2021 ANNUAL REPORT

newfoundland labrador hydro


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WHO WE ARE
OUR CHANGING ORGANIZATION

On June 23, 2021 the Government of Newfoundland and Labrador announced that all Nalcor Energy operations would be moving under Newfoundland and Labrador Hydro (Hydro). This decision would see not only a change in reporting throughout the organization but new leadership and focus. While these changes affected every part of the company, it did not change our core purpose – we remain proud to be Newfoundland and Labrador's Crown utility.

For more than 50 years Hydro has provided safe, cost-effective electricity to customers in more than 200 communities throughout the province. Our newly amalgamated company will continue to do that, while also harnessing the power of our vast hydroelectric assets to provide renewable energy to millions of customers in Atlantic Canada, Quebec, Ontario and the Northeastern United States.

In our time serving the people of our province, we've seen a world of changes, including the focus on creating a safe and sustainable environment. We deliver more than 80 per cent renewable energy to the people of Newfoundland and Labrador from clean hydroelectric generation.

As we move forward as Newfoundland and Labrador Hydro, our 1500+ skilled, dedicated and proud employees will continue to harness energy opportunities to benefit the people of the province.

Message from the Board

Throughout 2021, the Board of Directors has continued to work in the best interest of the people of the Province, shepherding Newfoundland and Labrador Hydro (Hydro) through significant transition and change. As the global pandemic persisted, the company continued to deliver an essential service, but also considered the future of the company as we transitioned the leadership and organization structure.

In June of this past year, we bid farewell to outgoing President and Chief Executive Officer (CEO) Stan Marshall, and thanked him for his unwavering commitment to the company, regardless of the challenges faced along the way. Mr. Marshall left the company in the capable hands of the Board and the over 1500 employees to carry on the company's important work.

We then welcomed Jennifer Williams as President and CEO of Hydro. Since her appointment, Ms. Williams has been embracing and driving a changing entity, with Nalcor operations moving under the umbrella of Hydro as a single operating entity. Under Ms. William's leadership, Hydro continues its deep commitment to providing least-cost, safe, reliable energy, with a renewed vision to serve the people of the Province as a crown utility they can be proud of.

In 2021, we began to transform the electricity grid, completing the Labrador Transmission Assets and integrating the Muskrat Falls Hydroelectric Generating Station into the energy system. We are more interconnected than ever, ready to harness the opportunities to grow our economy while delivering on our promise of a safe, reliable energy system.

Hydro's 2021 Annual Report highlights the tremendous efforts and achievements of a team of talented, skilled and dedicated employees. Whether they are outside braving the elements, or inside supporting our operations, I wish to

"We are more interconnected than ever, ready to harness the opportunities to grow our economy while delivering on our promise of a safe, reliable energy system."

John Green
— Chair, Boards of Directors, Newfoundland and Labrador Hydro

thank each and every one for their resilience during a year of ongoing change and for their commitment to the organization and the people of Newfoundland and Labrador. You power the homes and businesses that propel our communities into the future.

There is more work to be done. And we are ready for that challenge. In 2021, we continued with forward thinking to plan and prepare for increased energy demand. From developing a network additions policy to completing the province's first electric-vehicle fast-charging network, we have much to be proud of and much to look forward to as we continue on our path to a sustainable energy future. While we explore renewable energy technologies, we must also ensure we are able to provide safe and reliable energy for our domestic and non-domestic customers.

It's been an honour to continue to serve the people of this province, alongside my fellow board members and it's been truly rewarding to work with Hydro's leadership team as they work to redefine the future of energy in this province and beyond.

Message from the CEO

To the people of this amazing province: It is Newfoundland and Labrador Hydro's (Hydro) honour and obligation to serve and provide value to you. Reflecting on 2021, we are making progress on meeting that obligation. As we look ahead with you, we have laid the groundwork so we can harness the best energy opportunities available to enable the province's economic growth, contribute to positive actions impacting climate change, and foster collaborative relationships with all our partners. These are exciting and challenging times for those who choose to work in our industry, and Newfoundland and Labrador Hydro is in that industry for you.

In June, 2021, Hydro emerged with a new organizational structure to meet the expectations of the people of the province. This included moving the operations of Nalcor Energy under Hydro operations. We will evolve our organization thoughtfully, while ensuring we keep our people and the public safe. We have listened to the expectations of the people of the province, and we will continue to do so. Hydro has some of the best in the business — countless talented, dedicated people who are truly committed to this province. As we move forward together, as a new Hydro, we hope to share a vision with the people of the province for a strengthened, proud Newfoundland and Labrador Hydro. One that is responsive and accountable to the people of the province — serving as a crown utility delivering an essential service to its residents and value beyond our borders.

Our industry — and our company — are undergoing significant change. As the world looks for ways to advance and transition to renewable energy sources, Newfoundland and Labrador is the envy of our peers. Today, we serve the people of the province with over 80 per cent renewable energy sources and we are headed towards a 98 per cent renewable energy grid and with efforts to address the remaining 2 per cent also on our horizon. As the people's crown utility, we are working closely with the provincial government to develop and implement a number of initiatives supporting the province's Renewable Energy Plan, "Maximizing our Renewable Future." Our province is a desired location for new energy related projects. In 2021, Hydro advanced our Network Additions Policy, which will enable significant customer growth in Labrador. We are also working with customers throughout the province to help transition to greener electricity sources and to take part in the green economy. These are massive opportunities and challenges that we are tackling head on. Residents of the province can count on us to optimize the value of our provincial energy portfolio.

"Today, we serve the people of the province with over 80% renewable energy sources and we are headed towards a 98% renewable energy grid."

Jennifer Williams

— President and CEO, Newfoundland and Labrador Hydro

We know customers are concerned about electricity rates. The people of the province can be assured that along with the Provincial Government and Federal Government, our teams have been working hard behind the scenes to advance rate mitigation efforts following the announcement of a $5.2 billion agreement last July to ensure electricity rates will not double as a result of the project. These ongoing efforts will contribute to the sustainability of Lower Churchill projects over the long-term and reducing the province's cost of financing.

In late 2021, we integrated the Muskrat Falls Generating Station and the Labrador Transmission Assets into the Provincial Electricity System. All four generating units at Muskrat Falls have now been transferred to the Newfoundland and Labrador System Operator (NLSO) for service as part of our province's energy grid. The commissioning of Muskrat Falls also activated our contract with Emera to deliver the Nova Scotia block, and contracts for transmission rights through the Maritimes.

While we acknowledged the integration of new important facilities, we also celebrated 50 years of safe, reliable electricity at Churchill Falls. Power first flowed 50 years ago in 1972, across the 735kV transmission lines over 1,200 km to Montreal and has been flowing power every day since then, to our own customers and to millions of homes across North America. We know every resident of the province is very proud of this facility and we operate it with that same pride.

At Hydro, safety is our number one goal. It is the foundation of everything we do. We want each and every one of our people to go home safely at the end of each and every the day, and our efforts to improve safety in the workplace are never done. Hydro has charted an impressive safety journey over the past ten years, and in 2021, the Canadian Electricity Association (CEA) acknowledged our efforts with a CEA President's Award of Excellence for Employee Safety in Generation in Group 2 for the third consecutive year. Throughout the COVID-19 pandemic, our health and safety teams worked closely with Public Health to ensure vaccines were available for employees who had critical roles in safeguarding the reliability of our electricity system, while ensuring our Pandemic Response Plan was updated and business continuity plans were in place.

We are also proud to operate in every corner of this province, and we are equally proud to give back to communities. Actively supporting organizations in the communities where we operate and where our employees live is one of our priorities. In 2021, we focused on supporting partnerships in STEM education and youth leadership, safety and mental health, child and youth health and safety, environment and sustainability, diversity and inclusion and social and community well-being.

I'd like to thank Mr. Marshall for his leadership over the past several years. Stan stewarded the Lower Churchill Project through many challenges and many exceptionally skilled people are continuing to carry it through. With the Muskrat Falls Hydroelectric Generating Station and Labrador Transmission Assets now complete, we remain focused on safe completion of the Labrador Island Link, minimizing distraction wherever we can, allowing our teams to focus on the tasks at hand.

I am thankful for the support Hydro received from Premier Dr. Andrew Furey, Minister Andrew Parsons, and all the Ministers, Deputy Ministers and support staff who have guided Hydro's team throughout our reorganization. We are committed to enabling the Government's mandates and delivering value for the people of the province, while we serve our customers with safe, reliable electricity they can count on.

I also acknowledge and thank the Boards of Directors for their steadfast support of our organization and of our team as we evolve the organization. They give their rich experience, history, and countless hours, all driven by the same desire to deliver for the people of the province.

Finally, I must express to our employees the pride I feel in calling you my colleagues. Despite a long period of uncertainty and change, you have never waivered in your commitment to the company. I would certainly not be able to do this job without you.

I look forward to many more years of working together in the best interests of the people of the Province.

Sincerely,

Jennifer Williams

HYDRO BY THE NUMBERS

For detail and commentary, see the Management Discussion and Analysis in appendix 1 of this report.

PROFIT

As a crown utility our profit benefits the people of Newfoundland and Labrador

$72 M – AN INCREASE OF $162 M compared to a loss of $90 M in 2020.

RATE MITIGATION

$5.2 BILLION – agreement in principle with Government of Canada and Government of Newfoundland and Labrador (NL). Government of NL has ensured for customers that rates will not double as a result of Muskrat Falls costs.

CAPITAL EXPENDITURES

Carefully balancing cost of investment while ensuring reliability

$732 M – A DECREASE OF $123 M compared to 2020.

ELECTRICITY RATE

Hydro adjusts rates every year on July 1 based on the amount of electricity used by customers, the price of oil used to generate electricity at the Holyrood Thermal Generating Station and the annual amount of water used for hydroelectric generation.

13.37 CENTS/KWH – for residential customers. As of July 1 the rate increased by 2.4% in accordance with the Rate Stabilization Plan.

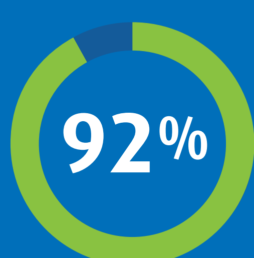
ELECTRIFICATION

The conversion of fossil fuel powered processes, to electricity.

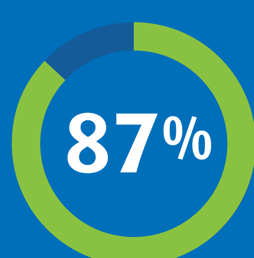
14 EV FAST CHARGERS INSTALLED on the island, with 45.9MWh of energy delivered.

- **2,059 CHARGING SESSIONS**
- **47 TONNES OF GREENHOUSE GASES AVOIDED**
- **55 EV PURCHASE REBATES**

CUSTOMER SATISFACTION



SATISFACTION WITH SERVICE RELIABILITY



OVERALL SATISFACTION AMONG CUSTOMERS

SERVING OUR PROVINCE

AT THE READY

Every year our teams prepare for, and respond to, the weather challenges we face throughout the province. In September, Hurricane Larry battered eastern parts of the island with damaging winds gusting in excess of 140 km/h in most areas.

While Larry didn't cause major outages for our customers, our teams were well prepared and ready to respond in the event there had been any issues with our distribution, transmission or generation equipment – critical assets that provide the power needed by people in the province every day.

In the days following the storm, our teams were busy inspecting all our main transmission lines on the Avalon and Burin Peninsulas, patrolling by ground and air to locate and repair any damage. And as always, our employees were ready to assist when needed, and quickly mobilized to help Newfoundland Power crews in the region. Several Hydro crews travelled to the area to help safely restore power to customers that had experienced an outage due to the storm.

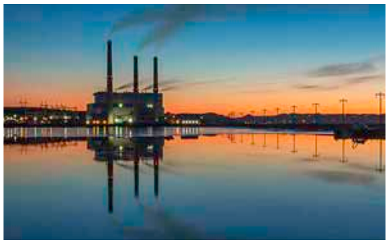
The preparation and response by everyone involved is a great example of how we work together to rise to the occasion when our customers need us most.

RESOURCE AND RELIABILITY PLANNING

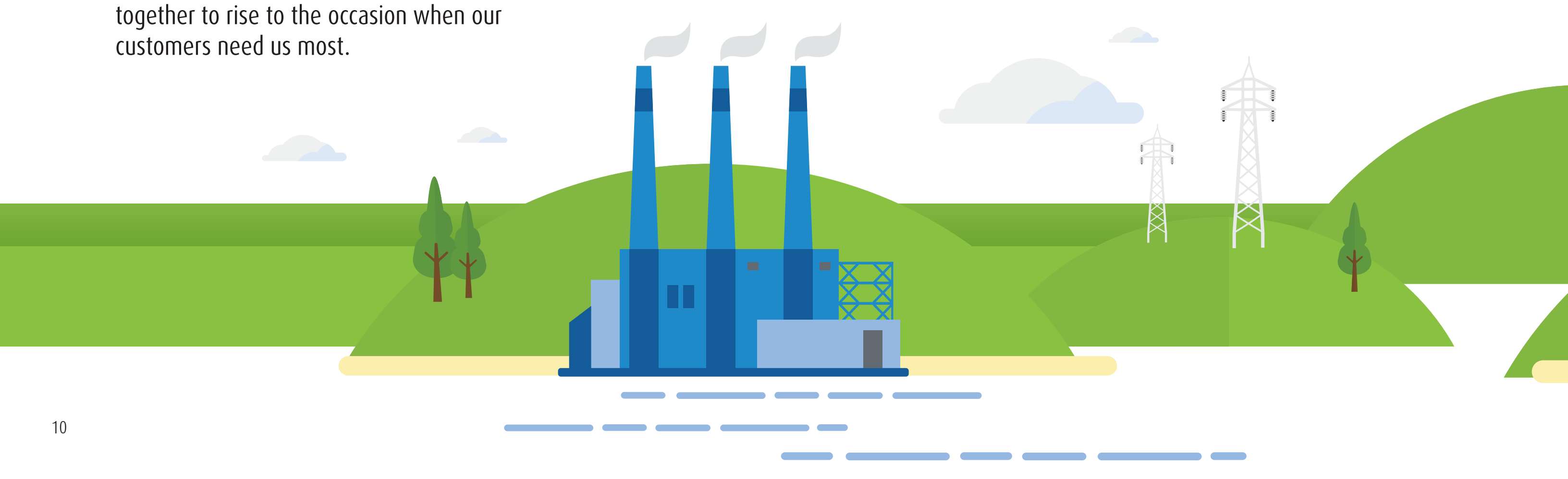
We take our responsibility of providing safe and reliable service to our customers - day in and day out - very seriously. It's why we're here. To do this takes careful planning and assessment, to ensure our assets will be at the ready when we need them, and in the condition we need them to be. As part of that planning, we routinely completes near-term system supply reliability assessments. These are filed with our regulator, the Board of Commissioners of Public Utilities prior to each upcoming winter season in May and November each year. In 2021 a significant outcome of the near-term reliability assessment work was the requirement for the Holyrood Thermal Generating Station to remain fully available through March 31, 2024. This is a shift from the previous decommissioning date of March 31, 2023.

