revenue	**13**	14	(1)	**59**	48	11
Power purchased	**2**	1	1	**8**	4	4
Operating costs	**1**	2	(1)	**5**	5	-
Transmission rental and market fees	**6**	6	-	**24**	25	(1)
Other income	**-**	(1)	1	**(1)**	(1)	-
Profit for the period	**4**	6	(2)	**23**	15	8

Revenue

Revenue for the three months ended December 31, 2018, was comparable to the same period in 2017. Revenue for the year ended December 31, 2018 was $59 million compared to $48 million for the same period in 2017, an increase of $11 million. The increase was primarily due to higher average export electricity prices during the year.

Prices and volumes for the three months and year ended December 31, 2018 for sales in export markets are summarized in the table below.

	Three months ended			Twelve months ended		
For the periods ended December 31	**2018**	2017	2016	**2018**	2017	2016
Average Export Electricity Price (USD/MWh)[1,4]	**31**	28	21	**29**	23	20
Realized Export Electricity Price (USD/MWh)[2,4]	**32**	29	21	**29**	23	22
Realized Export Electricity Price (CAD/MWh)[3,4]	**42**	37	28	**38**	31	29
Export sales (GWh)[5]	**305**	359	378	**1,562**	1,594	1,627

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

[2]The Realized Export Price (USD) includes the impact of financial transmission rights for all periods and electricity commodity price hedges for year-to-date 2016 and 2018.

[3]The Realized Export Electricity Price (CAD) includes the impact of financial transmission rights and foreign exchange for all periods and electricity commodity price hedges for year-to-date 2016 and 2018.

[4]Average and realized export electricity prices for the year ended December 31, 2018 are higher than the same period in 2017 and 2016 due to higher demand and colder weather in eastern Canada and northeastern United States during Q1 and Q4 2018 and warmer weather during Q3 2018 resulting in higher demand.

[5]Export sales for the three months ended December 31, 2018 were lower than for the same period in 2017 and 2016 due to lower Recapture energy available for export.

Power purchased

Power purchased for the three months ended December 31, 2018 was comparable to the same period in 2017. Power purchased for the year ended December 31, 2018 was $8 million compared to $4 million for the same period in 2017, an increase of $4 million. The increase was a result of a higher average price paid by Energy Trading for additional Recapture energy in accordance with the power purchase agreement with Hydro.

Operating costs

Operating costs for the three months and year ended December 31, 2018 were comparable with the same periods in 2017.

Transmission rental and market fees

Transmission rental and market fees for the three months and year ended December 31, 2018 were comparable with the same periods in 2017.

Other income
Other income for the three months and year ended December 31, 2018 was comparable with the same periods in 2017.

OTHER – POWER SUPPLY

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

Financial Highlights

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2018**	2017	Variance	**2018**	2017	Variance
Revenue	**2**	3	(1)	**8**	9	(1)
Operating costs	**2**	8	(6)	**7**	13	(6)
Profit for the period	**-**	(5)	5	**1**	(4)	5

Revenue
Revenue for the three months and year ended December 31, 2018 were comparable to the same periods in 2017.

Operating costs
Operating costs for the three months ended December 31, 2018 were $2 million compared to $8 million for the same period in 2017, a decrease of $6 million. Operating costs for the year ended December 31, 2018 were $7 million compared to $13 million for the same period in 2017, a decrease of $6 million. The decrease primarily relates to costs recognized in 2017 associated with the CDA, which is between Nalcor and the NCC and provides direct investment to Southern Inuit and communities.

OFFSHORE DEVELOPMENT

OIL AND GAS

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

Financial Highlights

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2018**	2017	Variance	**2018**	2017	Variance
Revenue	**50**	58	(8)	**298**	206	92
Operating costs	**2**	4	(2)	**6**	8	(2)
Production, marketing and transportation costs	**10**	11	(1)	**45**	30	15
Depreciation, depletion, amortization and impairment	**15**	100	(85)	**72**	152	(80)
Exploration and evaluation	**1**	-	1	**29**	1	28
Net finance expense	**1**	1	-	**3**	3	-
Other expense	**5**	4	1	**18**	15	3
Profit (loss) for the period	**16**	(62)	78	**125**	(3)	128

Non-GAAP Operating Profit Disclosure

Reconciliation of Offshore Development's profit to operating profit for the three months and year ended December 31, 2018 and 2017 is as follows:

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2018**	2017	Variance	**2018**	2017	Variance
Profit (loss) for the period	**16**	(62)	78	**125**	(3)	128
Impairment of intangible assets	**-**	81	(81)	**-**	81	(81)
Operating profit for the period	**16**	19	(3)	**125**	78	47

Revenue

Revenue for the three months ended December 31, 2018 was $50 million compared to $58 million for the same period in 2017, a decrease of $8 million. Revenue for the year ended December 31, 2018 was $298 million compared to $206 million for the same period in 2017, an increase of $92 million. The decrease for the quarter was primarily due to a reduction in production volumes for HSE and White Rose, partially offset by an increase for Hebron; and lower average Dated Brent price per barrel compared to the same period in 2017. The increase for the year was primarily due to higher average Dated Brent prices per barrel and higher production volumes compared to the same period in 2017; partially offset by higher royalty payments.

Oil price data and production for the three months and year ended December 31, 2018 with 2017 and 2016 comparatives is summarized in the table below.

	Three months ended			Twelve months ended		
For the periods ended December 31	**2018**	2017	2016	**2018**	2017	2016
Average Dated Brent Price (USD/bbl)[1,4]	**60**	60	51	**70**	53	46
Realized Price (USD/bbl)[2,4]	**55**	59	51	**66**	53	48
Realized Price (CAD/bbl)[3,4]	**71**	75	69	**84**	69	64
Oil Production (Mbbls)[5]	**643**	757	733	**3,421**	3,023	2,226

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

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

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

[4]Both average and realized prices for the year ended December 31, 2018 are higher compared to the same periods in 2016 and 2017 as a result of increasing Brent price following a prolonged period of lower prices in late 2015 through 2017.

[5]Oil production for the three months ended December 31, 2018 was lower compared to the same period in 2017 and 2016 due to a maintenance shutdown at Hibernia South Extension (HSE) during Q4 2018, partially offset by a full fourth quarter of production at Hebron. Oil production for the year ended December 31, 2016, was lower compared to the same period in 2017 and 2018 as a result of strong water injection support at HSE in 2017 and Hebron moving into the production phase during Q4 2017, providing additional volumes throughout 2018.

Operating costs
Operating costs for the three months and year ended December 31, 2018 were comparable with the same periods in 2017.

Production, marketing and transportation costs
Production, marketing and transportation costs for the three months ended December 31, 2018 were comparable to the same period in 2017. Production, marketing and transportation costs for the year ended December 31, 2018 were $45 million compared to $30 million for the same period in 2017, an increase of $15 million. The annual increase was primarily due to higher project operating costs for HSE and Hebron and transportation and transshipment costs for Hebron as a result of entering production in late 2017; partially offset by a decrease in processing fees for HSE and White Rose.

Depreciation, depletion, amortization and impairment
Depreciation, depletion, amortization and impairment for the three months ended December 31, 2018 was $15 million compared to $100 million for the same period in 2017, a decrease of $85 million. Depreciation, depletion, amortization and impairment for the year ended December 31, 2018 was $72 million compared to $152 million for the same period in 2017, a decrease of $80 million. The decrease for the quarter and year was primarily due to the write-down of intangible exploration assets of $81 million at the end of 2017.

Exploration and evaluation
Exploration and evaluation costs for the three months ended December 31, 2018 were comparable to the same period in 2017. Exploration and evaluation costs for the year ended December 31, 2018 were $29 million compared to $1 million for the same period in 2017, an increase of $28 million. The annual increase was primarily due to these costs being capitalized in 2017.

Net finance expense
Net finance expense for the three months and year ended December 31, 2018 was comparable with the same periods in 2017.

Other expense
Other expense for the three months ended December 31, 2018 was comparable with the same period in 2017. Other expense for the year ended December 31, 2018 was $18 million compared to $15 million for the same period in 2017, an increase of $3 million. The increase for the year was primarily due to unfavourable settlements on oil commodity price contracts; partially offset by a gain on disposal of property, plant and equipment, compared to losses in 2017 and favourable foreign exchange fluctuations.

RESERVES

Oil and Gas contracts independent reserve evaluators to prepare reports on remaining oil reserves related to its working interest in offshore developments. Gross reserves represent Oil and Gas' working interest in remaining reserves, while net reserves represent remaining reserves less royalties. Remaining reserve data for both proved and probable reserves to be recovered as at December 31, 2018 with 2017 comparatives are summarized in the table below:

	2018		2017	
	Light and Medium Oil		Light and Medium Oil	
As at December 31 (Mbbls)	**Gross**	**Net**	Gross	Net
Developed	**13,310**	**9,703**	12,294	8,659
Undeveloped	**12,452**	**11,985**	10,545	10,365
Total Proved	**25,762**	**21,688**	22,839	19,024
Probable	**32,336**	**24,863**	39,823	32,101
Total Proved Plus Probable	**58,098**	**46,551**	62,662	51,125

Decrease in remaining reserves at December 31, 2018, as compared to the same period in 2017 primarily relates to barrels produced during 2018.

CORPORATE

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

Financial Highlights

	Three months ended			**Twelve months ended**		
For the periods ended December 31 (millions of Canadian dollars)	**2018**	2017	Variance	**2018**	2017	Variance
Operating costs	**9**	3	6	**21**	13	8
Depreciation, amortization and impairment	**7**	1	6	**8**	1	7
Net finance expense	**(1)**	-	(1)	**(1)**	1	(2)
Other (income) expense	**(1)**	-	(1)	**(2)**	1	(3)
Loss for the period	**(14)**	(4)	(10)	**(26)**	(16)	(10)

Non-GAAP Operating Loss Disclosure

Reconciliation of Corporate loss to operating loss for the three months and year ended December 31, 2018 and 2017 is as follows:

	Three months ended			**Twelve months ended**		
For the periods ended December 31 (millions of Canadian dollars)	**2018**	2017	Variance	**2018**	2017	Variance
Loss for the period	**(14)**	(4)	(10)	**(26)**	(16)	(10)
Muskrat Falls Inquiry and PUB Reference costs	**3**	-	3	**5**	-	5
Impairment of property, plant and equipment	**4**	-	4	**4**	-	4
Impairment of intangible assets	**2**	-	2	**2**	-	2
Operating loss for the period	**(5)**	(4)	(1)	**(15)**	(16)	1

Operating costs

Operating costs for the three months ended December 31, 2018 were $9 million compared to $3 million for the same period in 2017, an increase of $6 million. Operating costs for the year ended December 31, 2018 were $21 million compared to $13 million for the same period in 2017, an increase of $8 million. The increase for the quarter and year primarily relates to the Muskrat Falls Inquiry and PUB Reference costs. The increase was also related to higher salaries and benefits and professional services related to increased activity in 2018 due to the implementation of the first phase of a new enterprise software system; partially offset by higher cost recoveries.

Depreciation, amortization and impairment
Depreciation, amortization and impairment for the three months ended December 31, 2018 was $7 million compared to $1 million for the same period in 2017, an increase of $6 million. Depreciation, amortization and impairment for the year December 31, 2018 was $8 million compared to $1 million for the same period in 2017, an increase of $7 million. The increase for the quarter and year was related to the impairment of the intellectual property and other assets related to the Ramea Hydrogen Wind project at December 31, 2018 as a result of a decision to discontinue the project going forward.

Net finance expense
Net finance expense for the three months and year ended December 31, 2018 was comparable to the same periods in 2017.

Other (income) expense
Other (income) expense for the three months ended December 31, 2018 was comparable to the same period in 2017. Other (income) expense for the year ended December 31, 2018 was a $2 million gain compared to a $1 million loss for the same period in 2017, an increase in income of $3 million. The increase was primarily due to favourable USD/CAD exchange rates on transactions in 2018.

DISCONTINUED OPERATIONS

Effective September 30, 2018, the Offshore Development segment, which included Oil and Gas and Bull Arm Fabrication, was classified as a discontinued operation based on the expectation that the full segment would be distributed to the Province. On March 11, 2019, the Province announced the structure of the new provincial oil and gas Crown corporation, which resulted in the existing Oil and Gas operations, specifically existing equity interests in offshore developments, remaining with Nalcor. As a result of the announcement of the structure of the new Crown corporation, Oil and Gas is no longer considered to be a discontinued operation. The classification of Bull Arm Fabrication was not impacted by this change and continues to be reported as a discontinued operation for the periods ended December 31, 2018.

BULL ARM FABRICATION

Revenue related to Bull Arm Fabrication is primarily generated through leasing arrangements. The site was under sublease to EMCP until December 31, 2017 for completion of the Hebron Project. Management continues to evaluate opportunities for a long-term tenant. While evaluation of these opportunities is ongoing, Bull Arm Fabrication continues to avail of short-term property and sublease arrangements.

Financial Highlights

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2018**	2017	Variance	**2018**	2017	Variance
Revenue	**-**	7	(7)	**-**	49	(49)
Operating costs	**-**	-	-	**2**	2	-
Profit (loss) for the period	**-**	7	(7)	**(2)**	47	(49)

Non-GAAP Operating Profit Disclosure
Reconciliation of Offshore Development's profit to operating profit for the three months and year ended December 31, 2018 and 2017 is as follows:

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2018**	2017	Variance	**2018**	2017	Variance
Profit (loss) for the period	**-**	7	(7)	**(2)**	47	(49)
Close-out of Hebron sublease agreement	**-**	-	-	**-**	(26)	26
Operating profit (loss) for the period	**-**	7	(7)	**(2)**	21	(23)

Revenue

Revenue for the three months ended December 31, 2018 was $nil compared to $7 million for the same period in 2017, a decrease of $7 million. Revenue for the year ended December 31, 2018 was $nil compared to $49 million for the same period in 2017, a decrease of $49 million. The decrease for the quarter and year was related to the conclusion of the EMCP sublease in December 2017. The decrease for the year was also driven by a one-time sublease revenue adjustment during Q2 2017 related to the EMCP sublease.

Operating costs

Operating costs for the three months and year ended December 31, 2018 were comparable with the same periods in 2017.

SECTION 5: LIQUIDITY AND CAPITAL RESOURCES

CASH FLOW HIGHLIGHTS

	Twelve months ended		
For the period ended December 31 (millions of Canadian dollars)	**2018**	2017	Variance
Cash and cash equivalents, beginning of year	**143**	143	-
Net cash provided from (used in) operating activities	**50**	(33)	83
Net cash used in investing activities	**(323)**	(4,302)	3,979
Net cash provided from financing activities	**283**	4,335	(4,052)
Cash and cash equivalents, end of period	**153**	143	10

Operating activities

	Twelve months ended		
For the period ended December 31 (millions of Canadian dollars)	**2018**	2017	Variance
Net cash provided from (used in) operating activities	**50**	(33)	83

Cash provided from operating activities during the year ended December 31, 2018 was $50 million compared to cash used of $33 million for the same period in 2017, an increase of $83 million. The increase was primarily related to favourable operating working capital balances and higher profit from operations; partially offset by higher net interest paid in 2018.

Investing Activities

	Twelve months ended		
For the period ended December 31 (millions of Canadian dollars)	**2018**	2017	Variance
Additions to property, plant and equipment and intangible assets	**(1,089)**	(2,568)	1,479
(Increase) decrease in long-term receivables	**(1)**	28	(29)
(Increase) decrease in sinking funds	**(5)**	90	(95)
Proceeds on disposal of property, plant and equipment	**-**	12	(12)
(Increase) decrease in reserve funds	**(12)**	15	(27)
Decrease (increase) in investments (including short-term)	**922**	(1,259)	2,181
Other	**3**	(1)	4
Changes in non-cash working capital balances	**(141)**	(619)	478
Net cash used in investing activities	**(323)**	(4,302)	3,979

Cash used in investing activities during the year ended December 31, 2018 was $323 million compared to $4,302 million for the same period in 2017, a decrease of $3,979 million. The decrease in cash used in investing activities was primarily related to increased cash from investments as a result of draw-downs on structured deposit notes to fund capital expenditures in Muskrat Falls and LCP Transmission; lower additions to property, plant and equipment related to LCP, Hydro Regulated and Oil and Gas; and favorable changes in non-cash working capital. The decrease in cash used was partially offset by maturity of sinking funds in Hydro Regulated during 2017 and contributions to the reserve fund for Churchill Falls in 2018 as opposed to withdrawals in the prior year.

Financing Activities

	Twelve months ended		
For the period ended December 31 (millions of Canadian dollars)	**2018**	2017	Variance
Proceeds from long-term debt	**316**	3,516	(3,200)
Retirement of long-term debt	**-**	(150)	150
(Increase) decrease in restricted cash	**(385)**	341	(726)
Class B limited partnership unit contributions	**-**	55	(55)
Decrease in short-term borrowings	**(180)**	(66)	(114)
Shareholder contributions	**531**	832	(301)
Rate Stabilization Plan payout	**(3)**	(131)	128
Settlement of cash flow hedges	**-**	(67)	67
Other	**4**	5	(1)
Net cash provided from financing activities	**283**	4,335	(4,052)

Cash provided from financing activities during the year ended December 31, 2018 was $283 million compared to $4,335 million for the same period in 2017, a decrease of $4,052 million. The decrease in cash from financing activities was primarily due to proceeds from long-term debt of $2.9 billion received in Q2 2017 for Muskrat Falls and LCP Transmission, a reduction in restricted cash available to fund capital additions at LCP, lower contributions from the Province, and a decrease in short-term borrowings as a result of the maturity of a promissory note in Hydro Regulated; partially offset by the RSP payout that occurred in Q1 2017 and the retirement of Series X debt in Hydro Regulated in 2017.

CAPITAL RESOURCES

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

Hydro Regulated

Capital resource requirements for Hydro Regulated consist primarily of working capital needs, capital expenditures and debt servicing and repayment. Hydro Regulated’s capital resources consist primarily of cash from operations, sinking funds and access to a $300 million government guaranteed promissory note program. As at December 31, 2018, there were $189 million in notes outstanding under this program (December 31, 2017 - $144 million). Hydro also maintains a $200 million committed revolving term credit facility the term of which was extended to July 27, 2020. As at December 31, 2018, there were no amounts drawn on the facility (December 31, 2017 - $nil).

Hydro Regulated addresses longer-term capital funding requirements through long term debt from the Province. The Province issues debt in the domestic capital markets, on Hydro Regulated's behalf, and in turn loans the funds to Hydro Regulated on a cost recovery basis. Any funding to address long-term capital requirements requires approval from the Province and the PUB.

Management believes that existing capital resources, inclusive of the borrowing process with the Province will be sufficient to fund planned capital expenditures, debt servicing requirements and working capital needs for 2019 and beyond. However, access to long-term debt through the Province remains an important consideration for funding Hydro Regulated’s capital resource requirements.

Muskrat Falls and LCP Transmission

Capital resource requirements for Muskrat Falls and LCP Transmission consist primarily of capital expenditures in connection with construction of the Lower Churchill Project. The primary source of financing for Muskrat Falls and LCP Transmission will continue to be the credit facilities and equity contributions from the Province. Subsequent to the long-term debt issue in Muskrat Falls and LCP Transmission in May 2017, working capital facilities were replenished as previous balances related to Muskrat Falls and LTA had been drawn down fully in 2017. In total, there are $150 million in working capital facilities under this arrangement, and as at December 31, 2018, no amounts have been drawn on these facilities (December 31, 2017 - $nil). Management believes these capital resources will be sufficient to fund 2019 planned capital expenditures.

Churchill Falls

Capital resource requirements consist primarily of working capital needs, reserve fund payments and capital expenditures. Churchill Falls capital resources consist primarily of cash from operations, cash and cash equivalents, and long-term investments. In addition, Churchill Falls has access to a $10 million unsecured demand operating credit facility. There were no amounts drawn on this facility as at December 31, 2018 (December 31, 2017 - $nil), however, $1 million of the borrowing limit has been used to issue two irrevocable letters of credit (December 31, 2017 - $1 million). Churchill Falls also has access to a reserve fund, which when fully funded totals $75 million, and can be used to fund capital expenditures relating to Churchill Falls' existing facilities and their replacement, subject to the terms and conditions established in the Shareholder's Agreement. As at December 31, 2018, the reserve fund was comprised of $19 million (December 31, 2017 - $nil) as a result of a contribution during the year in accordance with Article 5.6 of the Shareholders' Agreement to replenish prior year withdrawals. Contributions will be made over the next four years to replenish the reserve fund to its fully funded amount.

As at December 31, 2018, long-term investments consisted of a series of fully redeemable Guaranteed Investment Certificates, which Management purchased to increase the return on cash held by Churchill Falls. Because these instruments are fully redeemable, these balances are readily convertible to cash if needed to fund capital resource requirements. Management believes existing capital resources will be sufficient to fund planned 2019 capital expenditures, reserve fund repayments and to meet current and future working capital needs.

Energy Trading

Capital resource requirements for Energy Trading are primarily limited to working capital needs. For Energy Trading capital resources consist primarily of cash from operations and access to a $20 million demand operating credit facility. As at December 31, 2018, Energy Trading had no amounts drawn on this facility (December 31, 2017 - $nil), however $8.5 million of the borrowing limit has been used to issue three irrevocable letters of credit (December 31, 2017 - $nil). Management believes these existing capital resources will be sufficient to meet current and future working capital needs for Energy Trading.

Oil and Gas

Capital resource requirements consist primarily of working capital needs and capital expenditures. Oil and Gas' capital resources consist primarily of cash from operations and access to a $30 million unsecured demand operating credit facility. While there were no amounts drawn on this facility at December 31, 2018 (December 31, 2017 - $nil), $23.3 million of the borrowing limit has been used to issue two irrevocable letters of credit (December 31, 2017 - $5.4 million). On August 1, 2018, Oil and Gas issued an irrevocable letter of credit in the amount of $18.4 million to a counterparty to ensure compliance with regulations relating to petroleum and natural gas exploration and production activities, replacing a $15.6 million letter of credit originally issued by Nalcor on behalf of Oil and Gas. An irrevocable letter of credit in the amount of $0.5 million issued by Oil and Gas was not renewed during the year as it was no longer required. Management believes these existing capital resources will be sufficient to meet current and future needs of Oil and Gas.

Bull Arm Fabrication

Capital resource requirements for Bull Arm Fabrication are primarily limited to working capital needs. For Bull Arm Fabrication, in the absence of a tenant, capital resources consist of assistance from Nalcor. Management believes these existing capital resources will be sufficient to meet current working capital needs for Bull Arm Fabrication. Upon transition to the Province, Bull Arm Fabrication will be responsible for securing and managing its own capital resource requirements.

Additional Liquidity

Nalcor maintains a $250 million CAD or USD equivalent committed revolving term credit facility with its bank which serves as an additional source of liquidity available to each of the subsidiaries. This facility has a maturity date of January 31, 2020, and there were no amounts drawn on this facility as at December 31, 2018 (December 31, 2017 - $nil), however $8.3 million of the borrowing limit has been used to issue 11 irrevocable letters of credit (December 31, 2017 - $34.3 million was used to issue 15 letters of credit). In August 2018, one letter of credit, totaling $15.6 million, issued by Nalcor on behalf of Oil and Gas, to ensure compliance with regulations relating to petroleum and natural gas exploration and production activities, was cancelled and issued directly by Oil and Gas, while another in the amount of $10 million expired and was not renewed during Q4. Another 11 letters of credit, some of which are denominated in USD, totaling $8.3 million CAD are issued on behalf of Energy Trading and relate to power purchase and sale contracts with various independent system operators, transmission providers and bilateral counterparties. A letter of credit in the amount of $1 million that was issued by Nalcor in support of a bid for the supply of energy was cancelled in February 2018.

As at December 31, 2018 and December 31, 2017, external short-term credit facilities are as follows:

	December 31, 2018			
As at (millions of Canadian dollars)	**Limit**	**Drawn**	**Letters of Credit Issued**	**Available Limit**
Revolving Term Facilities:				
Nalcor Energy	**250**	**-**	**8**	**242**
Hydro Regulated	**200**	**-**	**-**	**200**
Demand Operating Facilities:				
Oil and Gas	**30**	**-**	**23**	**7**
Churchill Falls	**10**	**-**	**1**	**9**
Energy Trading	**20**	**-**	**9**	**11**
Muskrat Falls	**59**	**-**	**-**	**59**
LCP Transmission	**91**	**-**	**-**	**91**
Promissory Notes:				
Hydro Regulated	**300**	**189**	**-**	**111**
Total credit facilities	**960**	**189**	**41**	**730**

	December 31, 2017			
As at (millions of Canadian dollars)	Limit	Drawn	Letters of Credit Issued	Available Limit
Revolving Term Facilities:				
Nalcor	250	-	34	216
Hydro Regulated	200	-	-	200
Demand Operating Facilities:				
Oil and Gas	30	-	5	25
Churchill Falls	10	-	1	9
Energy Trading	20	-	-	20
Muskrat Falls	61	-	-	61
LCP Transmission	89	-	-	89
Promissory Notes:				
Hydro Regulated	300	144	-	156
Total credit facilities	960	144	40	776

Promissory Notes
Hydro Regulated utilizes its government guaranteed promissory note program to fulfill its short-term funding requirements. As at December 31, 2018, there was a $189 million promissory note outstanding with a maturity date of January 3, 2019 bearing an interest rate of 1.77% (December 31, 2017 - $144 million bearing an interest rate of 1.13%). Upon maturity, new promissory notes were issued.