From a longer term planning perspective, we continued to progress through our comprehensive Reliability and Resource Adequacy study, with our regulator and other intervenors, to assess our system needs and determine our long term approach to providing least-cost, reliable service. 2021 was primarily focused on completion of an independent assessment

Our crews assisted Newfoundland Power following Hurricane Larry



Holyrood Thermal Generating Station



of the reliability of the Labrador Island Link, which was completed in December 2021, and an assessment of the condition of our Holyrood Plant, to be completed in Q1 2022. We will use the findings of both of these reports as amongst the hundreds of other documents in this proceeding, inputs to its next comprehensive filing of the Reliability and Resource Adequacy study, expected August 2022. This filing will consider the additional information with respect to the reliability of the Labrador Island Link (LIL) and projected costs and reliability of the Holyrood Thermal Generating Station, as one option for back up, to ultimately provide our recommendations for future system additions that will ensure we can continue to provide electricity customers in the province with reliable service at least cost.

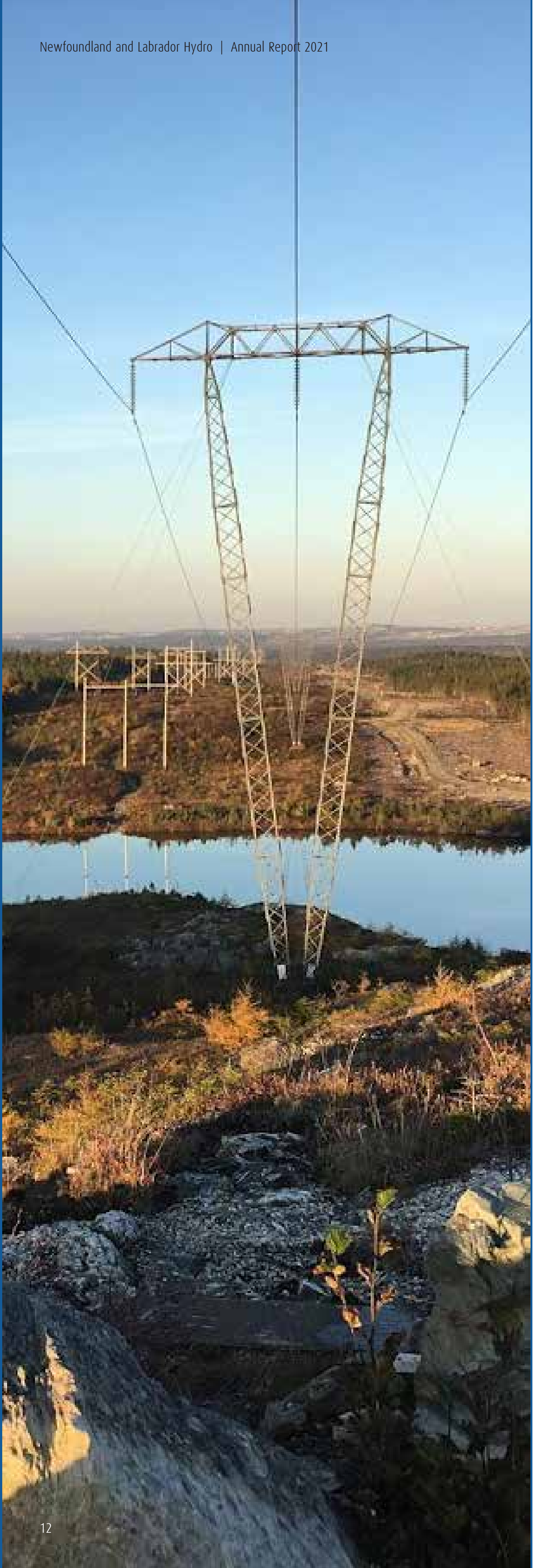
MUSKRAT FALLS INTEGRATION

The Muskrat Falls Hydroelectric Generating Station is now successfully and safely completed. Commissioning of the three remaining turbine units in 2021 marked completion of the Generating Station, one of several key assets that are part of the Lower Churchill Project. All four units have now been transferred to the Newfoundland and Labrador System Operator (NLSO) for service as part of our province's energy grid.

In the near term, the reliability of our electricity system does not rely on the commissioning of Muskrat Falls and LIL assets. While we don't require power from Muskrat Falls (MF) to serve customers, we've already begun to make good use of our new assets, effectively integrating them into our system, and using as much power as possible to reduce the fuel costs and carbon emissions at the Holyrood station, when possible.

As a utility, we are more connected than ever. Through these new assets, we continue to grow a green energy system, ensuring reliability today and into the future. The Maritime Link continues to provide additional support and security, and has helped reduce under frequency load shedding events which would have been more common a few years ago. Energy flow from MF over the LIL has contributed to the energy supply for the Island, delivery of the Nova Scotia Block and export sales in Atlantic Canada and the northeastern United States. While we are interconnected with Nova Scotia now via the Maritime Link, we still have some characteristics of an isolated system, and we strive to make the best decisions for our energy future and for the people of this province.

As we manage the provincial electricity system, our priority has always been to provide safe, reliable service to customers at the lowest possible cost. We'll ensure our new energy assets contribute to our goal: the long-term reliability of the province's energy grid.



ENERGY MARKETING EXPANDS

Our focus is on providing reliable, responsive service to our customers and affiliates, and maximizing the value of the province's surplus power and transmission interconnections with external markets. Our Energy Marketing team works 24/7 to manage the power exchanges between Newfoundland and Labrador and our external markets in Eastern Canada and the United States.

Our services expanded in 2021, as the remaining three units at Muskrat Falls came online and advancements were made in the Labrador-Island-Link (LIL) commissioning. Energy Marketing's water management services to Muskrat Falls and Hydro Regulated are now responsible for the optimization of an average of approximately 9.7 terawatt hours (TWh) of renewable energy per year.

The commissioning of Muskrat Falls also activated Energy Marketing's operations with contracts such as the Energy and Capacity Agreement with Emera to deliver the Nova Scotia block, and contracts for transmission rights through the Maritimes.

In addition to the new services, and the export of 240 gigawatt hours (GWh) of Muskrat Falls and island hydraulic energy over the Maritime Link, Energy Marketing continued to earn value from the export of Recapture Energy from the Churchill Falls Generating Station. In 2021, almost 98 per cent of available Recapture Energy was delivered to market via Quebec, providing almost 1,400 GWh of energy to customers in New York, New England, Ontario and the Maritimes.

OUR OIL AND GAS PARTNERSHIPS

While the majority of the oil and gas portfolio was moved to OilCo (the Oil & Gas Corporation of Newfoundland and Labrador), we remain a joint venture working interest partner in three developments in the province's offshore: in the Hebron oil field (November 2017), White Rose (May 2010) and the Hibernia Southern Extension (June 2011).

In March, First Redetermination under the Hibernia Southern Extension (HSE) Operating Agreement came into effect, resulting in a reduction in oil and working interest in the HSE field from 10 per cent to 8.7 per cent.

In September, Cenovus Energy announced a plan to restructure its working interests in the Terra Nova and White Rose project. If the organization restarts West White Rose, they'll reduce their working interest in the White Rose project. Cenovus and its partners continued to evaluate options on the West White Rose project with a decision expected in mid-2022.

Driven by production cuts and rising oil demand, oil prices rose throughout 2021 after experiencing a significant decline in Q1 2020.

CELEBRATING 50 YEARS OF POWER

On December 6, the Churchill Falls Generating Station marked 50 years since the first commercial power was delivered across its 735 kV transmission lines over 1,200 km to Montreal. At the time of construction, it was the largest civil engineering project in North America. The project would see nearly 6,300 workers at the site to complete this mega project.

With a generating capacity of 5,428 megawatts (MW), the Churchill Falls operation continues to be an essential part of our province's power grid, delivering safe, reliable energy to millions of North Americans every day. To do this, our dedicated and skilled team works hard to maintain this world-class facility safely and successfully. From the maintenance teams, to the staff who service and support them, everyone contributes to maximizing the life of the Churchill Falls Generating Station for future generations.

Along with being one of the largest underground hydroelectric plants in the world, Churchill Falls has also been a company-owned town from the beginning. We operate and manage the community our dedicated employees call home. Churchill Falls continues to thrive as it did in its early days.

We recognize and celebrate the hard work of the past, present, and future workforce in Churchill Falls, for ensuring our assets continue to safely operate for another 50 years, and beyond, for the people of our province.

(L-R) Premier Joseph R. Smallwood tours the Churchill Falls Generating Station, 735 kV power line along the Churchill River, some of our great warehouse employees, Prime Minister Pierre E. Trudeau tours Churchill Falls during construction in July 1968, the town of Churchill Falls

SAFELY MAINTAINING ASSETS ENSURES CONTINUED RELIABILITY FOR THE PEOPLE OF OUR PROVINCE

At our Churchill Falls Generating Station, each year, we perform various refurbishments, replacements and upgrades to infrastructure. In 2021 we continued with the replacement of poles along the 66 kV transmission line with 420 replaced to date, as well as the replacement and installation of various switchyard equipment - each a part of multi-year projects.

Generating Unit 9 saw the replacement of its runner, a significant piece of work requiring a unit overhaul to ensure its continued reliability. Remaining generating units received a variety of refurbishments and upgrades, ranging from the replacement of cooling water pumps, water strainers, and air coolers, to internal repairs and maintenance. Further to these projects, significant work continued with the replacement of insulators along the 735 kV transmission line, completing year four of a 10-year project.

At our Holyrood Thermal Generating Station, we worked to ensure the facility's reliable operation. This included a Unit 3 generator overhaul and rewind, boiler refurbishments, as well as safety upgrades to the marine terminal.

Work began in 2021 on refurbishment of the Ebbegunbaeg control structure, part of the Bay d'Espoir hydroelectric system.

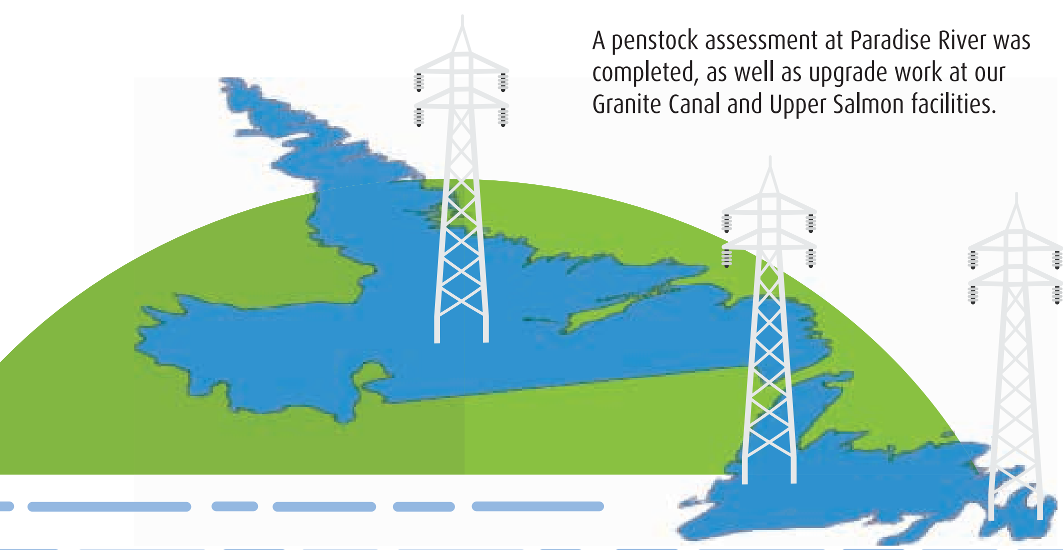
We also worked to ensure the reliable operation of our backup generators, including an assessment of the generator rotor and replacement of the fire suppression system on the gas turbine at Happy Valley-Goose Bay. Diesel genset overhauls were completed in Black Tickle, Cartwright, and St. Brendan's, as well as a unit replacement in Cartwright.

At our Bay d'Espoir hydroelectric plant, work was completed to ensure long-lasting reliability, including a unit overhaul and rewind of the generator stator for Unit 5, upgrades on other units, and an intake gate was refurbished.

A penstock assessment at Paradise River was completed, as well as upgrade work at our Granite Canal and Upper Salmon facilities.

In 2021, we began work on a multi-year project to refurbish the Ebbegunbaeg control structure, part of the Bay d'Espoir hydroelectric project in central Newfoundland, built in 1967. This control structure is an important component of the Bay d'Espoir system as it controls how water moves between the Meelpaeg Reservoir and Crooked Lake to supply our powerhouses at both Upper Salmon and Bay d'Espoir.

With respect to our Terminal Stations, extensive work was done in 2021 as part of our ongoing, multi-year program across the province. This work included transformer refurbishments, tap changer overhauls, and replacements of breakers and disconnect switches at several stations. Scheduled replacements of circuit breakers were completed at several terminal stations, including Stony Brook and Wabush, with upgrades at Holyrood.



Wood pole inspection and refurbishment work was completed on several key transmission lines. We also completed distribution system upgrades in several locations, including Fleur de Lys, St. Anthony and Bear Cove.

On Labrador's north coast, in Hopedale and Makkovik, the peak electricity demand is growing. To ensure the local distribution systems can sufficiently supply the load in the future, we completed an upgrade of the primary conductor along the main section of the distribution lines that serve each community.

EXPANDING CAPACITY TO MEET DEMAND IN LABRADOR

The electricity that we provide plays an important role in enabling growth and development throughout our province. Nowhere is this more evident than in Labrador, where demand for electrical power is on the rise.

We continue to take a number of steps to respond to the need for power and make the necessary investments in system infrastructure to facilitate growth:

- Upgrades have been made to the Happy Valley Terminal Station and to the Wabush Terminal Station and substation to increase capacity and improve reliability in both the Upper Lake Melville and Labrador West regions.

- A new transmission interconnect in the Happy Valley-Goose Bay area was brought in service in late 2021, increasing transmission capacity to serve the area with power from Churchill Falls.

- We developed a new Labrador Network Additions Policy, which was approved by the regulator in spring 2021. The policy provides a framework for fairly allocating the costs of building additional transmission infrastructure needed to accommodate new requests for substantial quantities of power on the Labrador Interconnected System (LIS). This policy, and the process of dealing with requests for larger amounts of power, is now in the early stages of implementation and will serve to guide system expansion while protecting existing Labrador ratepayers.

MORE RENEWABLE ENERGY IN MARY'S HARBOUR

For many rural and remote communities, diesel fuel is the sole source of electricity, as the most affordable, reliable option for firm supply. However, in Mary's Harbour, Labrador, one proponent is providing energy solutions that reduce the community's reliance on fossil fuels by adding new, renewable sources —including the province's first-ever utility-scale solar farm.

St. Mary's River Energy has worked with Hydro for the past few years to make this project a reality. After refurbishing a previously decommissioned 240 kW hydroelectric power plant in 2018, a 190 kW solar photovoltaic plant with 335 kW of lithium-ion battery storage was completed in 2021.

All these assets, which we helped integrate into the community's power system, are owned and operated by St. Mary's River Energy and can produce and store renewable electricity to be used by local homes and businesses.

The combination of solar and hydroelectricity will decrease the amount of diesel burned in Mary's Harbour by up to 30 per cent annually and provide renewable power sources that benefit the community.

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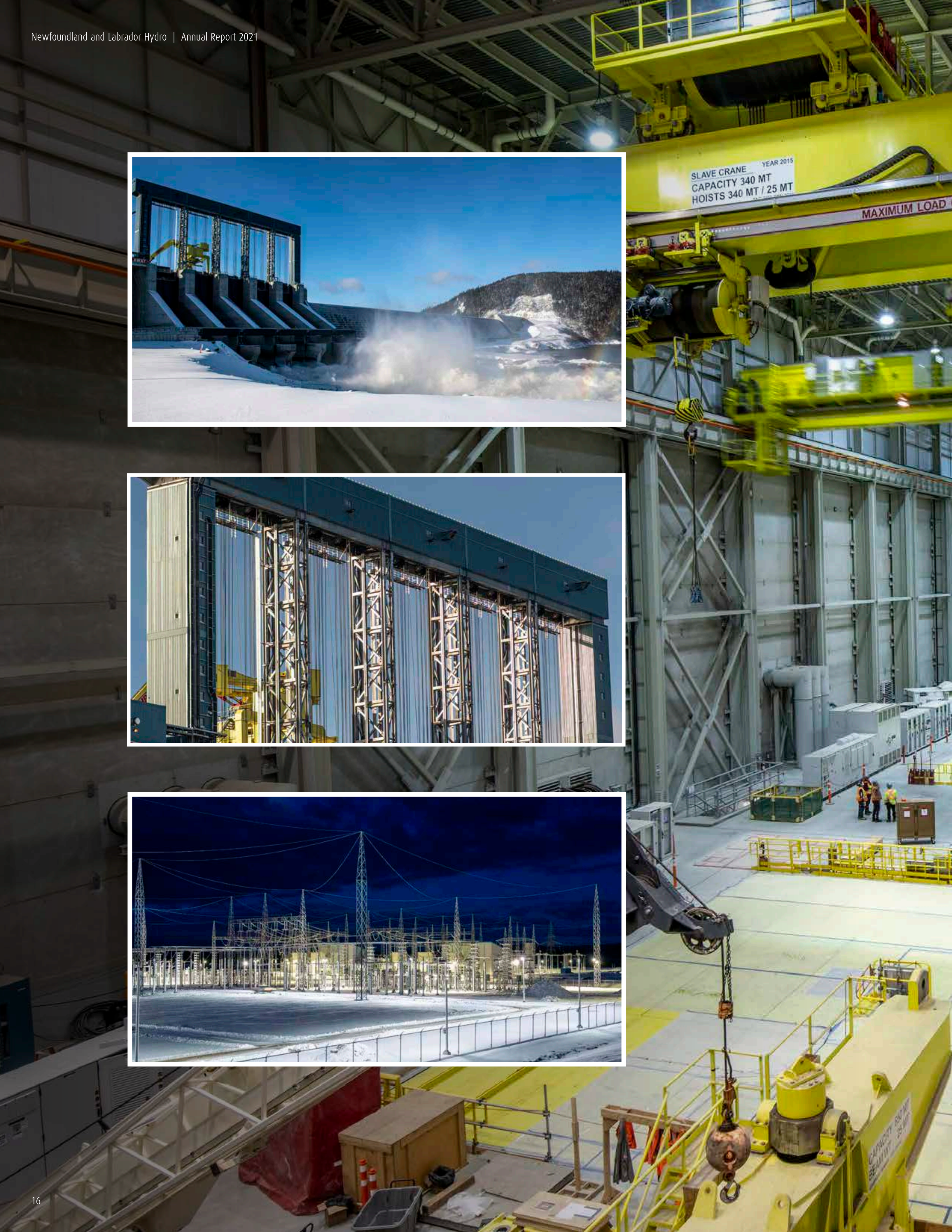

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MUSKRAT FALLS

In 2021, with the Muskrat Falls Hydroelectric Generating Station fully commissioned, and with all four units running concurrently, we reached a peak output of approximately 776 MW. Together with the Labrador Transmission Assets energized in April 2018 and the commissioning of all three Synchronous Condensers at Soldiers Pond in October 2021, the completion on our newest assets brings us one step closer to completing the Lower Churchill Project. As we continue to work with provincial and federal governments to finalize the rate mitigation plan and implement the financial restructuring of the project, we welcome the Muskrat Falls Generating Station into our fleet of critical generation assets serving the people of Newfoundland and Labrador.

LABRADOR-ISLAND LINK

The LIL was energized approximately 40 per cent of the time in 2021, reaching a maximum output in December of 424 MW. That's about 87 per cent of the capacity of the Holyrood oil-fired generating station. In 2021 we received a version of the Full Function Bipole software, and to optimize the use of LIL, we continued to transfer power with the current version of software for the remainder of 2021 with the next version coming in 2022.

DELIVERING ON OUR COMMITMENTS TO NOVA SCOTIA: THE NOVA SCOTIA BLOCK

In August, we signed an agreement with Emera to commence delivery of energy as part of our commitments under the Energy & Capacity Agreement (ECA). With the start of delivery of the "NS Block" in August, the 35-year commitment to Emera began.

While LIL commissioning is ongoing, delivery to Nova Scotia has continued, delivering up to 215 MW daily to Emera as part of our commitment to deliver the NS Block.

We remain focused on bringing LIL into full operation, and continuing to deliver reliable energy to the people of our province as well as our neighbours in Nova Scotia.

OUR SUSTAINABILITY PROGRESS

DELIVERING ON OUR COMMITMENT TO A SUSTAINABLE FUTURE

At Hydro, we're committed to meeting the expectations of our stakeholders and ensuring we're sustainable in that commitment. Following consultations with our stakeholders, in 2021 we identified key areas of interest that reflect on the expectations of our stakeholders balanced with our business, social, economic and environmental needs. We've now set our Sustainability Strategy with the resulting priority areas for the next five years.

For more information on our sustainability journey, you can check out our Annual Sustainability Report on the Publications page of our website.

INCREASING RELIABILITY WHILE DECREASING WASTE

When it came time to replace the old ceramic insulators on our 735 kilovolt (kV) transmission line from Churchill Falls to Quebec, we chose to focus on a way to keep these materials out of our province's landfills. That's when we reached out to Newco Metals in Happy Valley-Goose Bay and arranged to have the old ceramic insulators go through their recycling program.

By replacing the older, ceramic version of these insulators across this 200 km line with glass insulators, we're improving the reliability of the line for our customers.

Since the beginning of this rehabilitation project, more than 77 km and 450 towers have been covered, upgrading 178,200 insulators from ceramic to glass over the past four years. In 2021, this program kept over 329 tonnes of materials out of our landfills.

Since 2018, old ceramic insulators (top) have been removed from our 735 kV transmission line and replaced with new strings of glass insulators (bottom).

QUICK FACT 1:
Since 2018, our teams have replaced more than 178,200 insulators at 450 towers covering 77 km.

QUICK FACT 2:
The 735 kV transmission line from Churchill Falls to Quebec is more than 200 km long and is made up of 1,217 towers.

PHASE-OUT PROGRAM INCREASES EFFICIENCIES WHILE ELIMINATING PCBs

In Churchill Falls, a long-term capital program is progressing to phase out Polychlorinated Biphenyls (PCB) equipment by 2025 to align with federal requirements for PCB removal.

Part of this program includes replacing existing fluorescent lighting with Light Emitting Diode (LED) lighting across our Churchill Falls sites - including supporting infrastructure, spillways, structures, and lighting throughout the town. To date, 56 of 72 building sites at Churchill Falls have the new LED lighting installed.

As part of the overall program, over 10,000 kg of PCB waste from our Churchill Falls facilities was destroyed at an approved PCB destruction facility in 2021, including fluorescent lighting, light ballasts, capacitors, bushings and transformers.

The benefits of LED lighting paired with the environmental and health concerns associated with PCBs, mean eliminating this substance helps us move forward as an environmental leader in our workplace and in our communities.

PRODUCING CLEAN, RENEWABLE HYDROELECTRICITY

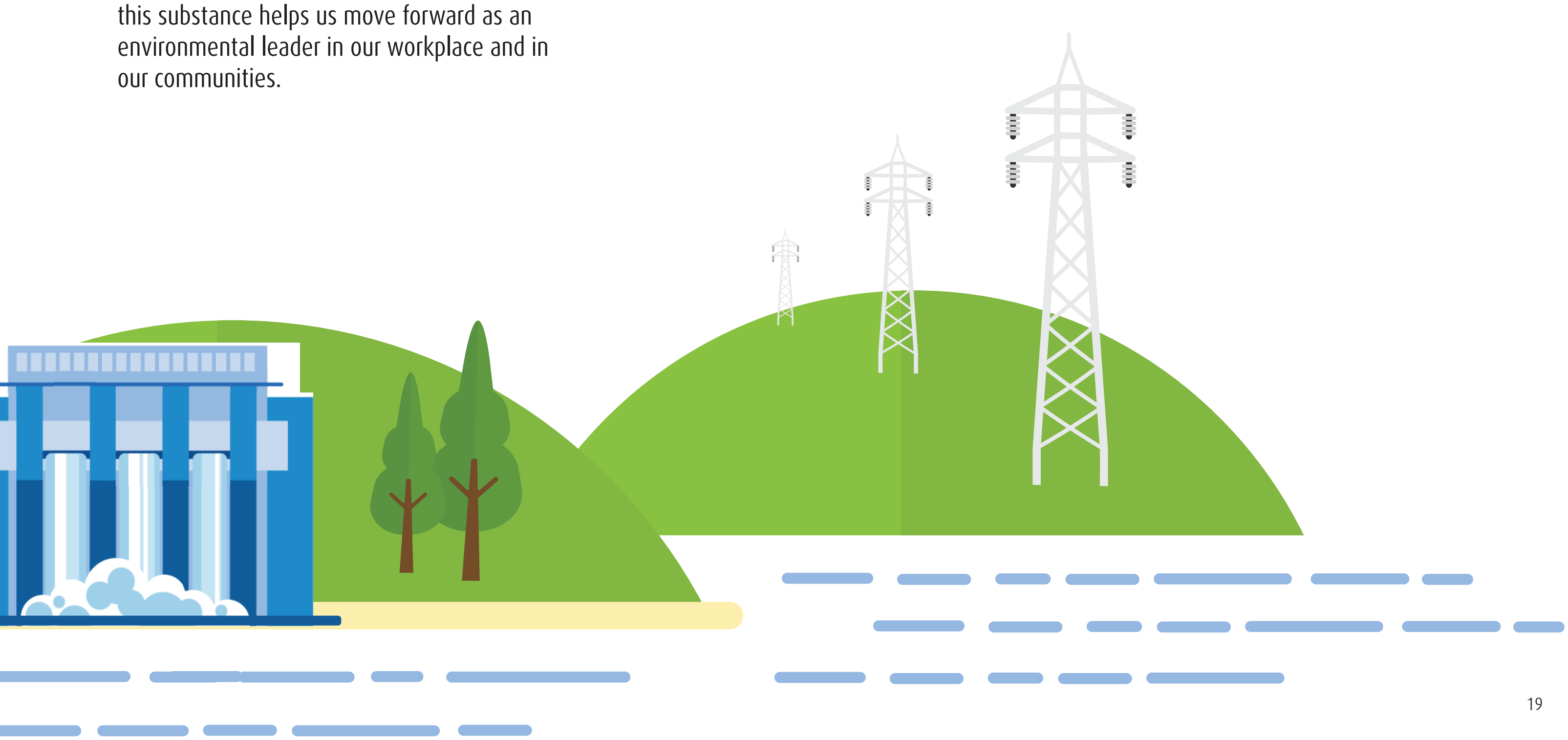
In 2020, Massachusetts established a Clean Energy Standard – Existing (CES-E). The CES-E ensures that the contribution of existing clean energy generation, which helps the state meet its greenhouse gas (GHG) emission reduction targets, is maintained in the future.

The CES-E requires existing utilities and suppliers providing electricity to customers in the state to buy 20 per cent of their energy from existing clean energy generators for 2021. Our Energy Marketing team applied to have the Churchill Falls Generating Station recognized under the CES-E program in 2021, and successfully qualified as a Clean Existing Generating Unit in the state of Massachusetts.

As a result, since June 2021, Energy Marketing has been earning CES-E certificates on the majority of its recapture energy exports to New England. These certificates represent additional value beyond the market value for our energy exports to New England.

Since 2017, it's estimated that our hydroelectric exports have potentially displaced over 1.1 million metric tonnes of GHG emissions through the New York, New England and Nova Scotia systems.

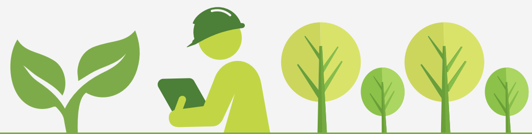
That's the equivalent of removing 337,000 passenger vehicles from the roads for an entire year!