Other Promissory Notes
On March 14, 2018, Hydro Regulated used the proceeds from its Series 1A long-term debt issuance to repay a $225 million promissory note to Nalcor, which was lent to Nalcor by the Province. Nalcor used those funds to repay its promissory note to the Province.

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

CAPITAL STRUCTURE

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

As at (millions of Canadian dollars)	**December 31 2018**	December 31 2017
Short-term borrowings	**189**	369
Current portion of long-term debt	**7**	7
Long-term debt (net of sinking funds)	**9,524**	9,230
Class B limited partnership units	**533**	491
Total debt	**10,253**	10,097
Total shareholder's equity	**5,757**	5,027
Debt to capital[1]	**64%**	67%
Fixed rate debt as a percentage of total indebtedness[1]	**93%**	92%

[1]The above noted ratios are Non-GAAP financial measures. Please refer to Section 8 – Non-GAAP Financial Measures.

On March 14, 2018, Hydro Regulated issued new long-term debt, Series 1A, with a face value of $300 million. The debt matures on October 17, 2048 with a coupon rate of 3.70% paid semi-annually. Proceeds from this debt issuance were used to repay $225 million in short-term borrowings due to Nalcor.

During the year ended December 31, 2018, $42 million of accrued interest was recognized on the Class B Limited Partnership Units.

CAPITAL EXPENDITURES

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2018**	2017	Variance	**2018**	2017	Variance
Regulated	**46**	107	(61)	**160**	344	(184)
Non-Regulated	**-**	-	-	**-**	-	-
Hydro	**46**	107	(61)	**160**	344	(184)
Muskrat Falls[1]	**67**	316	(249)	**710**	1,137	(427)
Other - Power Development	**-**	-	-	**-**	-	-
Power Development	**67**	316	(249)	**710**	1,137	(427)
LCP Transmission[1]	**101**	216	(115)	**390**	1,140	(750)
Churchill Falls	**9**	11	(2)	**43**	46	(3)
Other - Power Supply	**2**	2	-	**11**	5	6
Power Supply	**112**	229	(117)	**444**	1,191	(747)
Oil and Gas	**20**	21	(1)	**65**	161	(96)
Bull Arm Fabrication	**-**	-	-	**-**	-	-
Offshore Development	**20**	21	(1)	**65**	161	(96)
Corporate	**5**	(5)	10	**8**	5	3
Inter-Segment	**-**	5	(5)	**(3)**	(2)	(1)
Nalcor capital expenditures, excluding Maritime Link	**250**	673	(423)	**1,384**	2,836	(1,452)
Maritime Link - non-cash additions	**7**	153	(146)	**15**	588	(573)
Nalcor Total	**257**	826	(569)	**1,399**	3,424	(2,025)

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

	Three months ended		Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2018**	2017	**2018**	2017	Total To Date
Muskrat Falls	**31**	283	**584**	1,026	4,550
Labrador Transmission Assets	**12**	15	**22**	84	853
Labrador-Island Link	**43**	153	**169**	879	3,484
Nalcor facilities capital costs	**86**	451	**775**	1,989	8,887
Capitalized interest and financing costs[1]	**65**	62	**257**	238	1,003
Class B Limited Partnership Unit Interest	**11**	10	**42**	37	124
Transition to Operations	**6**	8	**26**	13	42
Total capital costs for Nalcor project components	**168**	531	**1,100**	2,277	10,056
Maritime Link	**7**	153	**15**	588	1,750
Total capital expenditures	**175**	684	**1,115**	2,865	11,806

[1]Total to date excludes $138 million of allowance for funds used during construction on Nalcor's Class A limited partnership units in the LIL LP that are eliminated upon consolidation.

For the three months ended December 31, 2018, capital expenditures, excluding Maritime Link were $250 million as compared to $673 million for the same period in 2017, a decrease of $423 million. For the year ended December 31, 2018, capital expenditures, excluding Maritime Link were $1,384 million as compared to $2,836 million for the same period in 2017, a decrease of $1,452 million. The decrease for the quarter and year was due to lower expenditures in LCP Transmission as construction of LTA and LIL assets near completion, a decrease in Hydro Regulated due to the completion of new island transmission assets in 2017, lower Muskrat Falls capital expenditures due to significant project components nearing completion and a reduction in Oil and Gas capital expenditures resulting from HSE's drilling schedule and Hebron entering into the production phase during Q4 2017.

OBLIGATIONS AND COMMITMENTS

Outstanding commitments for capital projects, excluding those related to Oil and Gas, total approximately $0.4 billion as at December 31, 2018 (December 31, 2017 - $1.0 billion). LCP prefunded equity requirements associated with the Project Finance Agreements in Muskrat Falls and LCP Transmission total approximately $0.5 billion as at December 31, 2018 (December 31, 2017 - $1.0 billion). Prefunded equity is used to fund capital and borrowing costs.

SECTION 6: KEY BUSINESS RISKS

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

REGULATORY RISK

Hydro Regulated is subject to the normal uncertainties facing entities that operate under cost of service rate regulation, including approvals by the PUB. The PUB approves electricity rates charged to Hydro Regulated's customers and ensures that those same rates provide Hydro Regulated with a reasonable opportunity to recover the estimated costs of providing electrical services, including a fair rate of return on rate base.

While Hydro Regulated can make applications to the PUB for recovery of capital projects, there is no assurance that these projects will be approved in part or in full, or that conditions on such approvals will not be imposed. Further, there is no assurance that Hydro Regulated will receive regulatory decisions in a timely manner, meaning costs may have to be incurred prior to having approval of recovery from customers. Finally, there is no assurance that rate orders issued by the PUB will permit Hydro Regulated to recover all costs actually incurred to provide electricity service.

Management works to mitigate these risks by ensuring complete and justified filings are submitted for approval and adopting a collaborative approach to regulatory matters including technical conferences and settlement negotiations where appropriate. Management also maintains an ongoing constructive dialogue with the PUB, the PUB's consultants, and intervening parties. Lastly, Management is also focused on ensuring that operational plans and forecasts are achieved and the company complies with existing regulations.

In total, the uncertainties inherent to the regulatory process governing the operation of Hydro Regulated may negatively affect the timing of capital projects, results of operations and financial position of Nalcor if significant in nature.

OPERATIONAL RISKS

Operational risks include risks to assets, other property, people and systems. This includes uncertainties relating to asset condition, maintenance and asset availability within the generation and transmission facilities that are owned and/or maintained by Hydro, Churchill Falls and LCP; operational risks related to interests in oil and gas assets held by Oil and Gas; risks related to the availability of transmission assets that Nalcor utilizes but does not own; as well as risks to other property and assets owned by Nalcor, such as office buildings, data, and system infrastructure.

Asset Condition and Maintenance Risk

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

Generation and Transmission Assets

Hydro and Churchill Falls' operations are subject to normal risks inherent to operating generation and transmission assets. Certain assets are approaching the end of their service lives and are becoming more costly to maintain. The occurrence of significant unforeseen equipment failures could have a material adverse effect on operations in these entities, as well as the cash flows and financial position of Nalcor, particularly considering the growing demand on the Avalon Peninsula.

Significant capital investments have been made to reduce the isolation of the provincial electrical system, including the ability to import energy over the Labrador-Island Link from Labrador and import off-island energy over the Maritime Link from external markets, having a positive impact on supply options.

Hydro and Churchill Falls maintain integrated annual work plans which consolidate and monitor the activities within operating, capital, winter readiness and preventative and corrective maintenance programs. Utility assets are maintained in a manner that accounts for the age of the infrastructure and for the extreme weather conditions that are inherent to our climate.

Joint Venture Interest in Oil and Gas Assets

Oil and Gas is subject to the operational risks of participation in offshore oil production, including equipment defects, malfunctions, failures, unplanned shut downs, safety or environmental incidents, reserve estimation uncertainties, regulatory approval/compliance, as well as external factors such as hurricanes, ice conditions and other extreme weather. These risks and hazards create exposure to events such as workplace incidents, business interruption, property damage or destruction, or environmental liabilities.

These operational risks are managed by the operator of projects in which Nalcor is a minority joint venture partner. The approach and performance of the operator with respect to addressing these areas is monitored actively by reviewing project status reports and risk registers, participation in meetings with co-venturers, and the exercise of Oil and Gas voting rights within operating agreements.

The occurrence of events described above could materially impact revenue assumptions, and/or unplanned capital work, or lead to other expenses requiring increased equity investment from partners.

Safety Risk

Several of Nalcor's lines of business have material inherent safety risks and related municipal, provincial and federal requirements with associated potential liabilities. Notably within utility operations, this includes risks related to working around energized equipment and operating dams and dykes. There are additional unique hazards associated with certain facilities such as the underground powerhouse at Churchill Falls and worksites related to LCP construction and those related to various capital projects for Hydro and Churchill Falls. These facilities carry risks relating to working from heights, dropped objects, and management of contractors onsite.

Based on the industry and the nature of work performed, there are many hazards and risks that could result in workplace incidents that could cause serious injury or death to employees, contractors or members of the public. Safety events can lead to disruption of the business, regulatory actions, and other measures, which could have an adverse impact on the Company. Unsafe work conditions can lead to workplace incidents that may result in increased turnover, increased project and operating costs, and lead to additional unforeseen expenses to investigate and respond to such events.

Environmental Risk

Nalcor is subject to various municipal, provincial and federal requirements, and given the industry and nature of the work performed, there are a number of environmental risks that may adversely affect Nalcor's financial position in any given year. There is a potential for environmental liability with existing assets or from assets assumed from another operator, or the presence or release of hazardous or other harmful substances. It is also possible that planned work is affected by the lack or absence of government approvals, permits, or renewals of existing approvals and permits related to construction or operating facilities. Environmental events may cause significant environmental damage, lead to claims by third parties and/or governmental fines, disruption to operations, increased project or operating costs, orders or directives requiring specific actions with associated costs or cause long-term impairment to asset values.

Nalcor applies the principles of ISO 14001 Environmental Management System standard to its relevant lines of business, which is a risk based framework for managing significant environmental risks and reducing the frequency and severity of incidents. Nalcor and its various lines of business have developed Environmental Emergency Response Plans to deal with any accidental releases which may occur in order to provide a quick and effective response to minimize impacts.

Lower Churchill Project Execution Risk

With any large construction project, there are a variety of uncertainties that exist relating to execution. There is a risk that costs can increase over original estimates and schedules can be impacted by a number of factors. Additionally, there are strategic risks outside those directly related to the execution of construction activities which could impact cost and schedule.

For LCP, factors impacting capital costs and schedules are closely monitored. Organizational and structural changes implemented in 2016 separated the generation and transmission elements of the project to allow for more focus on the completion of each scope of work. LCP maintains an owner-controlled insurance program, which is subject to coverage, limits and exclusions, as well as time sensitive claims discovery and reporting provisions. In addition, no assurance can be given that such insurance will be adequate to fully cover any and all damages or liabilities.

Offshore Oil Development Risk

The demand for, and pricing of, oil has a direct impact on the level of exploration, development and production activity in the Province's offshore region. This, and numerous other market conditions, over which Oil and Gas has no control, may also impact results including commodity prices, expectations about future prices, levels of consumer demand, severe weather events, policy or regulatory change, economic conditions, and the ability of oil and gas companies to raise capital.

Any prolonged substantial reduction in oil and gas prices may slow the current pace of offshore oil exploration and development until market conditions are more favorable, and a prolonged and substantial increase may spur higher than expected interest and development.

Electricity System Integration Risk

Muskrat Falls remains under construction, while construction of the transmission interconnection between the isolated Island grid to North America is now complete, with the Maritime Link in-service and the LIL in-service at a limited capacity. The integration of Muskrat Falls and related transmission assets into the existing asset base is complex and involves a high degree of coordination. As such, Nalcor is focused on completion of the construction of Muskrat Falls, full system integration efforts and planning for the implementation of new operating procedures and commercial agreements. Failure of critical equipment could result in service disruptions and the inability to deliver electricity to customers in an efficient manner, resulting in adverse financial impacts, if not resolved in a timely manner.