Our Sustainability Priorities 2021-2025

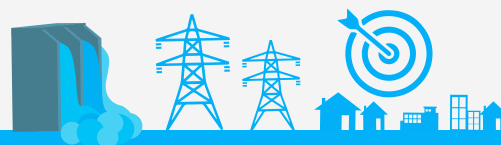
SAFETY AND HEALTH

- Occupational health and safety for employees and contractors
- Emergency preparedness and response
- Public health and safety
- Safety and health culture
- Occupational health, hygiene and wellness



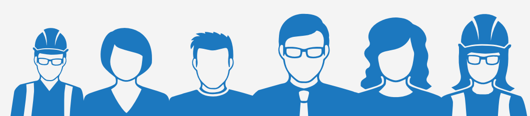
ENVIRONMENT

- Environmental management system improvement and expansion
- Climate change mitigation and adaptation
- Integration of reliable and cost-effective renewable energy sources in isolated communities
- Emission reduction and displacement
- Heritage management
- Fish and wildlife management



BUSINESS EXCELLENCE

- Fiscal responsibility, transparency and accountability
- Improving asset management business systems
- Reliability and resource adequacy
- Responsible procurement
- Electrification and development of clean energy projects
- Electricity rates/financial affordability for customers
- Business continuity and cyber security

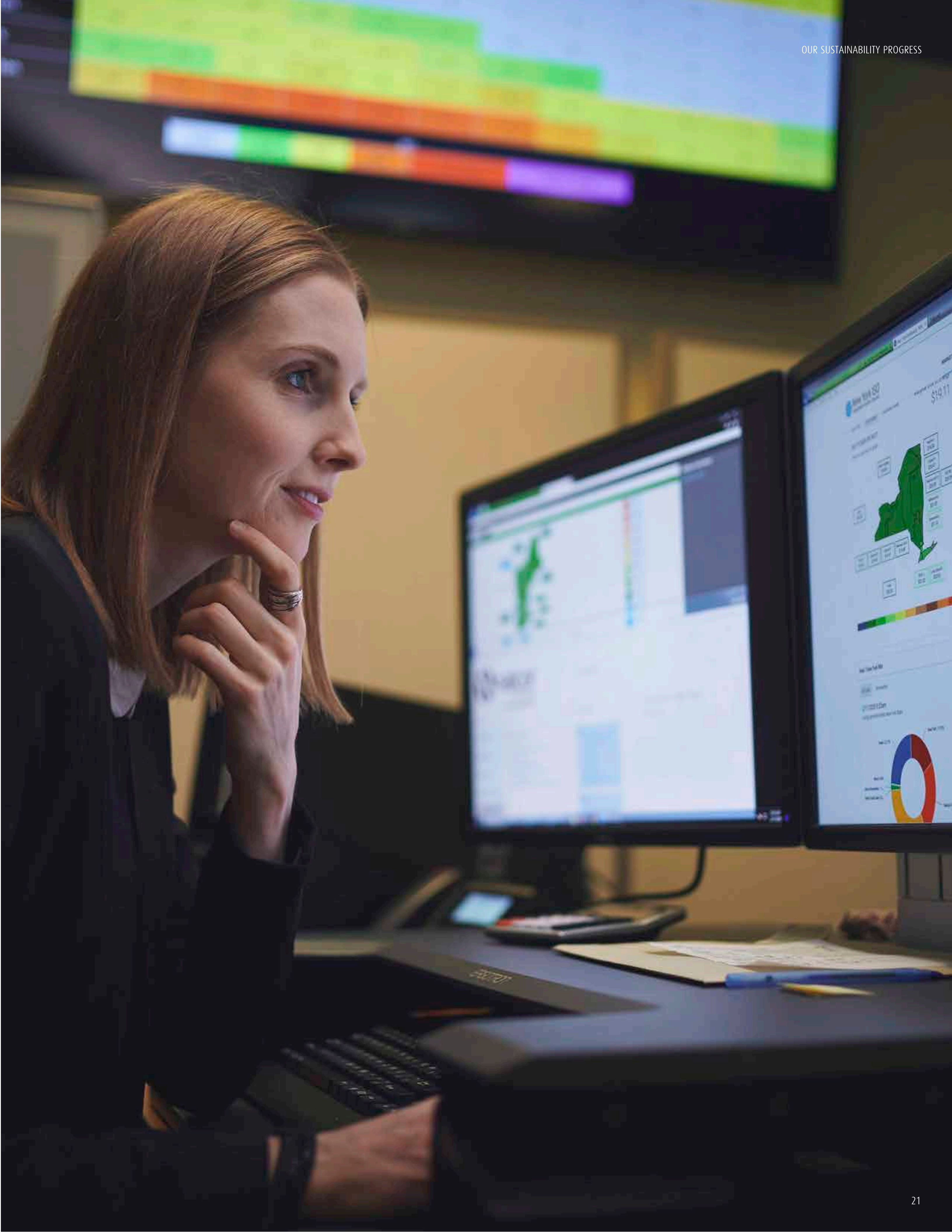


PEOPLE

- Equity, diversity and inclusion
- Employee engagement
- Talent attraction, development and retention
- Code of conduct and business ethics
- Organizational effectiveness and change management

COMMUNITY

- Indigenous partnerships and stakeholder engagement
- Customer satisfaction
- Community investment



Clean Energy Gives EV Travel a Boost in Newfoundland and Labrador

Electric vehicle (EV) travel in Newfoundland and Labrador became a lot easier in 2021 as we completed construction of the first fast-charging network in our province and announced new incentives toward the purchase of EVs.

HYDRO COMPLETES THE PROVINCE'S FIRST FAST-CHARGING NETWORK FOR ELECTRIC VEHICLES

Until recently, Newfoundland and Labrador was the only province in Canada without a fast-charging network for electric vehicles. The situation changed in 2021 when we completed the first network of 14 fast-chargers on the island – overcoming a major barrier to EV ownership and displacing close to 50 tonnes of greenhouse gas emissions in the first year of operation.

The provincial fast-charging network includes 14 charging locations from St. John's to Port aux Basques, enabling EV owners to travel long distances across the island portion of the province, and removing one of the largest barriers to ownership cited by consumers. With this network, drivers have access to 62.5 kW Direct Current Fast Chargers averaging every 70 km along the TCH, as well as one charger in Gros Morne National Park. Chargers are available at popular rest stops and service stations, with sufficient power to fast-charge an electric vehicle to 80 per cent in less than an hour.

This initiative provides an opportunity for increased domestic ownership of electric vehicles, helps reduce carbon emissions, and supports the province's overall electrification efforts. Establishing the fast-charging network was a critical step toward making EV use more accessible around the province, and helps pave the way for more chargers in Labrador and other regions in the future.

In 2021 users charged more than 45MWh equaling about 240,000km - that's enough to drive from St. John's to Vancouver more than 33 times!

In 2021, we made significant advances to help increase electric vehicle adoption in Newfoundland and Labrador by completing the province's first fast-charging network, laying the groundwork for additional charging infrastructure in the future, and supporting environmental and electricity-rate benefits.

In the first year of operation, our fast-charging network has been powering EVs all across the province:

ENERGY DELIVERED

45.9 MWh

That is enough energy to drive more than 240,000 KM in our Chevy Bolt.

80% approx.

OF OUR PROVINCE'S ELECTRICITY IS GENERATED FROM CLEAN, RENEWABLE SOURCES.

NUMBER OF CHARGING SESSIONS

2,059

GHG REDUCTION

46.4

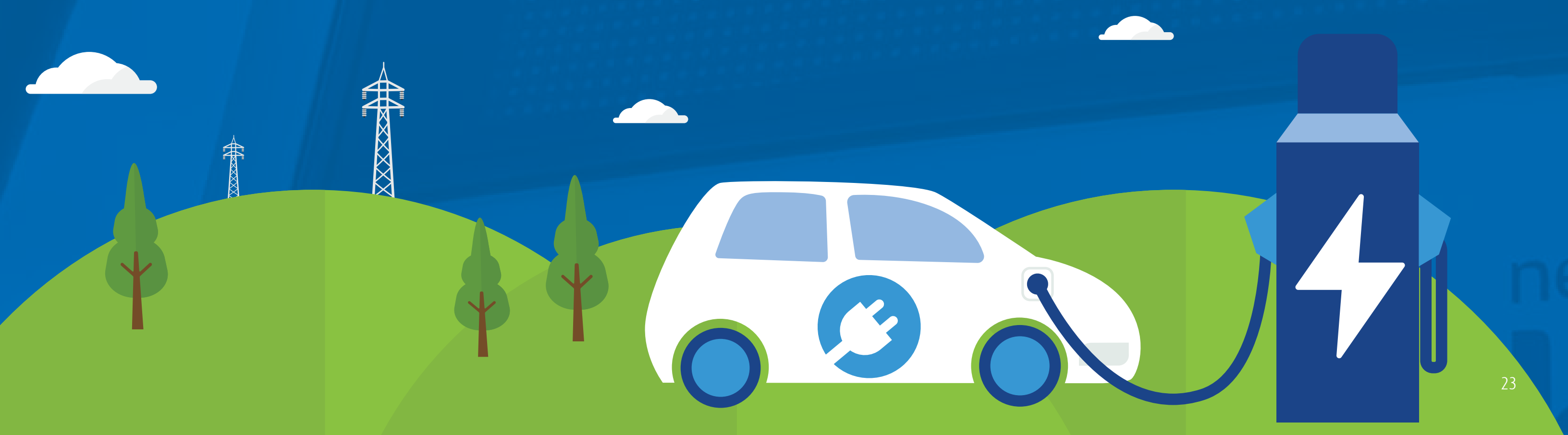
tonnes of GHG avoided/displaced through direct charging use.

MAKING ELECTRIC VEHICLES MORE AFFORDABLE IN NEWFOUNDLAND & LABRADOR

Completing the province's first fast-charging network helped remove one of the most significant barriers to EV ownership in Newfoundland and Labrador. In fall 2021, Hydro helped remove another barrier with the Electric Vehicle Rebate Program.

Administered on behalf of the Department of Environment and Climate Change, this program provides a $2,500 rebate for residents who purchase or lease an electric vehicle. This rebate helps alleviate some of the upfront costs of ownership, making electric vehicles more affordable for Newfoundlanders and Labradorians.

The transportation sector in Newfoundland and Labrador represents 32 per cent of provincial GHG emissions. By increasing the number of electric vehicles on our roads, the Electric Vehicle Rebate Program contributes to a more sustainable future for our province through lower transportation-related GHG emissions, and supports transportation that is powered by clean, renewable energy.



At the end of 2021 Hydro had **NINE ELECTRIC VEHICLES** in use at operational areas around the province - with more to come in 2022.

To date, these EVs have **TRAVELLED MORE THAN 70,000 KM**, braving our challenging geography and harsh winters, from underground in Churchill Falls to the streets of St. John's.

When compared to the typical fuel economy in an equivalent gas-powered car, that's a **SAVINGS OF OVER 5,200 LITRES OF FUEL** and **11 TONNES OF AVOIDED CO_2 EMISSIONS.**

These savings are better for our customers and the planet.

> "Many people are surprised to learn that we have four electric vehicles in our fleet at Churchill Falls. We use them to access our powerhouse as we can't use gas-powered vehicles underground. By using EVs, we're not producing any emissions or polluting the air quality, which is very important for the health and safety of our workers."
>
> - Terry Burry, Team Lead – Fleet Services, Churchill Falls

PLUGGING INTO THE BENEFITS ACROSS HYDRO'S FLEET

Approximately 80 per cent of electricity in our province is generated from clean, renewable energy sources, making Newfoundland and Labrador a great place to drive electric. As the province's Crown utility, we are proud to lead efforts to increase the use of electric vehicles, including within our own operations.

With significant fuel savings and less maintenance required, electric vehicles offer an opportunity to decrease operating expenses typically associated with fleet vehicles, while maintaining the same level of service for our customers. Adding electric vehicles to our fleet has the added benefit of reducing transportation-related greenhouse gas emissions while supporting and promoting electrification in the province which, when adopted broadly, can also contribute to rate mitigation efforts for electricity customers.

To support the integration of electric vehicles in our fleet, chargers have been installed at 10 operational facilities, with more planned in 2022 and beyond. As more traditional, gas-powered vehicles require replacement in future, we will continue to carefully assess opportunities to add electric vehicles and related infrastructure, where feasible, and contribute to a greener future for Newfoundland and Labrador.

Electric vehicle use is increasing across Hydro's operations - including at Churchill Falls, where electric vehicles are used to access one of the largest underground hydroelectric plants in North America. Using zero-emission, fully electric vehicles 1,100 feet underground helps protect the air quality and, most importantly, the overall health and safety of workers who keep the system operating reliably year-round.

OUR CUSTOMERS

SUPPORTING CUSTOMER'S EFFICIENT USE OF ENERGY THROUGHOUT OUR ISOLATED SYSTEMS

Our Isolated Systems Energy Efficiency Direct Install Program first kicked off in 2012. For remote residential and commercial customers in isolated diesel systems, this program is helping to save energy, increase local knowledge on energy efficiency and provide employment for more than 50 local residents.

To date, the program has extended to 41 remote communities. Over the past nine years, the program has helped install over 144,300 energy efficient products in visits to 846 businesses and 8,282 homes. The installation of these energy-efficient products has helped customers save almost 11 GWh of electricity.

> "When I learned about the new remote-control thermostat, I was a little hesitant. Within a few short weeks, a technician came and installed the wireless thermostats. It wasn't long before I learned how to set them and increase when weather was bitter cold. I have spoken about them to visiting family and how comfortable the service is in my home."
>
> - Betty Sampson (Port Hope Simpson, NL)

takeCHARGE OF YOUR TOWN

The takeCHARGE of Your Town initiative started in 2010 and aims to encourage residents and municipalities to reduce their energy use. Municipalities submit proposals for projects that can promote or improve energy conservation or energy efficiency.

Over the past 10 years, we've awarded $135,000 to cities and towns through this fantastic initiative.

In 2021, the $10,000 winner was the Town of Miles Cove. They plan to use their grant for energy-efficient upgrades at their town office and Community Centre, the main hub for public gatherings, weddings and community groups.

Customers in Roddickton, Port Aux Choix were among those around the province who took part in the takeCharge programs making their homes, businesses and towns more energy efficient

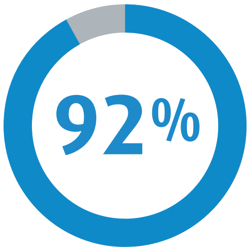
Isolated Systems Energy Efficiency Program 2021

924 MWh
total energy savings

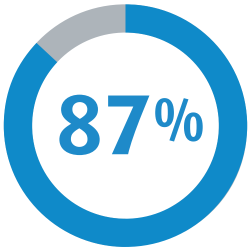
388
residential and commercial customers

9,291
energy-efficient products

97%
customer satisfaction



SATISFACTION WITH SERVICE RELIABILITY



OVERALL SATISFACTION AMONG CUSTOMERS

WORKING FOR THE PEOPLE OF NEWFOUNDLAND AND LABRADOR

As the people's Crown utility, we work hard to keep the lights on for our customers, while carefully managing our capital and operating costs, continuing to maintain our equipment and infrastructure, and making upgrades where necessary — all to meet our customers' needs and enhance service wherever possible.

Communicating with our customers has never been more important. While our customers can reach us 24 hours a day, seven days a week through our telephone line, many customers are choosing to connect with us in other ways as well.

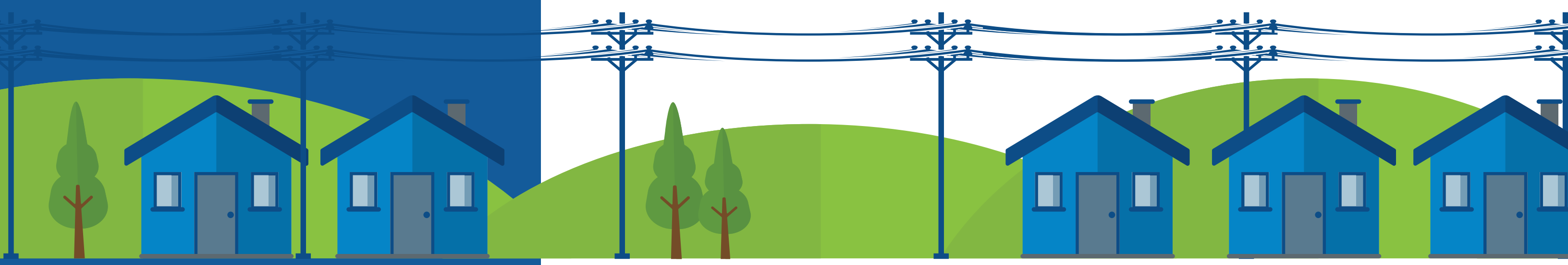
Through our myNLHydro self-service app, our customers are able to subscribe to receive text or email notifications for planned and unplanned power outages. Customers can choose the type of notification they prefer to receive so we can keep them up to date with notifications for their area.

More and more customers are also now choosing to connect with us through our social media accounts (Facebook and Twitter). We're connected to more than 22,000 people on Twitter and 19,000 people on Facebook – and those numbers grow every day.

In 2021, in an effort to continue communicating important information to our customers, we launched a new Customer Newsletter. Our customers can find it in their mailbox (or inbox) four times a year.

To ensure we regularly monitor and work towards improving how we serve our customers, we also undertake annual point-of-call surveys.

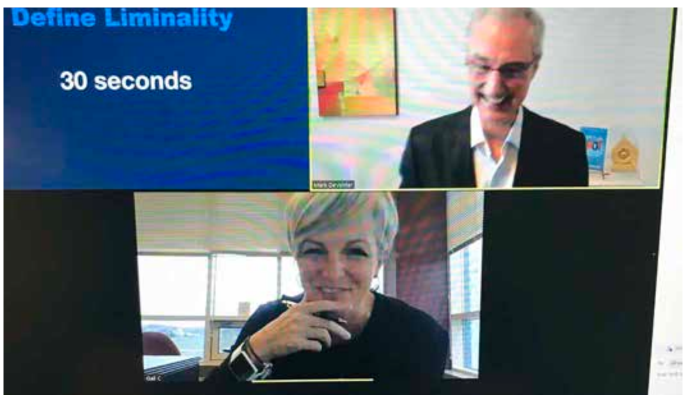
Our Electricity Feedback Panel, launched in 2018, continues to grow with nearly 1,000 NL residents now signed up to provide their opinion on various topics through short digital surveys. In 2021, we asked respondents their opinions on electric vehicles, how they heat their homes, their electricity safety habits and understanding, and more.



OUR SAFETY AND HEALTH JOURNEY

SAFETY FIRST, EVERY DAY

At Hydro, safety excellence is more than a way of operating; it's an integral part of our identity and it informs each and every decision we make. Every person in our organization shares responsibility for making sure we all make it home safely at the end of the day.



Though virtual, Keynote Speaker Dr. Mark DeVolder engaged our employees like Gail Collins during the Safety and Health Summit.

SAFETY AND HEALTH SUMMIT

Last year marked the 15th anniversary of the Safety Summit, which was renamed the Safety and Health Summit. This annual event brings together team members from all regions for a day of workshops and sessions. The new name celebrates the milestone and also recognizes the importance that physical and mental health play in our safety culture. Due to the pandemic, the event was held virtually for the second year in a row. The virtual model didn't diminish the success of the day, which featured keynote speaker Dr. Mark DeVolder from British Columbia reflecting on "Being Change Ready and Thriving During Disruption." Hundreds of employees, individually and in work groups, were able to join in for the event.

CEA PRESIDENT'S AWARD FOR SAFETY

Our membership in the Canadian Electricity Association (CEA)—recently renamed Electricity Canada—provides us with an avenue to share safety and health performance and best practices amongst utilities. This membership gives us valuable benchmarking information so we can continuously improve our Safety Management System.

For the third consecutive year, we were presented with CEA's President's Award for Excellence in Employee Safety in Generation in Group 2, considered "Gold" amongst our peers. This award is given to electrical utilities that achieve top-ranking Total Recordable Injury Frequency (TRIF) amongst size-comparable utilities.

SAFETY AND HEALTH IN THE COMMUNITY

We strive to create policies, programs and resources to make up a strong Safety Management System so we can ensure the safety and health of all our employees. In addition to our own internal resources, we also value our partnerships with external agencies and groups that work to provide resources and bring awareness to safety and health topics in the workplace and in the community.

- We regularly promote resources and webinars provided by Workplace NL.
- Each year, we participate in a wreath laying ceremony during the Day of Mourning, a national day in memory of all those who lost their lives on the job.
- In 2021, we participated in a Safety Stand Down led by the Newfoundland and Labrador Construction Safety Association (NLCSA).
- Over the last number of years, we have also participated as a Corporate Sponsor for the Steps for Life Walk, which is a fundraiser organized by Threads of Life who provide support to families affected by workplace tragedies.

WORKING IN AN ON-GOING PANDEMIC

As we entered the second year of the pandemic, we continued to work with teams across the organization to ensure our COVID-19 response met the needs of our business while ensuring the health and safety of our employees and our communities.

Our teams worked closely with Public Health to ensure vaccines were available for our employees who had critical roles in safeguarding our electricity system, with Human Resources to introduce our first Remote Work Policy and with federal and provincial governments to ensure compliance with government mandated vaccination policies.

As the year came to a close, we closely monitored the emerging Omicron variant to best prepare our regions for potential impacts to their teams.

2021 SAFETY PERFORMANCE

Reporting 10,980 Observations
an **18.6% increase** from **2020**

All Injury Frequency 1.47
(Target 0.50)

Lost-Time Injury Frequency 0.81 (Target 0.15)

Lead/Lag 549:1
(Target 1000:1)

OUR PEOPLE

CHAMPIONING DIVERSITY AND INCLUSION

We understand that diversity and inclusion strengthens us, not only as individuals, but also as a company and a community. That's why we're committed to supporting various Diversity & Inclusion (D&I) initiatives throughout the year.

PINK SHIRT DAY

On February 24, we recognized Pink Shirt Day and emphasized our commitment to fostering a safe, respectful and inclusive work environment to help ensure our employees feel comfortable bringing their whole selves to work every day.

INTERNATIONAL WOMEN'S DAY

We recognized International Women's Day and the 2021 Choose to Challenge theme on March 8. This celebration of the social, economic, cultural and political achievements of women also marked a call to action for accelerating gender parity and rallying for women's equality. We held a virtual event where all employees could join Lisa Hutchens, our Chief Financial Officer, as she shared her story and described how she 'chooses to challenge.'

NATIONAL INDIGENOUS PEOPLE'S DAY

On June 21, we recognized National Indigenous Peoples Day to help celebrate the heritage, diverse cultures, and outstanding achievements of First Nations, Inuit and Métis Peoples. Along with information about why we celebrate National Indigenous Peoples Day, we also shared a land acknowledgement D&I Moment with employees.

CANADA'S MULTICULTURALISM DAY

June 27th marked Canadian Multiculturalism Day and the 50th anniversary of the Canadian Multiculturalism Policy. To celebrate, we shared information with employees, including the significance of the celebration, educational resources and information about local events.

PRIDE WEEK

On July 16, Pride flags were raised at various work locations across our province as a visual show of support for our 2SLGBTQIA+ employees and community members.

Employees were encouraged to participate in a variety of community events that were planned to celebrate Pride Week, and to learn more about the 2SLGBTQIA+ community through various resources that were shared to promote learning, including a D&I Moment entitled *How to Be an Ally.*

The Pride flag is raised in Churchill Falls

NATIONAL DAY FOR TRUTH AND RECONCILIATION

September 30 marked the inaugural National Day for Truth and Reconciliation. Hydro offices across the province were closed to observe this day of reflection and learning, and flags were flown at half-mast from sunrise to sunset. September 30 also marked Orange Shirt Day, which honours survivors and those lost to the residential school system.

Employees were provided with resources and encouraged to take time to learn about

the history of the residential school system, and reflect on the histories and cultures of Indigenous Peoples. A special focus was placed on resources for Newfoundland and Labrador's Indigenous communities.

DIVERSITY AND INCLUSION DAY

On October 27, we celebrated our fourth annual Diversity and Inclusion Day with this year's focus on Indigenous Peoples and Communities.

Employees attended virtual sessions throughout the day. These sessions included initiatives our Indigenous Affairs team is leading to strengthen our relationships with Indigenous Peoples, a presentation about the Truth and Reconciliation Commission and its 94 calls to action, and our ongoing Indigenous relations and partnership initiatives with Indigenous communities across our province.

Our President and CEO, Jennifer Williams, closed the day by reiterating our company's commitment to diversity and inclusion, and meaningful engagement and consultation with Indigenous Peoples and communities across Newfoundland and Labrador.

In 2021, we remained committed to engaging with Indigenous peoples in the province to discuss the adaptation of framework or Indigenous Principles and the development Indigenous awareness training. These discussions will take place in 2022-2023.

PURPLE RIBBON CAMPAIGN

Members of the executive team and the Women's Leadership Network (WLN) raised a purple ribbon flag at Hydro Place on November 25 to demonstrate our commitment to the annual Purple Ribbon campaign. This campaign raises awareness and promotes the prevention of violence against women in Newfoundland and Labrador. Employees were encouraged to learn more about the Purple Ribbon campaign and provided with resources on how to recognize and help prevent gender-based violence.

INTERNATIONAL DAY FOR PERSONS WITH DISABILITIES

On December 3, we recognized the annual International Day for Persons with Disabilities and the United Nations' chosen theme: Leadership and participation of persons with disabilities toward an inclusive, accessible, and sustainable post-COVID-19 world.

In observance of the day, we provided employees with resources to learn more about the International Day for Persons with Disabilities.

OUR ONGOING COMMITMENT TO ACHIEVING GENDER EQUITY

In 2017, we set gender equity targets to focus on the recruitment and retention of females in underrepresented areas of our business. While we're still working towards improvement to meet our organizational targets, it's exciting to see our gaps becoming narrower, especially at the Executive and Field Supervisor levels, both of which have almost doubled from their original representation in 2016.

We believe our whole organization thrives when there's a focus on creating a diverse and inclusive environment for all employees. We made progress in 2021 and are committed to progressing toward our targets by 2025.

Gender Equity Targets at Hydro

OCCUPATIONAL GROUP	2016	2021	TARGETS
Executive	15%	27%	30%
Management	27%	31%	35%
Engineers (Including Engineers in Training)	24%	24%	30%
Technicians and Technologists	5%	9%	10%
Field Supervisors	3%	6%	6%
Skilled Trades (Including Apprentices)	2%	6%	10%
Manual Workers	16%	17%	20%

*As of December 2021.

OUR COMMUNITIES

Giving back to our communities is an important part of who we are as employees and as an organization. Throughout the province, our Community Investment Program (CIP) supports registered not-for-profit organizations with donations, volunteer hours, and in-kind work and contributions.

We focus our support in several areas, including safety and mental health; STEM (science, technology, engineering, and math) education; environment and sustainability; diversity and inclusion; and social and community well-being.

From St. John's to Labrador City, and hundreds of communities in between, we are delighted to work with, and support, organizations across the province.

OUR INDIGENOUS COMMUNITY PARTNERSHIPS

Participating in and supporting Indigenous community initiatives is an important part of showing we respect what's important to Indigenous communities throughout the province. In 2021, we were happy to support Friendship Centres in Labrador and St. John's, Indigenous youth outdoor and sporting programs, as well as Indigenous homeless and food sharing programs. Jennifer Williams, our President and CEO, also had the honor of attending the Annual Innu Gathering at Gull Island.

We are so pleased to provide continued support for this gathering and to further our relationships with the Indigenous communities in which we live and operate.

CONSERVATION CORPS NEWFOUNDLAND AND LABRADOR

Through our continued support of the 2021 Green Team Program, we helped build valuable skills and promote job opportunities for youth at the St. Anthony and Area Boys & Girls Club. We educated the children on the causes and impacts of climate change and shared how we can all contribute to a healthier planet.

RONALD MCDONALD HOUSE

We continued our strong partnership with Ronald McDonald House, with support for programming and services that help keep families close when they need it most. We adopted rooms at the House, were a sponsor for this year's radiothon, and our employees participated in events like the annual Sock It! campaign. Celebrating our tenth year of support, we were proud to continue our long-standing tradition as presenting sponsor for the Red Shoe Crew Walk for Families – Your Walk, Your Way, which raised more than $210,000.

Jennifer Williams, Hydro President and CEO (left), joins staff and family members from Ronald McDonald House to announce the results of the 2021 Red Shoe Crew Walk for Families.

Children at the St. Anthony and Area Boys and Girls Club learn how they can help minimize impacts of climate change through the 2021 Green Team Program.

GO GIRLS GOLF TOURNAMENT

We continued our support of the Big Brothers Big Sisters Go Girls Golf Tournament in 2021. After being postponed in 2020 due to the pandemic, teams were able to hit the links in support of the Go Girls! Healthy Bodies, Healthy Minds mentoring program. This program focuses on physical activity, balanced eating, and positive self-image for girls aged 10-13, and has helped mentor more than 1,300 girls since its inception.

CENTRAL LABRADOR YMCA

Our commitment to health and safety extends beyond our team and into the communities where we live and work. In Happy Valley-Goose Bay, that commitment was in support of the newly opened Central Labrador YMCA through their Strengthening Our Communities campaign. The accessible facility offers a range of activities, as well as wellness supports and childcare for residents in the region.

Go Girls Golf Tournament

Central Labrador YMCA

WOMEN IN RESOURCE DEVELOPMENT CORPORATION

There are exciting career opportunities available to women in STEM-related fields. We were proud to continue our support of WRDC and initiatives that help raise awareness of, and access to, those opportunities. In 2021, our support directly helped launch WRDC's new online STEMforGIRLS Club, where young girls can virtually connect with role models, build skills and knowledge, and explore future career opportunities. We also partnered with WRDC again last year to award six $1,500 scholarships to women from the province who are pursuing careers in trades and technology, and were honoured to receive the WRDC Diversity in Industry Award on International Women's Day.

HOME AGAIN FURNITURE BANK

Home Again Furniture Bank provides gently used furniture to individuals and families in need, helping to instill stability, dignity and pride in their clients. To date, they have helped furnish more than 2,000 homes and diverted more than 420 tonnes of furniture from local landfills. We continued our support for Home Again and their goal of ending furniture insecurity through matching financial contributions and in-kind services for several projects.

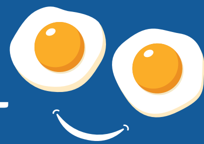
CHEER CHALLENGE

In December, we combined our internal employee recognition program with our CIP for our inaugural Cheer Challenge. For three weeks, we encouraged team members to 'spread the cheer' by recognizing contributions of their peers at work. For each submission, we donated $5 to the Community Food Sharing Association (CFSA), up to a maximum of $10,000.

The Cheer Challenge was a great opportunity for our team members to recognize their colleagues and support those in need. In total, employees entered more than 500 submissions, recognizing nearly 1,000 employees across Hydro.

HEART & STROKE FOUNDATION

We once again helped build healthy communities through our continued support for the HeartSmart Kids™ program. This program helps educators teach children and their families how to lead healthy lifestyles using free virtual resources for every student in grades K-6 in schools across the province.



KIDS EAT SMART FOUNDATION, ENERGY BREAKFAST

HYDRO HELPS PROVIDE 23,360 BREAKFASTS TO KIDS IN OUR PROVINCE

For 20 years, we've proudly supported Kids Eat Smart and school breakfast programs around the province. Our strong partnership continued in 2021, helping the transition to grab-n-go breakfasts, and providing children with the energy they need to start their day right in a safe, healthy way.