Seasonality

Weather conditions, including abnormally warm or cold weather that causes higher or lower than expected energy usage for heating or cooling purposes or periods of low rainfall that impact economic operation of hydro assets, can have a material impact on cash flows and financial results, in particular for Hydro and Churchill Falls. Energy Trading, which exists to optimize energy resources, may also be affected where seasonality patterns differ from normal ranges to an extent that it impacts demand and pricing in target sales markets. Despite preparations for severe weather, ice, wind and snow storms, hurricanes and other natural disasters, weather will always remain a risk to the physical assets of utilities. Global warming and climate change may have the effect of increasing the severity and frequency of weather related natural disasters that could affect the Company's service territories. Unforeseen changes to energy consumption from changing temperature swings could affect expected seasonality and demand assumptions. Although physical utility assets have been constructed and are operated and maintained to withstand severe weather, there can be no assurance that they will successfully do so in all circumstances. Unforeseen capital investments may be required to respond, forecasts of water reservoir volumes and assumptions regarding design and engineering for extreme weather may change.

Catastrophic Event Risk

Other external factors exist, where their occurrence would be sudden and the impact catastrophic. This includes, but is not limited to, an act of terrorism against key generation or transmission infrastructure, a major cyber-attack targeting key systems, including those that operate generation and transmission assets, and a catastrophic natural disaster, such as a major hurricane or tsunami.

To mitigate the risk of a sudden and catastrophic incident, Nalcor has business recovery and other emergency preparedness measures and controls governing both physical and information technology security threats. To the extent that coverage is available, certain risks are transferred through the placement of insurance. Such events are unlikely, but could have severe, sudden and potentially long-term impacts on the Company.

Information Technology Infrastructure and Security Risk

Information technology affects all aspects of Nalcor's operations. The Company's success is in large dependent on developing, maintaining and managing complex IT systems which are employed to operate transmission and generation facilities, financial and other business systems. If such systems are not robust or do not support the needs of the business, performance may be negatively impacted due to errors, poor efficiency and/or loss of system stability. To respond to aging business systems and changing needs of the Company, Nalcor regularly conducts comprehensive upgrades and replacements of key systems.

The business relies heavily on its corporate business systems for core activities and any disruptions in operations could potentially result in delays in issuing accurate internal or external reporting, including financial reports, as well as information required to maintain contractual and regulatory compliance. In addition, it could result in delays issuing vendor payments, processing payroll, or providing customer billings.

Increasing reliance on information systems and expanding data networks creates exposure to information security and cyber threats. Major risk exposures in this environment relate to information security, availability of information, and risk of corporate data loss. It also may include the loss of processing capability due to hardware and/or software failure or cyber-attack(s), the loss of communication across the wide area network, the loss of data through cybercriminal malware, or similar events. There are unique risks relating to the industrial control systems and other operational technologies that control the electricity grid and certain physical assets. External threats are mitigated through the use of firewalls, anti-malware tools and detection and intrusion prevention appliances. Internet access is controlled and, where devices are connected, this is managed by a web-filtering device. Nalcor maintains a disaster recovery plan that details recovery procedures and processes, and is updated and tested on a periodic basis.

A serious incident involving the loss of corporate data or access to critical systems would result in unplanned costs to contain, investigate, and remediate the incident and may result in unplanned investments to change systems or processes. It could also result in the loss of control over physical assets, or inability to access corporate systems and data.

A serious incident involving the loss of monitoring or control of critical industrial control systems that generate, monitor, maintain and transmit power to the power grid, would result in unplanned costs to contain, investigate, and remediate cyber incidents, may result in unplanned power outages to the power grid, and damage to physical industrial assets. It could also render an unsafe working condition in plants whereby a plant may not be safety controlled or shutdown in a regulated safe manner, thus potentially leading to physical safety risks to employees in plants.

Human Resource Management Risk

The future success of Nalcor is tied to attracting and retaining sufficient qualified staff to replace those retiring and those needed for new assets. Approximately 20% of full time equivalent employees will be eligible for the earliest unreduced pension within the next five years. This is compounded by the integration of LCP assets, which creates challenges to attracting and retaining adequate numbers of specialized and experienced staff to manage existing assets, in particular the HTGS and various rural operations, while simultaneously staffing sufficient numbers of skilled workers to support the operation of new infrastructure as it comes in-service.

An integrated workforce plan and talent management strategies have been developed and Nalcor is implementing internal processes to guide decisions, such as the timing of transfers, which considers risk and criticality to the overall business.

The collective agreements between Hydro and IBEW Local 1615 (April 1, 2014 to March 31, 2018) and Churchill Falls and IBEW Local 2351 (January 1, 2014 to December 31, 2018) were extended one year beyond original expiration. There is ongoing preparation for collective bargaining in 2019.

Oil and Gas Production Volume Risk

As a partner in three offshore developments, Oil and Gas is largely dependent on the operators to manage the risks that are associated with production and development. In addition to operating risks, commodity price and foreign exchange risk, Oil and Gas is subject to volume risk, or fluctuations in production levels. Decisions may be made by the operator that may adversely affect project production levels if they are in the best interest of the life of specific development projects. Oil and Gas maintains a very close working relationship with the operator of each of these ventures, is involved in key decisions made through joint venture rights and obligations and actively participates in the various executive and operating committees.

The impact of unanticipated declining production in either project could have a significant adverse effect on Nalcor's results and financial position.

Regulatory Approvals and Compliance

Oil and natural gas operations (including exploration, development, production, pricing, marketing and transportation) in the Province's offshore are subject to extensive controls and regulations imposed by the Canadian Newfoundland Offshore Petroleum Board (CNLOPB). The C-NLOPB may intervene with respect to exploration and production activities which can have an effect on estimated production volumes and the ability to explore and develop the Province's offshore.

Transmission Constraints Risk

Transmission constraints are relevant to the lines of business that operate in electricity markets either generating or selling power, and can result from high demand on transmission assets into key markets. For energy marketing activities, risks relating to transmission constraints are managed to the extent possible through firm contractual arrangements securing the use of transmission infrastructure, combined with the purchase of financial products mitigating the risk due to line congestion into key markets.

Limitation of Internal Control Systems

Management is responsible for ensuring that risks are controlled by putting in place and monitoring processes and systems designed to reduce such risks as detailed above. Internal control systems are intended to provide reasonable assurance with respect to the achievement of objectives, and those controls deemed to be effective do not eliminate the risk altogether. They may not always prevent or detect misstatements with respect to financial statement preparation and presentation, or prevent material financial losses from occurring.

FINANCIAL RISK

Nalcor's operations create exposure to various forms of financial risk as noted below. Financial risks are managed in accordance with a Board-approved Financial Risk Management Policy. Board approval is required whenever derivative instruments are used to hedge against an identified financial risk.

Commodity Price Risk

Commodity price risk arises wherever a change in the market price for a particular commodity would cause a corresponding change to expected profit, cash flow and/or the fair value of assets/liabilities. Nalcor's primary exposure to commodity price risk is through the sale of crude oil by Oil and Gas; the purchase of No. 6 fuel, gas turbine fuel, and diesel fuel for Hydro Regulated generation facilities; and the sale of energy by Energy Trading. Within Hydro Regulated, regulatory recovery mechanisms are available which provide certainty to mitigate the risk to profit by movements in commodity price relating to the purchase of No. 6 fuel, diesel and gas. For oil sales and export energy sales however, profit is sensitive to market price fluctuations. The market price for electricity exports is impacted by a number of factors including the impact of other existing and emerging technologies for the generation of electricity. Assuming no risk mitigation, with all other variables and assumptions held constant and regarding anticipated volumes to be sold in 2019, an increase of $1 in the average Dated Brent price (USD/bbl) will increase profit in Oil and Gas by $1.5 million. A decrease of $1 in the average Dated Brent price (USD/bbl) will decrease profit in Oil and Gas by $3.4 million. A $1 increase (decrease) in the average electricity export price (USD/MWh) will affect profit in Energy Trading by $1.0 million.

During Q4 2018, a decision was made to not enter into any additional fixed commodity price swap contracts for Oil and Gas or Energy Trading. This was due to uncertainty regarding the timing of Oil and Gas' transition from Nalcor and uncertainty in the volume of excess energy available for export by Energy Trading in 2019. Management will continue to assess this risk and may decide to enter into contracts at a future date.

Hydro Regulated's exposure to commodity price fluctuations in No. 6 fuel is mitigated by the operation of the RSP which transfers the impact of commodity price risk on fuel prices to customers. Variations in the price of diesel and gas supply costs and the volume of other supply costs are deferred in other regulatory mechanisms, reducing their impact on profit. However, the PUB has yet to issue a decision on the recovery of these deferred balances. Therefore, while the RSP and other supply cost deferral accounts mitigate the impact of fuel price volatility on profit, risk remains on cash flows, which is managed by ensuring sufficient short term liquidity is available to address financing requirements.

Foreign Exchange Rate Risk

Foreign exchange rate risk arises when a financial transaction is denominated in a currency other than that of the base currency of the Company, being CAD. Nalcor's primary exposure to foreign exchange rate risk arises from exposure to USD through the sale of crude oil by Oil and Gas, Hydro Regulated's purchases of No. 6 fuel for consumption at the HTGS and the sale of energy at USD market rates by Energy Trading. As is the case for commodity price exposures related to Hydro Regulated's purchase of No. 6 fuel, regulatory recovery is permitted related to foreign exchange rate impacts as described in further detail below. For oil sales and export energy sales, profit is sensitive to fluctuations in the USD/CAD exchange rate. Assuming no risk mitigation, with all other variables and assumptions held constant and regarding anticipated volumes to be sold in 2019, an increase of $0.01 in the average USD/CAD rate represents an annual decrease in profit of $0.6 million for Oil and Gas. A decrease of $0.01 in the average USD/CAD rate represents an annual decrease in profit of $1.3 million. The same change in foreign exchange rate translates to an annual impact of $0.3 million to the profit of Energy Trading.

Hydro Regulated's foreign exchange exposure on the purchase of No. 6 fuel is mitigated through the operation of the RSP which transfers the effects of foreign currency changes on fuel purchases to customers. The regulatory framework for Hydro Regulated allows for recovery of prudently incurred costs, including those relating to changes in foreign exchange rates. While the RSP can mitigate the impact of currency volatility on profit, it does not protect against the effect of such volatility on cash flow. This is managed by ensuring sufficient short term liquidity is available to address financing requirements.

During Q4 2018, a decision was made to not enter into any additional foreign exchange forward contracts for Oil and Gas or Energy Trading. This was due to uncertainty regarding the timing of Oil and Gas' transition from Nalcor and uncertainty on how Oil and Gas would finance future capital commitments, along with uncertainty surrounding the volume of excess energy available for export by Energy Trading in 2019. Management will continue to assess this risk and may decide to enter into contracts at a future date.

Credit Risk

Credit risk represents the financial loss that would be suffered if Nalcor's counterparties in a transaction fail to meet or discharge their obligation to the Company. Nalcor is exposed to credit risk in the event of non-performance by counterparties to its financial instruments or in non-performance of suppliers and/or contractors.

Credit risk relating to the revenues in Churchill Falls, and Hydro Regulated are largely mitigated by the profile of its customers, who are typically regulated utilities or investment grade counterparties, which are designated as low risk. Credit risk also exists relating to Hydro Regulated's revenue from customers seeking Transmission Service, Network Integration Transmission Service or Interconnection Service from the Newfoundland and Labrador System Operator (NLSO). However, there are procedures and practices in place which are designed to manage the credit risk associated with these revenue sources. These procedures and practices include the assessment and monitoring of the counterparty creditworthiness, monitoring collections, and the maintenance of various forms of credit assurance, including letters of credit, performance bonds and parental guarantees which form part of the terms of the final contracts. Credit risk related to the sale of export energy and crude oil is managed through contractual arrangements with counterparties assessed to be creditworthy, supported by credit enhancements as required.

Investments are similarly restricted to high-quality securities. Investments held within the sinking fund portfolios of Nalcor and Hydro Regulated and the reserve fund in Churchill Falls are limited to securities issued by or guaranteed by the Government of Canada, any of the provincial governments and Canadian banks rated A or better by Standard and Poor's (S&P). In addition, portfolio investments held within the reserve fund of Churchill Falls do not exceed 10% with any one entity with the exception of the Government of Canada. Long-term investments held by Muskrat Falls and LCP Transmission are with a Canadian Schedule 1 Bank with a credit rating of A by S&P. Derivative transactions are executed with only highly rated banking institutions. Default by a company that Nalcor has extended significant credit to could result in material lost revenue, increases to bad debt expense, and a negative impact to Nalcor's Statement of Financial Position as receivables are deemed to be uncollectible.