During National Volunteer Week, our employees teamed up with our partners at Kids Eat Smart to support school breakfast clubs around the province, collecting food and donations for schools in 10 communities through the Energy Breakfast:

- **Queen of Peace Middle School,** *Happy Valley-Goose Bay*
- **French Shore Academy,** *Port Saunders*
- **Stephenville High,** *Stephenville*
- **White Hills Academy,** *St. Anthony*
- **Bay D'Espoir Academy,** *St. Alban's*
- **Exploits Valley High,** *Grand Falls-Windsor*
- **Leo Burke Academy,** *Bishop's Falls*
- **Indian River Academy,** *Springdale*
- **Holy Cross Elementary,** *Holyrood*
- **Whitbourne Elementary,** *Whitbourne*

Through this province-wide initiative, the Hydro team was able to donate $23,360 to Kids Eat Smart. That's 23,360 breakfasts to help give children the nutrition they need to learn, grow and be their very best.

Hydro employees in Stephenville proudly display items collected for the Kids Eat Smart breakfast program at Stephenville High School.

NATURE NEWFOUNDLAND & LABRADOR, BIRDWATCHING BACKPACK PROGRAM

Birdwatching is a fun and unintimidating way to engage youth and adults in an outdoor activity that helps familiarize communities and individuals with their natural environment. It's a popular activity in our province and, with the Birdwatching Backpack program, Nature Newfoundland and Labrador made it easier than ever for people to connect with nature and give birdwatching a try.

The Birdwatching Backpack pilot program was first launched in 2020, in partnership with the Newfoundland and Labrador Public Library, and with support through our Community Investment Program. The project aims to enhance outdoor accessibility and engagement across the province. Backpacks filled with everything needed to try birdwatching were made available for patrons to borrow from their public libraries.

Given the success and positive feedback received from the pilot program, Nature Newfoundland and Labrador expanded the program to other areas of the province throughout the public library system in 2021. We were proud to continue our support for Nature Newfoundland and Labrador, and we look forward to the continued success of this very popular program.

NORTHERN PENINSULA FIRE DEPARTMENTS' EMERGENCY RESPONSE CAPACITY EXPANDED BY CHURCHILL FALLS DONATION

When functional equipment needs replacement to better meet work requirements or improve efficiencies, we always seek opportunities where this surplus equipment could serve the needs of other communities.

In 2019, Churchill Falls purchased a more advanced vehicle to replace their current Centaur, an off-road vehicle to better access remote worksites, especially during the winter months. With no use for the Centaur, Churchill Falls worked with other teams to help identify a community that could benefit from having such equipment at their disposal. The Northern Peninsula Straits Fire Services Department was identified with such a need.

This Fire Department services communities from Anchor Point to Eddie's Cove along the Northern Peninsula. Whether to carry out a search and rescue, respond to an emergency, or deploy fire hoses during a fire response, the addition of a Centaur expands their ability to access remote areas in many types of emergency situations across any terrain during any season.

The Centaur was delivered on July 22, equipped with a towing trailer and all servicing up to date.

Years ended December 31	**2021**	2020	2019	2018	2017
INSTALLED GENERATING CAPACITY (rated megawatts)					
Churchill Falls	**5,428**	5,428	5,428	5,428	5,428
Hydro - Hydraulic					
Hydraulic	**956**	956	956	956	956
Thermal	**741**	741	741	741	741
Diesel	**66**	66	66	67	67
Muskrat Falls	**824**	-	-	-	-
Menihek	**19**	19	19	19	19
Total	**8,034**	7,210	7,210	7,211	7,211
ELECTRIC ENERGY GENERATED, NET (gigawatt hours)					
Churchill Falls	**34,253**	32,731	34,982	35,598	30,927
Hydro					
Hydraulic	**4,495**	4,508	4,525	4,944	4,507
Thermal	**727**	986	1,259	1,118	1,725
Diesel	**45**	46	51	52	50
Muskrat Falls	**1988**	29	-	-	-
Menihek	**44**	47	46	49	45
Total	**39,564**	38,347	40,863	41,761	37,254
ELECTRIC ENERGY SALES (gigawatt hours)					
Churchill Falls Export	**30,696**	28,997	28,944	28,970	28,970
Hydro					
Utility	**5,433**	5,529	5,926	5,839	5,895
Rural	**1,104**	1,108	1,148	1,151	1,104
Industrial	**2,324**	2,455	2,437	2,080	2,340
Export	**1,462**	1,280	1,319	1,562	1,594
Menihek Export	**44**	47	46	49	45
Total	**41,063**	39,416	39,820	39,651	39,948
TRANSMISSION LINES (kilometres)					
Churchill Falls					
735 kV	**608**	608	608	608	608
230 kV	**-**	-	-	-	-
Hydro					
230 kV	**2,251**	2,251	2,251	2,251	2,251
138 kV	**1,533**	1,533	1,533	1,533	1,533
69 kV	**628**	628	628	628	628
Menihek					
69 kV	**39**	39	39	39	39
Total	**5,059**	5,059	5,059	5,059	5,059
PEAK ELECTRICITY DEMAND (megawatts)					
Churchill Falls	**5,408**	5,706	5,636	5,531	5,611
Hydro System	**1,496**	1,516	1,651	1,503	1,540
Island System	**1,642**	1,657	1,784	1,640	1,714
PETROLEUM AND NATURAL GAS PROPERTIES					
Oil Production (Thousands Barrels of Oil Equivalent (BOE)/day)					
White Rose Growth Lands	**0.49**	0.67	0.38	0.80	1.38
Hibernia Southern Extension	**3.14**	4.74	4.10	5.05	7.38
Hebron	**6.79**	6.94	5.47	3.02	1.10
Remaining Reserves (Proven and Probable) (Millions BOE)					
White Rose Growth Lands	**7.46**	7.48	7.59	7.36	8.43
Hibernia Southern Extension	**6.03**	9.18	12.10	15.25	18.20
Hebron	**24.94**	32.20	34.20	35.49	36.03
STAFFING LEVELS					
Full-time equivalents	**1,499**	1,485	1,592	1,566	1,528

FINANCIAL STATISTICS

Years ended December 31 (millions of dollars)	**2021**	2020	2019	2018	2017
OPERATING RESULTS					
Continuing operations[1]					
Revenue					
Energy sales	**976**	913	1,016	1,005	854
Other revenue	**37**	17	22	24	23
	1,013	930	1,038	1,029	877
Expenses					
Fuels and power purchased	**202**	249	319	276	301
Operating costs	**230**	211	226	216	214
Production, marketing and transportation costs	**31**	39	36	42	30
Transmission rental	**24**	26	26	25	25
Depreciation, depletion, amortization and impairment	**202**	437	197	189	300
Exploration and evaluation	-	-	33	29	1
Net finance expense	**127**	109	92	83	66
Other expense (income)	**157**	(37)	18	33	27
Share of loss of joint arrangement	**1**	-	-	-	-
Regulatory adjustments	**(33)**	(14)	(36)	(46)	(91)
	941	1,020	911	847	873
Profit (loss) for the year from continuing operations	**72**	(90)	127	182	4
Discontinued operations[1]					
(Loss) profit for the year from discontinued operations	-	-	(1)	(2)	47
Profit (loss) for the year	**72**	(90)	126	180	51
SEGMENT EARNINGS[2]					
Continuing operations[1]					
NL Hydro	**39**	42	27	30	36
Hydro Regulated	36	36	30	28	36
Hydro Non-Regulated	3	6	(3)	2	-
Power Development	**-**	-	-	-	(51)
Other - Power Development	-	-	-	-	(51)
Power Supply	**59**	(2)	23	56	41
Muskrat Falls	(107)	(6)	(1)	(2)	(2)
LCP Transmission	102	(25)	(13)	2	(1)
Churchill Falls	52	33	35	32	33
Energy Trading	26	(5)	-	23	15
Other - Power Supply	(14)	1	2	1	(4)
Oil and Gas	**(9)**	(112)	96	125	(3)
Corporate and inter-segment	**(17)**	(18)	(19)	(29)	(19)
Profit (loss) for the year from continuing operations	**72**	(90)	127	182	4
Discontinued operations[1]					
Bull Arm Fabrication	-	-	(1)	(2)	47
Profit (loss) for the year	**72**	(90)	126	180	51
FINANCIAL POSITION					
Total current assets	**1,544**	1,609	2,042	2,493	2,751
Total current liabilities	**581**	750	718	687	970
Net working capital	**963**	859	1,324	1,806	1,781
Property, plant and equipment, cost	**19,841**	19,178	18,330	17,119	15,760
Accumulated depreciation, depletion and impairment	**2,102**	1,950	1,532	1,364	1,195
Property, plant and equipment, net	**17,739**	17,228	16,798	15,755	14,565
Sinking funds (long-term portion)	**225**	217	209	200	192
Long-term investments	**-**	-	100	130	332
Regulatory deferrals (net)	**157**	155	110	88	38
Other assets	**82**	81	69	56	34
Long-term debt	**9,792**	9,577	9,649	9,688	9,386
Other liabilities	**2,866**	2,794	2,706	2,590	2,529
Shareholder's equity	**6,508**	6,169	6,255	5,757	5,027
CAPITAL EXPENDITURES[3]	**732**	855	1,223	1,399	3,424

1. Effective January 1, 2020, the shares of Bull Arm Fabrication were distributed to the new Crown corporation, Oil and Gas Corporation of Newfoundland and Labrador.

2. The operating structure as at December 31, 2021 is comprised of five business segments. The designation of segments is based on a combination of regulatory status and management accountability. During Q4 2021, the Muskrat Falls assets were commissioned and therefore Muskrat Falls has been moved from the Power Development operating segment to Power Supply. Previously reported segmented information has been presented to conform to the current operating structure.

3. Capital expenditures includes tangible and intangible expenditures.

(listed as of December 31, 2021)

NALCOR ENERGY BOARD OF DIRECTORS

BRENDAN PADDICK* [5]
Chairperson, Nalcor Energy
CEO Columbus Capital Corp.

JOHN GREEN, Q.C.** [2, 5]
Retired Lawyer, McInnes Cooper

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

JACK HILLYARD [1, 3]
Retired BMO Executive

MARK MACLEOD [2, 3, 5, 6]
Formerly President and CEO, C-Core

JENNIFER WILLIAMS***
President and Interim Chief Executive Officer, Nalcor Energy

DEBBIE MOLLOY [1, 3, 4, 6]
President and Chief Executive Officer, WSCC, Northwest Territories and Nunavut

DEREK PURCHASE [1, 6]
Retired EY Partner, Sustainability Consultant

DAVID OAKE [1, 3, 5, 6]
President, Invenio Consulting Inc.

EDNA TURPIN, ICD.D [2, 4]
Corporate Director

1 – Audit Committee, 2 - Corporate Governance Committee, 3 - Human Resources & Compensation Committee, 4 - Safety, Health, Environment & Community Committee, 5 - Special Committee of the Board of Directors on the Muskrat Falls Inquiry and Rate Mitigation Reference Reports, 6 - Committee of the Hydro and Nalcor Boards of Directors on Organization and Structure

*On Leave of Absence as of September 4, 2020 and resigned in 2022
**Acting Chairperson as of September 4, 2020
***Appointed June 16, 2021

Note: Stan Marshall was a Director and President & CEO for part of 2021 but resigned prior to year-end (effective June 15, 2021)

NALCOR ENERGY OFFICERS

JENNIFER WILLIAMS
President & Interim Chief Executive Officer

GILBERT BENNETT
Vice President, Power Development

GERARD DUNPHY
Vice President, Churchill Falls & Muskrat Falls

ROBERT COLLETT
Vice President, Hydro Engineering & NLSO

GAIL COLLINS
Interim Vice President, People & Corporate Affairs

SCOTT CROSBIE
Vice President, Hydro Operations

KEVIN FAGAN
Vice President, Regulatory & Stakeholder Relations

LISA HUTCHENS
Vice President, Chief Financial Officer

MICHAEL LADHA
Vice President, Chief Legal Officer & Corporate Secretary

JAMES MEANEY*
Vice President, Finance, Churchill Falls & Muskrat Falls

WALTER PARSONS
Vice President, LIL & Business Development

MEREDITH BAKER
Assistant Corporate Secretary

*Tenure with the company concluded effective April 19, 2022

NEWFOUNDLAND AND LABRADOR HYDRO BOARD OF DIRECTORS

JOHN GREEN Q.C.
Chairperson
Retired Lawyer, McInnes Cooper

JENNIFER WILLIAMS
President & Interim Chief Executive Officer, Nalcor Energy

DONNA BREWER [1, 2, 3]
Retired Deputy Minister of Finance

CHRIS LOOMIS [2, 3]
Retired Professor, Memorial University of Newfoundland

BRENDAN PADDICK*
CEO, Columbus Capital Corp.

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

FRASER EDISON [2]
President & CEO, Rutter Inc.

JOHN MALLAM [1, 3]
Retired Newfoundland and Labrador Hydro Executive

BRIAN WALSH [2]
Retired FortisTCI Executive

TRINA TROKE**[1]
Director of Projects, Cahill Group

1 - Audit Committee, 2 – Corporate Governance Committee, 3 - Committee of the Hydro and Nalcor Boards of Directors on Organization and Structure

*On Leave of Absence as of September 4, 2020 and resigned in 2022
**Appointed May 5, 2021 and appointed to the Audit Committee November 26, 2021

Note: Stan Marshall was a Director and CEO for part of 2021 but resigned prior to year-end (effective June 15, 2021)

NEWFOUNDLAND AND LABRADOR HYDRO OFFICERS

JENNIFER WILLIAMS
President & Chief Executive Officer

GILBERT BENNETT
Vice President, Power Development

GERARD DUNPHY
Vice President, Churchill Falls & Muskrat Falls

ROBERT COLLETT
Vice President, Hydro Engineering & NLSO

GAIL COLLINS
Interim Vice President, People & Corporate Affairs

SCOTT CROSBIE
Vice President, Hydro Operations

KEVIN FAGAN
Vice President, Regulatory & Stakeholder Relations

LISA HUTCHENS
Vice President, Chief Financial Officer

MICHAEL LADHA
Vice President, Chief Legal Officer & Corporate Secretary

JAMES MEANEY*
Vice President, Finance, Churchill Falls & Muskrat Falls

WALTER PARSONS
Vice President, LIL & Business Development

MEREDITH BAKER
Assistant Corporate Secretary

*Tenure with the company concluded effective April 19, 2022

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 and two special committees:

1. Audit [1,2]
2. Corporate Governance [1]
3. Human Resources and Compensation
4. Safety, Health, Environment and Community [2]
5. Special Committee of the Board of Directors on the Muskrat Falls Inquiry and Rate Mitigation Reference Reports[3]
6. Committee of the Hydro and Nalcor Boards of Directors on Organization and Structure [4]

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, 2021).[5]

[1] Newfoundland and Labrador Hydro has its own Audit Committee and Corporate Governance Committee. The Corporate Governance Committee also deals with Regulatory, Human Resources and Compensation matters.