Liquidity Risk

Liquidity risk is the risk that Nalcor will not be able to meet its financial obligations as they become due. Nalcor is exposed to liquidity risk with respect to its short-term contractual obligations and financial liabilities. Short-term liquidity is provided by cash and cash equivalents, funds from operations and maintenance of borrowing facilities sufficient to cover both anticipated and unexpected fluctuations within its operations. Cash flows are monitored continuously. Nalcor maintains a $250 million committed revolving term credit facility with its bank to ensure additional liquidity is available to each of the lines of business. In addition, Hydro Regulated maintains a $200 million committed revolving term credit facility, as well as, a government guaranteed $300 million promissory note program. Demand operating credit facilities are maintained for Oil and Gas, Churchill Falls and Energy Trading with limits of $30 million, $10 million and $20 million, respectively.

Hydro Regulated addresses longer-term capital funding through a process whereby the Province issues debt specifically on Hydro Regulated’s behalf and lends the proceeds to Hydro Regulated on a cost recovery basis. Long-term liquidity is also provided through injections of equity capital from the Province in support of the existing large capital project investments. Continued long-term liquidity depends on its ability to access the capital markets through the Province and on the Province’s ability to provide required equity contributions going forward. The funding obligations associated with the long-term debt are managed through a balanced approach to debt maturity and a program of sinking fund investment.

Diminished liquidity may result in constraints on executing capital plans and carrying out planned investments and acute shortages could negatively affect the organization’s ability to operate.

Key Estimates Risk

Nalcor is subject to uncertainty pertaining to key estimates and assumptions including, but not limited to, changes in crude oil production and electricity generation and/or sales levels and prices, particularly relating to revenue, and potentially impacting all affiliated companies. Where financial and operating assumptions are required, various scenarios are considered to account for the possibility that actual conditions differ from those expected. However, reasonable assumptions must be selected and financial results and operating conditions may be materially impacted during periods where external factors are outside the normal expected range.

Sustainability of Future Electricity Rates

Since LCP was sanctioned, several key assumptions have changed, namely the cost of construction and schedule for first and full power. Additionally, load forecasts and required supply assumptions have decreased from levels expected in 2012. Projected electricity rates have increased from initial estimates, and there are concerns that the projected rates are not sustainable. In addition, projected rates may cause uncertainty on cash flows and asset valuations. Nalcor is currently reviewing, in coordination and consultation with the Province, any available options for reducing future electricity rates for the ratepayers of Newfoundland and Labrador. In addition, on September 5, 2018, the Province issued Terms of Reference to the PUB to review and report on a number of matters, including options to reduce the impact of LCP on electricity rates through to the year 2030. The PUB retained Liberty and Synapse to assist with the review. The PUB’s final report is expected to be filed with the provincial government in Q1 2020. Any recommendations as a result of this review will be assessed and implementation could have an adverse effect on Nalcor’s financial position.

COMPLIANCE RISK

Legislative Compliance

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

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

In certain instances, the outcome of noncompliance may have material impacts on revenue assumptions, cash flows or expenses, or may affect the timely delivery of a product, service, or project in a given period.

Contractual Compliance

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

Default by Nalcor relating to a material contract, or default of another party to key agreements may affect the Company's ability to meet sales or other targets as well as fund or deliver major capital projects. From time to time, disputes arise between Nalcor and related or third parties which create uncertainty with respect to various financial targets affected by certain contracts with the potential to be material.

SECTION 7: ACCOUNTING POLICIES AND SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

CURRENT CHANGES IN ACCOUNTING POLICIES

The following are new IFRS accounting standards that are applicable to Nalcor, and were adopted in 2018:

Financial Instruments: IFRS 9

IFRS 9 became effective on January 1, 2018. The standard contains requirements for the classification and measurement of financial instruments, impairment and general hedge accounting. Under the standard, categories for classification of financial assets have been reduced as all financial assets previously within the scope of IAS 39 have been subsequently measured at either amortized cost or fair value. The requirements of IFRS 9 were applied to instruments that were not derecognized at January 1, 2018, with comparative amounts restated where appropriate.

The standard introduces a new forward looking impairment model for measurement of credit losses based on expected losses as opposed to incurred losses. The new model is designed to result in earlier recognition of credit losses and to consider a broader range of reasonable supportable information to inform credit loss estimates.

Under the standard there is greater flexibility for hedge accounting, as the effectiveness test is based on the qualitative economic relationship of the hedging instrument and hedged item versus a quantitative retrospective assessment of effectiveness under IAS 39. Additional disclosure requirements have also been added surrounding the risk management activities of the entity.

Upon application of IFRS 9 there were financial impacts to Hydro and Nalcor, which are described in Note 4.1 of the annual audited consolidated financial statements for Nalcor. In addition, changes to financial statement disclosures were required and applied in the financial statements of both Nalcor and its subsidiaries.

Revenue from Contracts with Customers: IFRS 15

IFRS 15 became effective on January 1, 2018, and replaced IAS 18 – Revenue and IAS 11 – Construction Contracts, along with several related Interpretations. The standard specifies how and when to recognize revenue from contracts with customers and requires entities to provide more informative, relevant disclosures. Management has applied the changes in the accounting standard retrospectively using practical expedients for completed contracts and modified contracts. Management has assessed the impact and although there are changes to related disclosures, there are no material adjustments to amounts reported in Nalcor's consolidated financial statements arising from the application of the new standard.

FUTURE CHANGES IN ACCOUNTING POLICIES

The following are new IFRS standards that management anticipates could have a future impact Nalcor's consolidated financial statements:

Leases: IFRS 16

IFRS 16 was issued on January 13, 2016, to supersede IAS 17 – Leases along with a number of Interpretations, upon its effective date of periods commencing on or after January 1, 2019, with earlier application permitted. The standard provides a comprehensive model for the identification of lease arrangements and their accounting treatment. The greatest impact of this new standard is the requirement for lessees to record assets and liabilities on the Statement of Financial Position for all leases, not just finance leases, with some exceptions such as short term leases and low value leases. Treatment of leases for lessors will remain relatively unchanged. Management has elected to adopt this standard as of the effective date. Management anticipates that the application of this standard will not have a material impact on the amounts and disclosures reported in Nalcor's consolidated financial statements and is finalizing its assessment.

Joint Arrangements (Amendments to IFRS 11): IFRS 11

IFRS 11 was amended to clarify that an entity does not re-measure previously held interests in a business when the entity obtains joint control of a business that is a joint operation. This amendment is effective for periods starting on or after January 1, 2019, with earlier application permitted. This amendment is currently not applicable to Nalcor's consolidated financial statements but Management feels it could potentially apply to future transactions.

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

IAS 1 and IAS 8 were amended to align the definition of the term "material" across all reporting standards. The new definition states that "information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." This amendment is effective for periods starting on or after January 1, 2020, with earlier application permitted. This amendment improves Nalcor's understanding of materiality and does not result in a material impact on Nalcor's consolidated financial statements.

CRITICAL ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

Nalcor's significant accounting policies are described in Note 2 of the annual audited consolidated financial statements. Several of these policies involve balances or transactions which require significant accounting judgments, estimates and assumptions that impact reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amount of revenues and expenses during the reporting periods. Significant accounting estimates and judgements are described in Note 3 of the annual audited consolidated financial statements and are based on historical experience, current conditions and various other assumptions believed to be reasonable under the circumstances. Due to changes in facts and circumstances, and the inherent uncertainty involved in making estimates, actual results may differ materially from current estimates. The estimates and assumptions used are reviewed on an on-going basis by Management and, as adjustments become necessary, are recognized in profit or loss in the period in which they become known. A summary of Nalcor's critical accounting judgments and estimates are as follows:

Revenue

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

Regulatory Adjustments

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

As at December 31, 2018, Hydro Regulated recognized a total of $159 million in regulatory assets (2017 - $117 million) and $71 million in regulatory liabilities (2017 - $79 million). For further detail of regulatory assets and liabilities please refer to Note 13 of Nalcor's consolidated annual financial statements.

Depreciation, Depletion and Amortization

Depreciation, depletion and amortization are significant estimates included in the Nalcor consolidated financial statements due to the significant asset balances carried in property, plant and equipment and intangible assets. As at December 31, 2018, Nalcor's consolidated property, plant and equipment and intangible assets are $15.8 billion, or approximately 84% of total consolidated assets compared to

$14.6 billion or approximately 81% of total consolidated assets as at December 31, 2017. Total depreciation, depletion and amortization is $180 million for the year ended December 31, 2018 (2017 - $168 million).

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

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

Impairment of Non-Financial Assets

Non-financial assets are assessed for indicators of impairment at the end of each reporting period. Non-financial assets are impaired where there is evidence that, as a result of one or more events that occurred after the initial recognition of the non-financial asset, the recoverable amount of the asset has been impacted. Where it is not possible to estimate the recoverable amount of an individual asset, Nalcor estimates the recoverable amount of the cash generating unit (CGU) to which the asset belongs. The determination of a CGU requires judgement in determining the level at which cash flows are largely independent of other assets or groups of assets. Management uses internal qualitative and quantitative assessments. The calculation of recoverable amount includes a discounted cash flow analysis which may include estimates and assumptions regarding expected future revenue often driven by commodity prices and volume, the timing and amount of future operating and capital cash flows and a market participant discount rate. The calculation of the recoverable amount of a CGU also requires judgement surrounding future events. Changes to these estimates can have a material impact on this calculation and while no impact on cash flows, can lead to large fluctuations in profit or loss between reporting periods. For the year ended December 31, 2018, the impact of asset impairments on Nalcor's profit or loss was $6 million (2017 - $132 million). Impairment in 2017 and 2018 relates to costs associated with the intangible assets and property, plant and equipment which Management anticipates no longer have future economic benefit.

Discontinued Operation

For the periods ended December 31, 2018, Bull Arm Fabrication was classified as a discontinued operation. Judgment was used in determining whether the company met the criteria to be classified as held for sale or distribution at that date. It was concluded that Bull Arm Fabrication was a discontinued operation for the following reasons:

- Bull Arm Fabrication is available for immediate distribution to the Province;
- Actions to complete the distribution have been initiated; and
- The Province has communicated its intent to distribute the company.

Oil and Natural Gas Reserves

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

Partnership Unit Liabilities

Partnership unit liabilities represent the limited partner's ownership interests in the Partnership based on the fair value of the Class B limited partnership units at each reporting date. Due to the nature of the liability and the lack of comparable market data, the fair value is determined using the present value of future cash flows. Significant assumptions are used in the calculation including the amount and timing of future cash flows and the discount rate. As at December 31, 2018, the carrying value of the Class B limited partnership units on the Statement of Financial Position is $533 million (2017 - $491 million).

Decommissioning Liabilities

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

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

Decommissioning liabilities are periodically reviewed by Management and any changes are recognized as an increase or decrease in the carrying amount of the liability and the related asset. As at December 31, 2018, Nalcor's decommissioning liabilities were $86 million (2017 - $86 million).

Employee Future Benefits

Employee future benefits, which consist of group life insurance and health care benefits, are provided to retired employees on a cost-shared basis, in addition to a retirement allowance. The expected cost of providing these benefits is actuarially determined by an independent actuary using Management's best estimate of salary escalation, retirement ages of employees and expected heath care costs. Changes in the assumptions such as the discount rate, inflation rate, and life expectancy, along with the estimates of salary, retirement and health care costs could have a material impact on the liability. As at December 31, 2018, Nalcor's total employee future benefits liability is $123 million (2017 - $126 million).

Contingencies

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

SECTION 8: NON-GAAP FINANCIAL MEASURES

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

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

Disclosure of Operating Profit (Loss)

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

SECTION 9: RELATED PARTY TRANSACTIONS

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

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

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. Outstanding balances due to or from related parties are non-interest bearing with no set terms of repayment, unless otherwise stated. Refer to Note 32 in Nalcor's annual audited consolidated financial statements for the year ended December 31, 2018, for descriptions of transactions with related parties.

SECTION 10: SUMMARY OF QUARTERLY RESULTS

The following table outlines Nalcor's quarterly results for the eight quarters ended March 31, 2017 through December 31, 2018. The quarterly information has been obtained from Nalcor's unaudited condensed consolidated interim financial statements. These financial results are not necessarily indicative of results for any future period and should not be relied upon to predict future performance.

For the period ended (millions of Canadian dollars)	Revenue	Profit (Loss)	ROCE (%)[1]	FFO	Capital Expenditures[2]
December 31, 2018	**262**	**40**	**6.5%**	**91**	**250**
September 30, 2018	201	23	6.2%	70	440
June 30, 2018	257	39	6.2%	86	390
March 31, 2018	298	78	7.8%	125	304
December 31, 2017	257	(101)	7.6%	79	673
September 30, 2017	149	18	9.3%	59	820
June 30, 2017	227	78	10.6%	121	795
March 31, 2017	279	56	8.6%	99	548

[1] Excludes assets under development

[2] Excludes Maritime Link

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

DECEMBER 2018/DECEMBER 2017

2018 fourth quarter profit increased $141 million compared to the same period in 2017. Key drivers of the increase include non-recurring expenses recognized in 2017 related to the impairment of exploration intangible assets and Gull Island project costs and costs associated with the CDA between the NCC and Nalcor. The increase for the quarter was also driven by Hydro Regulated and the approval of a 2018 cost deferral, implementation of new interim rates and lower supply costs. These increases were partially offset by lower revenues in Oil and Gas, the conclusion of the sublease with EMCP in Q4 2017 and increased financing and operating costs related to Hydro Regulated.

SEPTEMBER 2018/SEPTEMBER 2017

2018 third quarter profit increased $5 million compared to the same period in 2017. Key drivers of the increase include higher oil revenue from Oil and Gas as a result of higher prices and volume as compared to 2017, higher revenues in Energy Trading as a result of higher export prices and new interim rates in Hydro Regulated. These increases were partially offset by lower revenues from Bull Arm Fabrication as a result of the close-out of the EMCP sublease in Q4 2017; higher exploration and evaluation expense, depreciation, depletion and amortization expense, as well as production, marketing and transportation expense in Oil and Gas in 2018; and higher financing, depreciation, operating, asset disposal and power purchased costs in Hydro Regulated.

JUNE 2018/JUNE 2017

2018 second quarter profit decreased $39 million compared to the same period in 2017. Key drivers of the decrease include a one-time adjustment to sublease revenue during Q2 2017 in Bull Arm Fabrication, along with the close-out of the EMCP sublease in Q4 2017; impacts of the 2013 Amended GRA Order, which resulted in favourable non-recurring adjustments in Q2 2017; higher exploration and evaluation expense in Oil and Gas in 2018; and increased depreciation as a result of growth in the capital program, including new transmission assets, in Hydro Regulated. These decreases were partially offset by higher oil revenue from Oil and Gas as a result of higher prices and volume as compared to 2017.

MARCH 2018/MARCH 2017

2018 first quarter profit increased $22 million compared to the same period in 2017. Key drivers of the increase include the impact of having new rates in the first quarter of 2018 for Hydro Regulated, an increase in oil revenue in Oil and Gas due to higher prices as compared to Q1 2017, and higher electricity prices in Energy Trading. The increase in overall profit was offset partially by a decrease in Bull Arm Fabrication's profit as a result of the conclusion of the sublease of the site, higher exploration and evaluation costs in Oil and Gas and increased depreciation, depletion and amortization in Oil and Gas and Hydro Regulated.

SECTION 11: OUTLOOK

Looking forward, 2019 will be another transitional year for Nalcor, with key changes in the business taking place as we wait for the finalization of timing and details from the Province associated with the distribution of Bull Arm Fabrication, which has been classified as a discontinued operation, and movement of seismic and exploration activities to the new Crown corporation. As well, during 2019 Nalcor will continue to test and commission LTA and LIL assets, in advance of first commercial power from Muskrat Falls in 2020, enabling Hydro Regulated to avail of additional Recapture energy typically sold to export markets to supply Island requirements and displace generation from the HTGS. Timing associated with occurrence of these items can cause fluctuations in Nalcor’s profit for 2019.

HYDRO

HYDRO REGULATED

Hydro Regulated remains focused on its mandate to provide safe, reliable and least cost electricity supply to meet current energy needs and accommodate future growth. On July 28, 2017, Hydro Regulated filed its 2017 GRA to set new rates for 2018 and 2019. The hearing portion of Hydro Regulated’s 2017 GRA has concluded and the PUB’s decision and Order on the 2017 GRA is not expected until the second quarter of 2019. However, the PUB approved 2018 interim rates for both Island Industrial and the remainder of its customers on the Island Interconnected system, which will be in place until new 2017 GRA rates are implemented. The 2018 financial results also include a PUB approved cost deferral to permit Hydro Regulated to earn a reasonable return in 2018. Any adjustments to the requested revenue requirements from January 1, 2018 until final rates are approved will not be known until the 2017 GRA Order is received. Any required adjustments will be reflected at that time.

Prior to the completion of the Muskrat Falls hydroelectric generating station, the LIL and LTA will be available, in limited capacity, for use by Hydro Regulated to direct surplus Recapture to service load on the Island, thereby partially displacing fuel consumption at the HTGS. On October 25, 2018, the Province issued an Order in Council to the PUB to adopt a policy, upon application by Hydro Regulated, that results in the deferral of all costs, expenditures and payments incurred by Hydro Regulated associated with the usage of the LIL and LTA prior to the completion of the Muskrat Falls hydroelectric generating station. In Q4 2018, Hydro Regulated filed an application for the deferral of operating and maintenance costs related to this with a future application for deferral of associated interest costs to be filed. On December 12, 2018, Hydro Regulated received approval in Order No. P.U. 47(2018) to defer all costs, payments and expenditures incurred associated with the usage of the LIL and LTA prior to the completion of the Muskrat Falls hydroelectric generating station. The recovery of these deferred costs through customer rates is subject to approval by the PUB and therefore, regulatory risk remains.

Due to the ongoing PUB review of electricity rate mitigation options and impacts in relation to LCP, there is uncertainty with respect to the timing of Hydro Regulated’s next rate application. This filing is expected to recover the revenue requirement that will result from the commissioning of the Lower Churchill Project, anticipated to conclude in September 2020, and the phase-out of the HTGS.

POWER SUPPLY

LCP TRANSMISSION

The energization and ongoing commissioning of LTA and LIL, has allowed power to be delivered from the Churchill Falls Generating Station to the Island, prior to expected first commercial power from Muskrat Falls, partially displacing a portion of the generation at HTGS during winter 2019. Commissioning of these assets will continue throughout 2019 and will continue to aid in displacing fuel at the HTGS.

In future years, Hydro Regulated customer rates will be impacted by costs associated with the development of LCP. Management continues to work with the Province to explore a range of potential strategies to mitigate the future rate impacts. During Q1 2018 the Board established a Rate Mitigation Committee comprised of Board members. The purpose of this committee is to provide oversight of ongoing rate mitigation activities and to keep the Board informed. Until final decisions on rate mitigation are made by the Province, any potential impacts on Nalcor's future net income, cash flows, or asset impairment cannot be determined.

CHURCHILL FALLS

Churchill Falls' 2019 forecasted profit is anticipated to be higher than 2018 primarily due to higher revenue from Twin Block energy sales to Hydro Regulated, partially offset by higher operating costs and lower revenue from the Guaranteed Winter Availability Contract with Hydro-Québec.

ENERGY TRADING

Energy Trading will continue to focus on the growth of Nalcor's energy marketing portfolio during 2019 through its efforts to secure premium prices and market access for maximizing the export value of remaining surplus Recapture and future Muskrat Fall's exports. Energy Trading will also continue to work with Hydro Regulated to procure off-island energy to displace energy production from the HTGS and to optimize the value of the Province's hydraulic storage and production assets.

In 2019, as a result of Hydro Regulated being able to utilize LTA and LIL, excess Recapture energy, previously exported by Energy Trading, will now be repurposed to service Island requirements, significantly reducing Energy Trading's profit for the year. To partially offset this reduction in profit, Energy Trading will utilize its excess available transmission to generate additional sources of income.

OFFSHORE DEVELOPMENT

Effective September 30, 2018, Offshore Development was classified as a discontinued operation, based on the expectation that the whole segment would be distributed to the Province. On March 11, 2019, the Province announced that the structure would see existing equity interests in offshore developments remaining within the Nalcor corporate structure; while seismic and exploration activities, along with any future equity in offshore developments, will be held within the new stand-alone Crown corporation with Bull Arm Fabrication as a subsidiary. As a result of the announcement, Oil and Gas no longer meets the criteria as a discontinued operation and has been reported as part of continuing operations. Until such time as the Province finalizes the timing and specifics of this transaction, Nalcor will continue to report profit (loss) associated with seismic/exploration activities and Bull Arm Fabrication. As of the date of this MD&A the Province has not finalized the timing for the creation of a new Crown corporation.

OIL AND GAS

Oil and Gas anticipates a decrease in profit for 2019 due to lower forecasted oil production, higher royalties and depletion.

BULL ARM FABRICATION

Bull Arm Fabrication's profit (loss) in 2019 is expected to be comparable to 2018. Bull Arm Fabrication Management continues to evaluate opportunities received through the RFP process in order to secure a long-term tenant for the site.

CAPITAL EXPENDITURE OUTLOOK

Capital expenditures for Nalcor in 2019 are forecasted to be $1.6 billion compared to $1.4 billion in 2018, an increase of $0.2 billion. The increase is driven by the timing of capital expenditures incurred by LCP as a result of work shifting from 2018 to 2019 and increased capital spend in Oil and Gas primarily related to the White Rose Wellhead Platform Project.

MANAGEMENT REPORT

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

The Consolidated Financial Statements have been prepared by Management in accordance with International Financial Reporting Standards. The preparation of financial statements necessarily involves the use of estimates based on Management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to March 1, 2019. Financial information presented elsewhere in the Management's Discussion & Analysis is consistent with that in the Consolidated Financial Statements.

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

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

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

Stan Marshall
President and Chief Executive Officer

Derrick Sturge
Executive Vice President, Finance and Chief Financial Officer

APPENDIX 2

nalcor energy

NALCOR ENERGY
CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018

Deloitte.

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Canada

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Independent Auditor's Report

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

Opinion

We have audited the consolidated financial statements of Nalcor Energy (the "Company"), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statements of profit and comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

Emphasis of Matter – Discontinued Operations

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

Emphasis of Matter – Restated Comparative Information

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

Other Matter

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Deloitte LLP

Chartered Professional Accountants
March 23, 2019

NALCOR ENERGY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

Commitments and contingencies (Note 33)

See accompanying notes

On behalf of the Board:

DIRECTOR DIRECTOR

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

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

See accompanying notes

NALCOR ENERGY
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

See accompanying notes

NALCOR ENERGY
CONSOLIDATED STATEMENT OF CASH FLOWS

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

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

See accompanying notes

1. DESCRIPTION OF BUSINESS

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

1.1 Subsidiaries

Nalcor holds interests in the following subsidiaries:

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

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

A 100% interest in Nalcor Energy – Bull Arm Fabrication Inc. (Bull Arm Fabrication), an industrial fabrication site with a fully integrated infrastructure to support large-scale fabrication and assembly. Its facilities include onshore fabrication halls and shops, a dry-dock and a deep water site.

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

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

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

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

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

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

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

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

1.2 Investment in Joint Arrangement

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

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

1.3 Structured Entities

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

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of Compliance and Basis of Measurement

These annual audited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). Nalcor has adopted accounting policies which are based on the IFRS applicable as at December 31, 2018 and includes individual IFRS, International Accounting Standards (IAS), and interpretations made by the IFRS Interpretations Committee and the Standing Interpretations Committee.

These annual audited consolidated financial statements have been prepared on a historical cost basis, except for financial instruments at fair value through profit or loss (FVTPL) and fair value through other comprehensive income (FVTOCI) which have been measured at fair value. The annual audited consolidated financial statements are presented in Canadian Dollars (CAD) and all values rounded to the nearest million, except when otherwise noted. The annual audited consolidated financial statements were approved by Nalcor's Board of Directors (the Board) on March 1, 2019.

2.2 Basis of Consolidation

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

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

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

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

2.3 Cash and Cash Equivalents and Short-term Investments

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

2.4 Restricted Cash

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

2.5 Trade and Other Receivables

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

2.6 Inventories

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

2.7 Property, Plant and Equipment

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

<u>Hydro</u>

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

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

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

Transmission lines include the support structures, foundations and insulators associated with lines at voltages of 230, 138 and 69 kilovolt (kV). Terminal station assets are used to step up voltages of electricity and to step down voltages for distribution. Distribution system assets include poles, transformers, insulators, and conductors. Other assets include telecontrol, buildings, vehicles, furniture, tools and equipment.

Power Supply - Churchill Falls

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

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

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

Offshore Development - Oil and Gas

(i) Development and Production Costs

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

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

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

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

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

(ii) Subsequent Costs

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

(iii) Depletion

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

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

Such reserves may be considered commercially producible if management has the intention of developing and producing them and such intention is based upon:

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

(iv) Other Assets

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

Power Supply and Power Development

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

Project support assets	4 to 7 years

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

2.8 Exploration and Evaluation Assets

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

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

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

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

2.9 Investment Property

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

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

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

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

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

2.10 Intangible Assets

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

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

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

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

2.11 Borrowing Costs

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

All other borrowing costs are recognized in the Consolidated Statement of Profit and Comprehensive Income (Loss) in the period in which they are incurred.