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

[3] Committee established on June 26, 2020.

[4] Committee established on June 16, 2021.

[5] Excludes currently inactive legal entities Gull Island Power Company Limited and Lower Churchill Development Corporation Limited. Also excludes two legal entities Labrador-Island Link Holding (2021) Corporation and Labrador-Island Link General Partner (2021) Corporation incorporated on February 4, 2022.

CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED

BRENDAN PADDICK*
Chairperson
CEO, Columbus Capital Corp.

PIERRE GAGNON [1, 2]
Executive Vice President, Corporate Affairs and Chief Governance Officer, Hydro Quebec

GEOFF GOODYEAR [2]
Retired Executive, University Helicopters Newfoundland and Labrador LP

JOHN GREEN, Q.C.** [1]
Retired Lawyer, McInnes Cooper

JEAN-HUGHES LAFLEUR [1, 2]
Executive Vice President and Chief Financial Officer, Hydro Quebec

JENNIFER WILLIAMS***
President & Interim Chief Executive Officer, Nalcor Energy

DAVID OAKE [1]
President, Invenio Consulting Inc.

BOB WARR [2]
Managing Director, Nor-Lab Limited

1 – Audit Committee, 2 – Safety, Health & Environment Committee

*On Leave of Absence as of September 4, 2020 and resigned in 2022
**Acting Chairperson as of September 4, 2020
***Appointed June 29, 2021

Note: Stan Marshall was a Director for part of 2021 but resigned prior to year-end (effective June 15, 2021)

Note: Debbie Molloy appointed April 13, 2022

NALCOR ENERGY – OIL AND GAS INC.

BRENDAN PADDICK*
Chairperson
CEO, Columbus Capital Corp.

JUSTIN LADHA
CEO, KMK Capital Inc.

MARK MACLEOD
Formerly President and CEO, C-Core

JENNIFER WILLIAMS**
President & Interim Chief Executive Officer, Nalcor Energy

DAVID OAKE
President, Invenio Consulting Inc.

*On Leave of Absence as of September 4, 2020 and resigned in 2022
**Appointed June 16, 2021

Note: Stan Marshall was a Director for part of 2021 but resigned prior to year-end (effective June 15, 2021)

Note: John Green appointed March 24, 2022

TWIN FALLS POWER CORPORATION LIMITED

ORAL BURRY
Manager, Safety, Health and Environment, Churchill Falls (Labrador) Corporation Limited

JAMES MEANEY*
Vice President, Finance, Churchill Falls & Muskrat Falls, Nalcor Energy

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

DANA POPE
Senior Manager, Regulatory Affairs, Newfoundland and Labrador Hydro

*Tenure with the company concluded effective April 19, 2022

Note: Jim Haynes, Maurice McClure and Mike Roberts were Directors for part of 2021 but resigned prior to year-end (effective June 26, 2021, October 5, 2021 and November 2, 2021, respectively)

Note: Gerard Dunphy and Donald Tremblay appointed January 27, 2022

LOWER CHURCHILL MANAGEMENT CORPORATION

GERARD DUNPHY*
Chairperson
Vice President, Churchill Falls & Muskrat Falls, Nalcor Energy

GILBERT BENNETT
Vice President, Power Development, Nalcor Energy

JENNIFER WILLIAMS**
President & Interim Chief Executive Officer, Nalcor Energy

JUNE PERRY
President & CEO, Pilot Communications

WALTER PARSONS***
Vice President, LIL & Business Development, Nalcor Energy

*Appointed June 27, 2021
**Appointed June 16, 2021
***Appointed November 2, 2021

Note: Stan Marshall and Mike Roberts were Directors for part of 2021 but resigned prior to year-end (effective June 15, 2021 and November 2, 2021, respectively)

Note: Terence Gardiner appointed January 31, 2022

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

JOHN GREEN, Q.C.
Chairperson
Retired Lawyer, McInnes Cooper

LIBBY BURNHAM
Lawyer

GEOFF GOODYEAR
Retired Executive, Universal Helicopters Newfoundland and Labrador LP

JENNIFER WILLIAMS*
President & Interim Chief Executive Officer, Nalcor Energy

EDNA TURPIN, ICD.D
Corporate Director

*Appointed June 16, 2021

Note: Stan Marshall was a Director for part of 2021 but resigned prior to year-end (effective June 15, 2021)

Note: Peter Hickman appointed January 31, 2022

LABRADOR-ISLAND LINK OPERATING CORPORATION

BRENDAN PADDICK*
Chairperson
CEO, Columbus Capital Corp.

GEOFF GOODYEAR
Retired Executive, Universal Helicopters Newfoundland and Labrador LP

CHRIS LOOMIS
Retired Professor, Memorial University of Newfoundland

JENNIFER WILLIAMS**
President & Interim Chief Executive Officer, Nalcor Energy

DEREK PURCHASE
Retired EY Partner, Sustainability Consultant

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

*On Leave of Absence as of September 4, 2020 and resigned in 2022

**Appointed June 27, 2021

Note: David Oake was a Director for part of 2021 but resigned prior to year-end (effective June 27, 2021)

LABRADOR-ISLAND LINK HOLDING CORPORATION

JACK HILLYARD
Chairperson
Retired BMO Executive

GERARD DUNPHY**
Vice President, Churchill Falls & Muskrat Falls, Nalcor Energy

SHEILA KELLY-BLACKMORE
Retired Business Person

JAMES MEANEY***
Vice President, Finance, Churchill Falls & Muskrat Falls, Nalcor Energy

BRENDAN PADDICK*
CEO, Columbus Capital Corp.

*On Leave of Absence as of September 4, 2020 and resigned in 2022
**Appointed June 27, 2021
***Tenure with the company concluded effective April 19, 2022

Note: Jim Haynes was a Director for part of 2021 but resigned prior to year-end (effective June 26, 2021)

Note: Brian Walsh appointed January 31, 2022

Note: Lisa Hutchens appointed April 19, 2022

LABRADOR TRANSMISSION CORPORATION

RONALD COLE
Chairperson
Lawyer, Cole Law Offices

GERARD DUNPHY***
Vice President, Churchill Falls & Muskrat Falls, Nalcor Energy

JENNIFER WILLIAMS**
President & Interim Chief Executive Officer, Nalcor Energy

JAMES MEANEY****
Vice President, Finance, Churchill Falls & Muskrat Falls, Nalcor Energy

BRENDAN PADDICK*
CEO, Columbus Capital Corp.

*On Leave of Absence as of September 4, 2020 and resigned in 2022
**Appointed June 16, 2021
***Appointed June 27, 2021
****Tenure with the company concluded effective April 19, 2022

Note: Stan Marshall and Jim Haynes were Directors for part of 2021 but resigned prior to year-end (effective June 15, 2021 and June 26, 2021, respectively)

Note: Robert Henderson appointed January 31, 2022

Note: Lisa Hutchens appointed April 19, 2022

MUSKRAT FALLS CORPORATION

EDNA TURPIN, ICD.D
Chairperson
Corporate Director

RICHARD DAW
Chartered Professional Accountant,
Certified Management Consultant

JACK HILLYARD
Retired BMO Executive

JENNIFER WILLIAMS*
President & Interim Chief Executive Officer, Nalcor Energy

JOHN QUAICOE
Retired Professor

*Appointed June 16, 2021

Note: Stan Marshall was a Director for part of 2021 but resigned prior to year-end (effective June 15, 2021)

NALCOR ENERGY MARKETING CORPORATION

JACK HILLYARD
Chairperson
Retired BMO Executive

WALTER PARSONS*
Vice President, LIL & Business Development, Nalcor Energy

JOHN GREEN Q.C.
Retired Lawyer, McInnes Cooper

TRINA TROKE**
Director of Projects, Cahill Group

FRASER EDISON**
President & Chief Executive Officer, Rutter Inc.

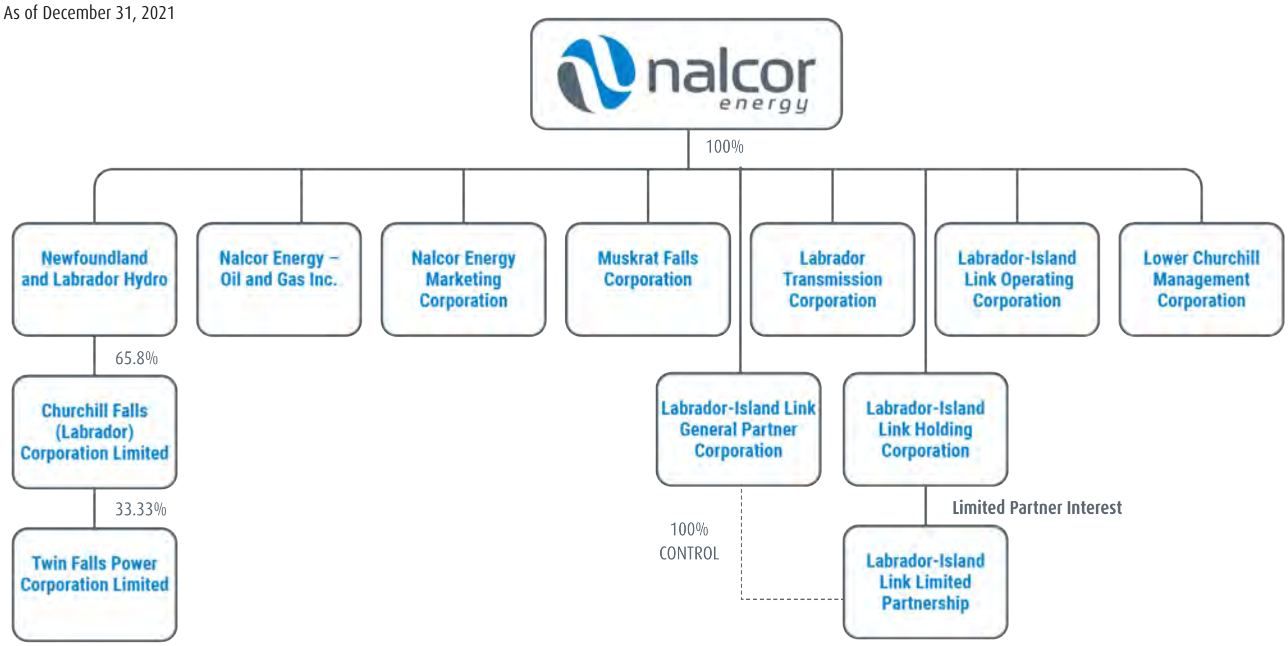
EDNA TURPIN, ICD.D
Corporate Director

*Appointed November 2, 2021
**Appointed June 27, 2021

Note: Gregory Connors, Debbie Molloy and Gerard Dunphy were Directors for part of 2021 but resigned prior to year-end (effective June 27, 2021, June 27, 2021 and November 2, 2021, respectively)

NALCOR'S LEGAL ENTITIES

As of December 31, 2021



AUDIT COMMITTEE

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

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

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

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

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

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

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

CORPORATE GOVERNANCE COMMITTEE

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

a) Provide oversight of 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 Nalcor subsidiary boards in the event of a vacancy;

c) Review and recommend a process for Board assessment, as well as ensure appropriate orientation and education programs are in place for Directors; and

d) Provide oversight of 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.

DIRECTOR INDEPENDENCE POLICY

Nalcor Energy has a Director Independence Policy, consisting of:

1. A majority of the Board of Directors, including the Board Chair shall be independent in accordance with the criteria established by the Corporation (the "Independence Criteria").

2. All of the members of the Audit Committee, Human Resources and Compensation Committee, Corporate Governance Committee, and Safety, Health, Environment and Community Committee shall be independent Directors.

3. Directors have a responsibility to declare to the Corporate Secretary if they do not satisfy the Independence Criteria at any time.

4. In addition to the Independence Criteria, Directors have a responsibility to discuss any potential conflicts that might impact their independence with the Board Chair or the Chair of the Corporate Governance Committee. If based on these discussions, it is determined that the independence of the Director has been impacted, the Board and the Corporate Secretary should be advised.

5. If Directors do not satisfy the Independence Criteria, they should not participate in any discussion or voting relating to matters that contribute to the Independence issue.

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 2021 in connection with audit and audit-related services were $0.9 million (2020 - $0.9 million) and fees related to non-audit services were $0.1 million (2020 - $0.1 million).

ENERGY PORTFOLIO

LEGEND

- ● Hydroelectric Generation Station
- ■ Thermal Plant/Combustion Turbine
- ▲ Diesel Plant
- Wind Generation
- Offshore Oil Projects
- ◆ 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

MANAGEMENT DISCUSSION AND ANALYSIS

CONTENTS

Newfoundland and Labrador Hydro
Hydro Place. 500 Columbus Drive
P.O. Box 12400. St. John's, NL
Canada A1B 4K7

T. 709.737.1440
F. 709.737.1800
E. hydro@nlh.nl.ca
W. nlhydro.com

CORPORATE OVERVIEW

The Newfoundland and Labrador Hydro group of companies (the Company or Hydro) is comprised of Crown corporations established in the Province of Newfoundland and Labrador (the Province).

Hydro's business includes the development, generation, transmission and sale of electricity including energy trading; and the development, production and sale of oil and gas.

Hydro's legal structure as at December 31, 2021 included the entities listed below:

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

On June 23, 2021, the Province announced that Nalcor operations would be moving under Newfoundland and Labrador Hydro. The Company is leading the effort to review the existing corporate and governance structure and contractual arrangements and will consult with the Province on the results of its review, including any policy or legislative inputs recommended. Transition is ongoing and any impact on the Company's operating structure will be reflected as further details of the future structure of the organization are finalized.

Throughout this Management Discussion & Analysis (MD&A), "Company" and "Hydro" refer to the Newfoundland and Labrador Hydro group of companies (formerly Nalcor) and references to "Nalcor" refer the Nalcor legal entity.

The operating structure as at December 31, 2021 is comprised of the following business segments. The designation of segments is based on a combination of regulatory status and management accountability. During Q4 2021, the Muskrat Falls assets were commissioned and therefore Muskrat Falls has been moved from the Power Development operating segment to Power Supply. The following summary provides a brief overview of the nature of the operations included in each of the Company's operating segments.

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

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

Power Development – includes costs associated with ongoing and potential future power development activities, such as costs and assets associated with Gull Island.

Power Supply – is comprised of the following:

- **Muskrat Falls** includes the 824MW hydroelectric generating facility in Labrador on the Lower Churchill River.
- **LCP Transmission** includes the construction and operation of the Labrador-Island Link (LIL) and Labrador Transmission Assets (LTA), which consist of transmission lines connecting the Muskrat Falls Generating Station, the Churchill Falls Generating Station, and certain portions of the transmission system in Labrador to the island of Newfoundland (the Island).
- **Churchill Falls** owns and operates a hydroelectric generating facility which sells electricity to Hydro-Québec and NL Hydro.
- **Energy Trading** includes energy trading and commercial activities related to securing and optimizing markets to extract the greatest value from the Company's existing generation resources through the participation in export electricity markets.
- **Other** includes revenues and expenditures associated with the delivery of the Nova Scotia Block of energy to Emera Inc. (Emera), expenditures associated with the Maritime Link (which is owned by Emera, but consolidated by Nalcor), revenues and costs recovered from Hydro-Québec associated with the operation of the Menihek Generating Station, costs related to Power Supply management, administration and community development, and costs associated with the management of the Lower Churchill Project (LCP) construction.