2.12 Impairment of Non-Financial Assets

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

Where it is not possible to estimate the recoverable amount of an individual asset, Nalcor estimates the recoverable amount of the CGU to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified. The recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. Value in use is generally computed by reference to the present value of future cash flows expected to be derived from non-financial assets.

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

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

2.13 Investments in Joint Arrangements

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

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

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

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

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

2.14 Employee Future Benefits

(i) Pension Plan

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

(ii) Other Benefits

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

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

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

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

2.15 Provisions

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

2.16 Decommissioning, Restoration and Environmental Liabilities

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

2.17 Revenue Recognition

Revenue from Contracts with Customers

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

Nalcor recognizes revenue from the sale of electricity to Regulated Provincial industrial, utility and direct customers in rural Newfoundland and Labrador and to Non-Regulated industrial, utility and external market customers. In addition, Nalcor recognizes revenue under a Guaranteed Winter Availability Contract (GWAC) through 2041. The GWAC was signed with Hydro-Québec in 1998 and provides for the sale of 682 MW of guaranteed seasonal availability to Hydro-Québec during the months of November through March in each of the remaining years until 2041.

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

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

Nalcor will continue to recognize revenue as customers are invoiced on a monthly basis using practical expedient IFRS 15.B16. Nalcor recognizes revenue at the amount to which it has the right to invoice, which corresponds directly to the value to the customer of Nalcor's performance to date.

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

2.18 Leasing

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

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

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

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

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

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

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

2.19 Foreign Currencies

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

2.20 Income Taxes

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

2.21 Financial Instruments

Financial assets and financial liabilities are recognized in the Consolidated Statement of Financial Position when Nalcor becomes a party to the contractual provisions of the instrument and are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss. All recognized financial assets and financial liabilities are subsequently measured in their entirety at either amortized cost or fair value, depending on the classification of the financial assets and financial liabilities.

Classification of Financial Instruments

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

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

(i) Effective Interest Method

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

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

Financial Assets

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

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

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

(iii) Financial Assets at FVTOCI
Financial assets classified at FVTOCI are initially measured at fair value plus transaction costs. Any change in the carrying amount of these assets other than foreign exchange gains and losses, impairment gains and losses, and interest income are recognized in other comprehensive income accumulated in the fair value reserve. When these assets are derecognized, the cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss.

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

Specifically:

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

Nalcor has not designated any debt instruments at FVTPL nor does Nalcor hold any equity investments classified at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognized in profit or loss to the extent they are not part of a designated hedging relationship. The net gain or loss recognized in profit or loss includes any dividend or interest earned on the financial asset and is included in net finance expense.

Financial Liabilities

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

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

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

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

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

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

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

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

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

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

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

Amounts recognized in other comprehensive income (loss) are transferred to the Consolidated Statement of Profit and Comprehensive Income (Loss) for the period when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognized or when a forecast sale occurs.

2.21.1 Derecognition of Financial Instruments

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

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

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

2.21.2 Impairment of Financial Assets

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

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

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

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

Significant increase in credit risk

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

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

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

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

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

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

Definition of default

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

Credit-impaired financial assets

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

Write-off policy

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

Measurement and recognition of expected credit losses

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

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

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

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

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

2.22 Government Grants

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

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

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

2.23 Regulatory Deferrals

Hydro's revenues from its electrical sales to most customers within the Province are subject to rate regulation by the PUB. Hydro's borrowing and capital expenditure programs are also subject to review and approval by the PUB. Rates are set through periodic general rate applications utilizing a cost of service methodology. Hydro's allowed rate of return based upon Board Order No. P.U. 49 (2016) is 6.6% in 2018 and 6.6% in 2017 +/- 20 basis points. Hydro applies various accounting policies that differ from enterprises that do not operate in a rate regulated environment. Generally, these policies result in the deferral and amortization of costs or credits which are expected to be recovered or refunded in future rates. In the absence of rate regulation, these amounts would be included in the determination of profit or loss in the year the amounts are incurred. The effects of rate regulation on the annual audited consolidated financial statements are disclosed in Note 13.

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

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

3.1 Use of Judgments

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

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

(ii) Property, Plant and Equipment
Nalcor's accounting policy relating to property, plant and equipment is described in Note 2.7. In applying this policy, judgment is used in determining whether certain costs are additions to the carrying amount of the property, plant and equipment as opposed to repairs and maintenance. If an asset has been developed, judgment is required to identify the point at which the asset is capable of being used as intended and to identify the directly attributable borrowing costs to be

included in the carrying value of the development asset. Judgment is also used in determining the appropriate componentization structure for Nalcor's property, plant and equipment.

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

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

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

(v) Determination of CGUs
Nalcor's accounting policy relating to impairment of non-financial assets is described in Note 2.12. In applying this policy, Nalcor groups assets into the smallest identifiable groups for which cash flows are largely independent of the cash flows from other assets or groups of assets. Judgment is used in determining the level at which cash flows are largely independent of other assets or groups of assets.

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

(vii) Consolidation of Joint Arrangements
Management exercises judgment when applying the criteria outlined in IFRS 11 to determine whether joint arrangements constitute joint ventures or joint operations. Management has determined that its interest in Churchill Falls is considered a joint operation and its interest in Twin Falls is considered a joint venture.

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

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

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

3.2 Use of Estimates

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

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

(iii) Intangible Assets
Amounts recorded for amortization are based on the useful lives of Nalcor's assets. These useful lives are Management's best estimate of the service lives of these assets. Changes to these lives could materially affect the amount of amortization recorded.

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

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

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

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

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

(viii) Revenue

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

3.3 Use of Assumptions

(i) Derivative Assets

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

4. CURRENT AND FUTURE CHANGES IN ACCOUNTING POLICIES

The following is a list of standards/interpretations that have been issued and are effective for accounting periods commencing on January 1, 2018, January 1, 2019 or January 1, 2020, as specified.

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

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

4.1 IFRS 9 – Financial Instruments

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

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

4.1.1 Classification and measurement of financial assets

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

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

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

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

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

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

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

4.1.2 Impairment of financial assets

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

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

4.1.3 Classification and measurement of financial liabilities

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

4.1.4 General hedge accounting

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

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

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

4.1.5 Disclosures in relation to the initial application of IFRS 9

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

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

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

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

4.1.6 Financial impact of the application of IFRS 9

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

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

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

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

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

4.2 IFRS 15 – Revenue from Contracts with Customers

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

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

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

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

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

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

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

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

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

Financial impact of the application of IFRS 15

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

Consolidated Statement of Profit and Comprehensive Income (Loss)

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

Consolidated Statement of Financial Position

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

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

Consolidated Statement of Cash Flows

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

4.3 IFRIC 22 – Foreign Currency Transactions and Advance Consideration

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

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

4.4 IFRS 16 – Leases

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

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

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

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

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

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

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

4.5 IFRS 9 – Prepayment Features with Negative Compensation

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

5. DISCONTINUED OPERATIONS

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

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

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

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

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

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

6. CASH AND CASH EQUIVALENTS

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

7. TRADE AND OTHER RECEIVABLES

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

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

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

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

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

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

8. INVENTORIES

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

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

9. PROPERTY, PLANT AND EQUIPMENT

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

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

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

10. INTANGIBLE ASSETS

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

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

11. INVESTMENTS

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

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

12. OTHER LONG-TERM ASSETS

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

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

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

This fund must remain in place until the end of the Shareholders' Agreement in 2041. Any amounts removed to fund capital expenditures must be replaced. Reserve fund holdings consist of securities issued by the Government of Canada, various provinces of Canada and Schedule 1 and 2 Canadian Chartered Banks.

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

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

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

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

(c) As at December 31, 2018, sinking funds include $164.4 million (2017 - $156.4 million) related to repayment of Hydro's long-term debt and $38.0 million (2017 - $37.3 million) related to funding of Nalcor's long-term payable under the Upper Churchill Redress Agreement (UCRA). Sinking fund investments consist of bonds, debentures, promissory notes and coupons issued by, or guaranteed by, the Government of Canada, provincial governments or Schedule 1 banks, and have maturity dates ranging from 2019 to 2041.

Hydro debentures, which are intended to be held to maturity, are deducted from debt while all other sinking fund investments are shown separately on the Consolidated Statement of Financial Position as assets. Annual contributions to the various sinking funds are in accordance with bond indenture terms, and are structured to ensure the availability of adequate funds at the time of expected bond redemption. Effective yields range from 2.57% to 6.82% (2017 - 2.57% to 6.82%).

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

The sinking funds consist of the following:

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

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

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

13. REGULATORY DEFERRALS

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

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

The following table shows Hydro's regulatory deferrals, which are expected to be reflected in customer rates in future periods and have been established through the rate setting process. In the absence of rate regulation, these amounts would be reflected in operating results in the year and the profit for the year ended December 31, 2018 would have decreased by $45.6 million (2017 - a decrease of $91.1 million).

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

(a) 2018 Cost Deferral

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

(b) Deferred Energy Conservation Costs

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

(c) Deferred Foreign Exchange on Fuel

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

(d) Deferred Lease Costs

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

(e) Energy Supply Deferrals

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

(f) Foreign Exchange Losses

In 2002, the PUB ordered Hydro to defer realized foreign exchange losses related to the issuance of Swiss Franc and Japanese Yen denominated debt and amortize the balance over a 40 year period. Accordingly, these costs were recognized as a regulatory asset. During 2018, the amortization of $2.2 million (2017 - $2.2 million) reduced regulatory assets.

(g) Phase Two Hearing Costs

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

(h) Deferred Specifically Assigned Industrial Revenue

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

(i) Insurance Amortization and Proceeds

Pursuant to Board Order No. P.U. 13 (2012), Hydro records net insurance proceeds against the capital costs and amortizes the balance over the life of the asset. Under IFRS, Hydro is required to recognize the insurance proceeds and corresponding amortization in regulatory liabilities. During 2018, Hydro recorded a decrease to regulatory liabilities resulting from amortization of $0.6 million (2017 - $0.5 million) related to the assets.

(j) Labrador Refund

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

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

(k) RSP

In 1986, the PUB ordered Hydro to implement the RSP which primarily provides for the deferral of fuel expense variances resulting from changes in fuel prices, hydrology and load and associated interest. Additionally, the RSP also includes costs associated with the island interconnected and isolated systems. Adjustments required in utility rates to cover the amortization of the balance are implemented on July 1 of each year. Similar adjustments required in industrial rates are implemented on January 1 of each year. On March 14, 2018, the PUB issued Board Order P.U. 7 (2018) which approved interim rates for Island Industrial and Labrador Industrial customers effective April 1, 2018. On May 28, 2018, the PUB issued Board Order P.U. 15 (2018). The order approved interim rates to be charged to Newfoundland Power commencing on July 1, 2018.

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

(l) 2014 Cost Deferral

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

(m) 2015 Cost Deferral

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

(n) 2016 Cost Deferral

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

(o) Asset Disposal

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

(p) Deferred Purchased Power Savings

In 1997, the PUB ordered Hydro to defer $1.1 million related to reduced purchased power rates resulting from the interconnection of communities in the area of L'Anse au Clair to Red Bay to the Hydro-Québec system and amortize the balance over a 30 year period. The remaining unamortized savings in the amount of $0.3 million (2017 - $0.4 million) are deferred as a regulatory liability.

(q) Employee Future Benefits Actuarial Loss

Pursuant to Board Order No. P.U. 36 (2015), Hydro has recognized the amortization of employee future benefit actuarial gains and losses in net income. During 2018, Hydro recorded $0.2 million (2017 - $0.1 million) employee future benefits losses as a regulatory adjustment. In the absence of rate regulation, IFRS would require Hydro to include employee future benefits actuarial gains and losses in other comprehensive income. As a result, during 2018 Hydro also recorded a decrease of $0.2 million (2017 - $0.1 million) to other comprehensive income to recognize the amount that was reclassified to profit or loss.

(r) Hearing Costs

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

14. TRADE AND OTHER PAYABLES

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

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

15. DEBT

15.1 Short-term Borrowings

Nalcor maintains a $250.0 million CAD or USD equivalent committed revolving term credit facility with its banker, with a maturity date of January 31, 2020. There were no amounts drawn on this facility as at December 31, 2018 (2017 - $nil), however $8.3 million of the borrowing limit has been used to issue 11 irrevocable letters of credit (2017 - $34.3 million to issue 15 irrevocable letters of credit). Borrowings in CAD may take the form of Prime Rate Advances, Bankers' Acceptances (BAs) and letters of credit. Borrowings in USD may take the form of Base Rate Advances, London Interbank Offer Rate (LIBOR) Advances and letters of credit. The facility also provides coverage for overdrafts on Nalcor's bank accounts, with interest calculated at the Prime Rate.

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

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

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

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

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

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

Churchill Falls maintains a $10.0 million CAD or USD equivalent unsecured demand operating credit facility with its primary banker. Advances may take the form of Prime Rate advance or the issuance of a BA with interest calculated at the Prime Rate or prevailing Government BA Fee. The facility provides coverage for overdrafts on Churchill Falls' bank accounts, with interest calculated at the Prime Rate. There were no amounts drawn on this facility as at December 31, 2018 (2017 - $nil).

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

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

Energy Marketing maintains a $20.0 million CAD or USD equivalent demand operating credit facility with its banker, and as at December 31, 2018, there were no amounts drawn on this facility (2017 - $nil). This facility has an unconditional and irrevocable guarantee from Nalcor. Borrowings in CAD may take the form of Prime Rate Advances, BAs and letters of credit. Borrowings in USD may take the form of Base Rate Advances, LIBOR Advances and letters of credit. $8.5 million of the borrowing limit has been used to issue three irrevocable letters of credit (2017 - $nil).

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

15.2 Long-term Debt

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

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

*Sinking funds have been established for these issues.

Hydro's promissory notes and debentures are unsecured and unconditionally guaranteed as to principal and interest and, where applicable, sinking fund payments, by the Province, with exception of Series 1A. The Province charges Hydro a guarantee fee of 25 basis points annually on the total debt (net of sinking funds) with a remaining term to maturity of less than or equal to 10 years and 50 basis points annually on total debt (net of sinking funds) with a remaining term to maturity greater than 10 years for debt outstanding as of December 31, 2010. For debt issued subsequent to December 31, 2010, the guarantee rate is 25 basis points annually on the total debt (net of sinking funds) with an original term to maturity of less than or equal to 10 years and 50 basis points annually on total debt (net of sinking funds) with an original term to maturity greater than 10 years. The guarantee fee charged by the Province for the year ended December 31, 2018 was $6.9 million (December 31, 2017 - $4.1 million).

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

16. CLASS B LIMITED PARTNERSHIP UNITS

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

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

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

17. DEFERRED CREDITS

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

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

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

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

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

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

18. DEFERRED CONTRIBUTIONS

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

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

19. DECOMMISSIONING LIABILITIES

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

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

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

The total estimated undiscounted cash flows required to settle the HTGS obligations as at December 31, 2018 are $15.2 million (2017 - $15.2 million). Payments to settle the liability are expected to occur between 2020 and 2023. The fair value of the decommissioning liabilities was determined using the present value of future cash flows discounted at Hydro's credit adjusted risk free rate of 2.3% (2017 – 2.6%). Nalcor has recorded $13.9 million (2017 - $13.5 million) related to HTGS obligations.

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

Oil and Gas' decommissioning liabilities result from net ownership interests in petroleum and natural gas properties and related well sites. The total undiscounted estimated cash flows required to settle the obligations, including a rate of inflation of 2%, at December 31, 2018 are $143.6 million (2017 - $131.3 million). Payments to settle the liabilities are expected to occur between 2032 and 2036. The fair value of the decommissioning liabilities was determined using the present value of future cash flows discounted at rates ranging from 4.0% to 4.3% (December 31, 2017 – 3.9% to 4.2%).

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

20. LONG-TERM PAYABLES

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

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

Under the UCRA, Nalcor is required to pay to the Innu Nation $2.0 million annually, escalating by 2.5% annually until 2041. At December 31, 2018, $2.4 million (2017 - $2.4 million) of the amount is current and is recorded in trade and other payables. Nalcor has sinking funds in the amount of $38.0 million (2017 - $37.3 million) to fund these future obligations. The present value of the remaining payments using a discount rate of 4.4% (2017 - 4.1%) is $36.2 million (2017 - $36.3 million).

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

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

21. EMPLOYEE FUTURE BENEFITS

21.1 Pension Plan

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

21.2 Other Benefits

Nalcor provides group life insurance and health care benefits on a cost shared basis to retired employees, and in certain cases, their surviving spouses, in addition to a retirement allowance. In 2018, cash payments to beneficiaries for its unfunded other employee future benefits were $3.3 million (2017 - $4.5 million). An actuarial valuation was performed as at December 31, 2018.

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

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

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

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

Assumed healthcare trend rates:

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

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

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

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

22. SHAREHOLDER'S EQUITY

22.1 Share Capital

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

22.2 Shareholder Contributions

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

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

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

23. CAPITAL MANAGEMENT

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

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

A summary of the consolidated capital structure is outlined below:

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

Nalcor's committed operating facility has covenants restricting the issuance of debt such that the unconsolidated debt to total capitalization ratio cannot exceed 70.0%. The covenants further stipulate that the debt service coverage ratio should at all times be greater than 1.5 on an unconsolidated basis. As at December 31, 2018, Nalcor was in compliance with these covenants.

23.1 Hydro

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

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

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

For the regulated portion of Hydro's operations, Management targets a capital structure comprised of 75% debt and 25% equity, a ratio which Management believes to be optimal with respect to its cost of capital. This capital structure is maintained by a combination of dividend policy, shareholder contributions and debt issuance. The issuance of any new debt with a term greater than one year requires prior approval by the PUB. Hydro's committed operating facility has a covenant restricting the issuance of debt such that consolidated debt to total capitalization ratio cannot exceed 85%. As at December 31, 2018, Hydro was in compliance with this covenant.

Legislation stipulates that the total of the Government guaranteed short-term loans issued by Hydro and outstanding at any time shall not exceed a limit as fixed by the Lieutenant-Governor in Council. Short-term loans are those loans issued with a term not exceeding two years. The current limit is set at $300.0 million and $189.0 million is outstanding as at December 31, 2018 (2017 - $144.0 million). Issuance of short term borrowings and long-term debt by Hydro is further restricted by Bill C-24, an amendment to the Newfoundland and Labrador Hydro Act of 1975. The Bill effectively limits Hydro's total borrowings, which includes both short-term and long-term debt, to $2.1 billion at any point in time.

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

23.2 Oil and Gas

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

23.3 Energy Marketing

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

23.4 Bull Arm

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

23.5 Churchill Falls

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

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

23.6 Muskrat Falls

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

23.7 LCP Transmission

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

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

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

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

24. REVENUE

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

25. OPERATING COSTS

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

26. PRODUCTION, MARKETING AND TRANSPORTATION COSTS

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

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

27. TRANSMISSION RENTAL AND MARKET FEES

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

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

28. NET FINANCE EXPENSE

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

29. OTHER EXPENSE

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

30. ACCUMULATED OTHER COMPREHENSIVE INCOME

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

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

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

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

31. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

31.1 Fair Value

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

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

Establishing Fair Value

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

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

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

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

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

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

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

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

Level 3 financial instruments include financial transmission rights and Class B limited partnership units.

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

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

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

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

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

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

31.2 Risk Management

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

Credit Risk

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

Credit risk on cash and cash equivalents is considered to be minimal, as Nalcor's cash deposits are held by a Schedule 1 Canadian Chartered bank with a rating of A+ (Standard and Poor's). Credit risk on restricted cash is considered to be minimal, as Nalcor's restricted cash deposits are held by Schedule 1 Canadian Chartered banks with a rating of AA- (Standard and Poor's). Credit risk on short-term investments is minimized by limiting holdings to high-quality, investment grade securities issued by the Federal and Provincial governments, as well as BAs and term deposits issued by Schedule 1 Canadian Chartered banks.

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

	Issuer Credit Rating	**Fair Value of Portfolio (%)**	Issuer Credit Rating	Fair Value of Portfolio (%)
	2018		2017	
Provincial governments	**A -to A+**	**45.32%**	A- to A+	46.14%
Provincially owned utilities	**A- to A+**	**54.68%**	A- to A+	53.86%
		100.00%		100.00%

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

	Issuer Credit Rating	**Fair Value of Portfolio (%)**	Issuer Credit Rating	Fair Value of Portfolio (%)
	2018		2017	
Provincial governments	**A- to A+**	**38.57%**	A- to A+	-
Provincially owned utilities	**A- to A+**	**8.91%**	A- to A+	-
Schedule 1 Canadian banks	**AA- to AAA**	**14.15%**	AA- to AAA	-
Schedule 1 Canadian banks	**A- to A+**	**38.37%**	A- to A+	-
		100.00%		-

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

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

	Issuer Credit Rating	**Fair Value of Portfolio (%)**	Issuer Credit Rating	Fair Value of Portfolio (%)
	2018		2017	
Provincially owned utilities	**A- to A+**	**0.02%**	A- to A+	0.01%
Schedule 1 Canadian Banks	**A- to A+**	**99.98%**	A- to A+	99.99%
		100.00%		100.00%

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

Nalcor does not have any significant amounts that are past due and uncollectable, for which a provision has not been recognized at December 31, 2018.

Liquidity Risk

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

Short-term liquidity for Nalcor and its subsidiaries is mainly provided through cash and cash equivalents on hand, funds from operations, an operating credit facility which Nalcor maintains with its banker, and shareholder contributions. Nalcor maintains a $250.0 million (2017 - $250.0 million) committed revolving term credit facility, with a maturity date of January 31, 2020. There were no amounts drawn on this facility at December 31, 2018 (2017 - $nil). In addition, Hydro has access to a $300.0 million (2017 - $300.0 million) promissory note program and a $200.0 million (2017 - $200.0 million) committed revolving term credit facility. Oil and Gas and Churchill Falls also maintain demand operating facilities of $30.0 million (2017 - $30.0 million) and $10.0 million (2017 - $10.0 million), respectively. Churchill Falls maintains a $22.5 million minimum cash balance (2017 - $22.0 million). Energy Marketing maintains a demand operating facility of $20.0 million (2017 - $20.0 million).

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

Long-term liquidity risk for Hydro is managed by the issuance of a portfolio of debentures with maturity dates ranging from 2026 to 2048. Sinking funds have been established for these issues, with the exception of the issues maturing in 2045 and 2048. For Churchill Falls, long-term liquidity risk is managed by maintenance of the reserve fund in accordance with the Shareholders' Agreement and a dividend management policy that meets long-term liquidity requirements associated with Churchill Falls' capital expenditure program.

The following are contractual maturities of Nalcor's financial liabilities, including principal and interest as at December 31, 2018:

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

Market Risk

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

Interest Rates

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

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

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

Foreign Currency and Commodity Exposure

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

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

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

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

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

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

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

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

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

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

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

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

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

32. RELATED PARTY TRANSACTIONS

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

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

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

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

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

(c) For the year ended December 31, 2018, Hydro has purchased \$28.4 million (2017 - \$26.3 million) of power generated from assets related to Exploits Generation, which are held by the Province. Nalcor operates these assets on behalf of the Province and recovered costs in 2018 of \$38.1 million (2017 - \$nil).

(d) Hydro recorded \$2.0 million (2017 - \$1.8 million) as an energy rebate from the Province to offset the cost of basic electricity consumption for Labrador rural isolated residential customers under the Northern Strategic Plan. As at December 31, 2018, there is a balance of \$0.4 million (2017 - \$0.6 million) outstanding in trade and other receivables.

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

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

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

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

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

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

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

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

32.1 Key Management Personnel

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

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

33. COMMITMENTS AND CONTINGENCIES

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

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

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

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

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

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

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

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

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

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

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

(g) In 2014, Hydro entered into three Capacity Assistance Agreements, one with Vale Newfoundland & Labrador Limited (Vale) and two with Corner Brook Pulp and Paper Limited (CBPP) for the purchase of relief power during the winter period. In 2016, Hydro also entered into two new Capacity Assistance Agreements, one with Praxair and a second agreement with Vale for the purchase of relief power. The agreements with Vale and Praxair have a supply period defined as December 1 to March 31 for each contract year, concluded March 2018. In November 2017, Hydro entered into a revised agreement with CBPP that expires the earlier of April 30, 2022 or the commissioning of the Muskrat Falls plant. Payment for services will be dependent on the successful provision of capacity assistance for the winter period by Vale, CBPP and Praxair. In December 2018, Hydro entered into a revised agreement with Vale that expires in March of 2019; the agreement with Praxair was not renewed.

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

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

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

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

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

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

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

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

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

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

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

34. SUPPLEMENTARY CASH FLOW INFORMATION

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

35. SEGMENT INFORMATION

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

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

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

Power Development – is comprised of the following:

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

Power Supply – is comprised of the following:

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

Offshore Development – is comprised of the following:

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

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

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

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

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

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

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

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

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

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

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

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