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

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

This MD&A should be read in conjunction with the annual audited consolidated financial statements (financial statements) of Nalcor for the year ended December 31, 2021, which were approved by the Board of Directors on March 4, 2022. 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).

The following discussion and analysis includes results as of December 31, 2021 with subsequent events and outlook information updated to March 4, 2022. Updated information subsequent to this date can be found in the 2022 Q1 MD&A. The 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 subsequently approved by the Board of Directors on March 4, 2022.

SUMMARY OF FINANCIAL HIGHLIGHTS AND RECENT DEVELOPMENTS

FINANCIAL HIGHLIGHTS

Key Profit Drivers

Key profit drivers vary across each of the Company's operating segments as there are a combination of regulated operations, operations with long-term and medium-term supply contracts and operations in markets where revenues are driven entirely by commodity prices (export electricity and oil). Profitability is also impacted by exchange rate fluctuations, the most significant being the CAD/United States Dollar (USD) exchange rate. Nearly all revenue generated by Oil and Gas and Energy Trading is denominated in USD. Short-term volatility is partially mitigated through USD hedging, when appropriate. In general, any fluctuations in the USD exchange rate have a direct impact on the Company'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 mitigated through regulatory mechanisms and do not impact 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.

The commissioning of the LCP assets is expected to have a material impact on financial results as the assets increase generation and deliver energy and capacity. In addition, the method of implementation of rate mitigation strategies could cause material fluctuations in future financial results.

Oil and Gas and Energy Trading's profitability are impacted by production and export volumes available for sale to external parties. Volatility in volumes available for sale have a direct impact on profit.

The Company 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 financial results for the period, and while no impact on cash flows for the year, 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)	**2021**	2020	**2021**	2020
Revenue	**284**	229	**1,013**	930
Operating profit[1]	**35**	32	**72**	137
Profit (loss)	**35**	30	**72**	(90)
Funds from operations (FFO)[1]	**87**	83	**369**	353
Earnings before interest, taxes, depreciation, depletion, amortization, impairment and accretion (EBITDA)[1]	**132**	110	**401**	457
Return on capital employed (ROCE)[1,2]			**4.3%**	5.2%
Capital expenditures	**187**	313	**732**	855
Oil sales volume (thousands of bbls)	**641**	997	**3,432**	4,611
Realized oil price (CAD/bbl)	**72**	69	**71**	63
Electricity sales (GWh):				
Regulated	**1,927**	1,887	**7,019**	7,173
Export sales – Hydro-Québec[3]	**8,688**	7,303	**30,182**	28,997
Export deliveries – Hydro-Québec[3]	**8,688**	7,902	**30,696**	27,935
Export – other markets	**329**	272	**1,462**	1,280
Realized electricity price – Other Export Markets (CAD/MWh)	**54**	25	**39**	23

[1] See *Non-GAAP Financial Measures*
[2] Rolling 12 month average
[3] Export sales volumes to Hydro-Québec differ from export deliveries as a result of the Renewal Contract that commenced September 1, 2016.

Profit (Loss)

Profit for the three months ended December 31, 2021 was $35 million, an increase of $5 million compared to the same period in 2020. The key drivers of the increase include the impact of energy sales from Muskrat Falls to Hydro Regulated, which have been included by Hydro Regulated in a regulatory deferral; partially offset by a decrease in oil sales volume and the expensing of borrowing costs in Muskrat Falls upon completion of the generating station in Q4 2021.

Profit for the year ended December 31, 2021 was $72 million, compared to a loss of $90 million for the same period in 2020, an increase of $162 million. The key driver of the reduction in loss relates to the impairment of White Rose and Hibernia Southern Extension (HSE) assets taken in 2020 as a result of a significant decrease in oil prices and the COVID-19 pandemic. Also contributing to the reduction in loss is the impact of energy sales from Muskrat Falls to Hydro Regulated, which have been included by Hydro Regulated in a regulatory deferral, higher realized oil and electricity export prices, lower depletion and a settlement with Hydro-Québec in relation to the Declaratory Judgment case. These increases are partially offset by the impact of HSE Redetermination, an increase in borrowing and operating costs primarily associated with the completion of Muskrat Falls and unfavourable foreign exchange.

A detailed discussion of the performance of each operating segment is contained in *Segmented Results and Analysis*.

FFO and EBITDA

FFO for the three months ended December 31, 2021 was $87 million, an increase of $4 million compared to the same period in 2020. FFO for the year ended December 31, 2021 was $369 million, an increase of $16 million compared to the same period in 2020. EBITDA for the three months ended December 31, 2021 was $132 million, an increase of $22 million compared to the same period in 2020. EBITDA for the year ended December 31, 2021 was $401 million, a decrease of $56 million compared to the same period in 2020.

MANAGEMENT DISCUSSION & ANALYSIS

The change in these metrics was primarily driven by the variances explained in the profit (loss) analysis above, with the exception of the impact of HSE Redetermination, depletion and impairment for FFO and depletion and impairment for EBITDA, as these costs are excluded from the calculations.

ROCE

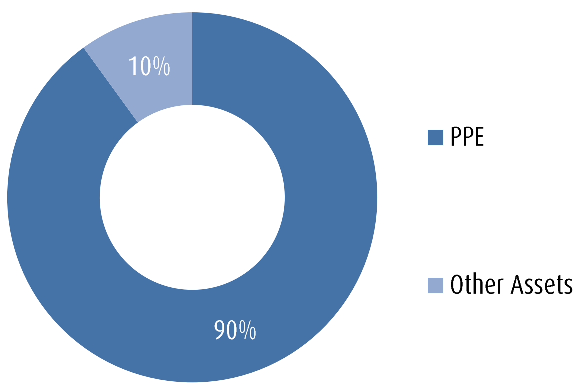
ROCE for the rolling twelve months ended December 31, 2021 was 4.3%, a decrease of 0.9% compared to the same period in 2020. The decrease was a result of lower EBIT, primarily due to the impacts of HSE Redetermination.

Capital Expenditures

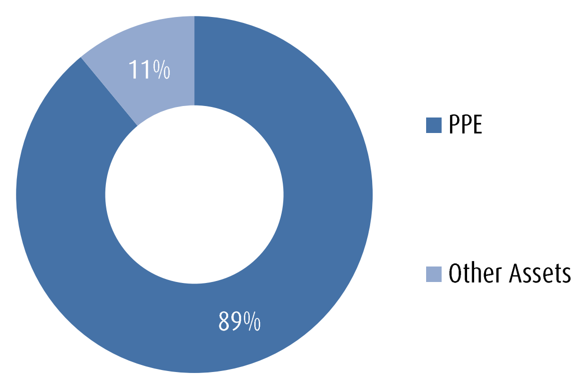
Capital expenditures for the three months ended December 31, 2021 were $187 million, a decrease of $126 million compared to the same period in 2020. Capital expenditures for the year ended December 31, 2021 were $732 million, a decrease of $123 million compared to the same period in 2020. The decrease for the quarter and year was primarily due to the wind down of construction of the Muskrat Falls assets as they near completion. A detailed discussion of the segmented capital expenditures is provided in *Liquidity and Capital Resources*.

Total Assets

December 31, 2021 - $19.8 billion



December 31, 2020 - $19.3 billion



Total assets of $19.8 billion as at December 31, 2021 were comparable to $19.3 billion as at December 31, 2020. The majority of the Company's assets as at December 31, 2021 are comprised of property, plant and equipment of $17.7 billion (December 31, 2020 - $17.2 billion). Other assets as at December 31, 2021 total $2.1 billion (December 31, 2020 - $2.1 billion) and primarily include cash and restricted cash, investments and working capital balances. Further details on changes in the Consolidated Statement of Financial Position are included in *Consolidated Financial Results*.

Total Liabilities and Equity

Total liabilities and equity of $13.2 billion and $6.5 billion, respectively, as at December 31, 2021 were comparable to $13.1 billion and $6.2 billion as at December 31, 2020. Further details on changes in the Consolidated Statement of Financial Position are included in *Consolidated Financial Results*.

Debt to Capital

Debt to capital of 62% as at December 31, 2021 was comparable to 63% as at December 31, 2020. See *Liquidity and Capital Resources* for further details.

RECENT DEVELOPMENTS

On June 23, 2021, the Province announced that Nalcor operations would be moving under NL Hydro. The Company is leading the effort to review the existing corporate and governance structure and contractual arrangements and will consult with the Province on the results of its review, including any policy or legislative inputs recommended. In support of the Province's directive, along with Hydro's commitment to reduce duplication and find cost savings; on November 2, 2021 the Company announced streamlining of the Executive structure, including a reduction of the Executive team from 18 members to 11. Further analysis in support of these commitments will continue into 2022. Management will continue to communicate the implications for our business, including results of operations and financial position, moving forward.

COVID-19

Since the first quarter of 2020, the COVID-19 global pandemic resulted in the Province implementing a wide variety of measures to reduce the spread of the virus, including travel restrictions, business closures, stay-at-home orders, social distancing and event cancellations. The effect of these measures and similar measures worldwide has resulted in a significant slow-down in global economic activity and has impacted the Company's environment, operations and financial results.

In the first quarter of 2021, the Province once again implemented strict measures and restrictions to reduce the spread of the virus after experiencing a significant increase in cases of COVID-19. As a result, sites, facilities and control rooms were restricted to priority work that could be safely executed while maintaining the requirements of the Company's Corporate Emergency Program and Public Health guidance. The Alert Level of the Province was reduced in March 2021, enabling operations to transition back to control measures aligning with the Company's pandemic response and recovery plan throughout Q2 2021. In June 2021, the Province announced a phased approach to easing certain restrictions and throughout Q3 and Q4, the Company had been increasing occupancy at its facilities and resuming non-priority work. In early 2022, the Province saw increasing numbers of COVID-19 cases as a result of the Omicron variant. This did not require any major shift in work practices or protocols for our work environments. The Company continues to ensure its pandemic response and recovery plan is aligned with Public Health directives and will continue to monitor the COVID-19 situation in close consultation with the Province.

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

HYDRO REGULATED

Future General Rate Application (GRA) and the Recovery of LCP Costs

In Order No. P.U. 15 (2020), the PUB approved a delay in filing Hydro Regulated's next GRA as information regarding the Province's rate mitigation plan is required in order to prepare a GRA filing that would reasonably reflect the forecast costs expected to result from full commissioning of the LCP. On July 28, 2021, certain details regarding the Province's rate mitigation plan were announced, as described later in this section. Hydro Regulated will continue to provide quarterly updates to the PUB on the timing of its next GRA and will confirm a more definitive timeline when further details around rate mitigation agreements become available.

On July 29, 2021, Hydro Regulated filed an application for approval of deferral account proposals to address material changes in system costs associated with the integration of the LCP assets to the provincial electricity system and defer net costs and revenues associated with the LCP until rate mitigation is implemented. The deferral proposals mitigate the impacts of the LCP on Hydro Regulated's earnings until the conclusion of its next GRA as well as include rate mitigation funding to offset the deferred amounts. In Order No. P.U. 33(2021), the PUB approved Hydro Regulated's deferral proposals with recovery from customers to be addressed through a separate application at the conclusion of the next GRA. Hydro Regulated commenced payments under the Muskrat Falls Power Purchase Agreement (PPA) upon commissioning of the Muskrat Falls Generating Station in November 2021.

Capital Budgets and Supplemental Capital

On January 15, 2021, the PUB issued Order No. P.U. 2 (2021) approving $104.0 million of Hydro Regulated's $107.5 million 2021 capital budget application. The PUB requested additional information on two remaining projects, both of which were approved on March 29, 2021, in Order No. P.U. 11 (2021). Applications have been filed and approved for additional supplemental capital totaling a net of $2.1 million which results in a total spend in 2021 of $109.6 million.

On July 16, 2021, Hydro Regulated filed a supplemental capital application to the PUB for the construction of its long-term supply plan for Southern Labrador - Phase 1 for a total of $49.9 million, to be completed from 2021 to 2024. The process which was paused to allow further stakeholder consultation and engagement was completed in early 2022.

On August 2, 2021, Hydro Regulated filed its 2022 Capital Budget Application, seeking approval for $84.7 million in capital expenditures for 2022 and in Order No. P.U. 37 (2021), the PUB approved $84.2 million of the $84.7 million. The PUB decision on one project was deferred until a decision is made on Hydro Regulated's supplement capital application to implement a long-term supply plan for Southern Labrador. Hydro Regulated's total anticipated 2022 capital spend is forecasted to be a net of $101.2 million, inclusive of the proposed southern Labrador interconnection mentioned above, of which $15.8 million relates to 2022, along with other supplemental capital expenditures.

Debt Issuance

In April 2021, the Province issued debt with a face value of $300 million on Hydro Regulated's behalf.

July 1, 2021 Rates Changes

Customer rates for Newfoundland Power and Hydro Regulated's rural customers, with the exception of the Labrador interconnected system, are normally revised annually on July 1, in accordance with the operation of the Rate Stabilization Plan (RSP). In Q2 2021, Hydro Regulated filed an application to revise utility rates as of July 1, 2021, reflecting increases to the Utility RSP Current Plan and CDM Cost Recovery Adjustment, which was approved as per Order No. P.U. 22 (2021). Hydro Regulated subsequently filed an application for approval of an approximate 2.4% increase in rates to be charged to its Island Interconnected, L'Anse au Loup and Isolated Rural customers, which was approved by the PUB as per Order No. P.U. 24 (2021).

Applications for IFRS Deviations

On February 24, 2021, Hydro Regulated filed an application which requested approval to deviate from IFRS to recognize expenses related to the purchase of commissioning period energy in accordance with the commercial terms of the Muskrat Falls PPA and to permit the deferral and recovery of capital-related overhead costs, consistent with Canadian public utility practice. In Order No. P.U. 9 (2021), the proposal to deviate from IFRS related to the purchase of commissioning period energy was approved. On May 20, 2021, in Order No. P.U. 16 (2021), a deferral of capital related overhead was approved in principle with the details surrounding the proportion of overhead costs to be capitalized to be considered as part of the GRA.

The application filed on July 29, 2021, as described under Future General Rate Application and the Recovery of LCP Costs, which addresses material changes in system costs associated with the integration of the LCP assets to the provincial electricity system, also requested approval to deviate from IFRS to recognize the purchase of post-commissioning energy in accordance with the commercial terms of the LCP agreements and was approved as per Order No. P.U. 33(2021).

Other Applications

On March 31, 2021, Hydro Regulated filed an application for the recovery of the net balance of $54.9 million of the Supply Cost Deferral Accounts related to 2020, and on May 12, 2021, the PUB issued Order No. P.U. 15 (2021) approving Hydro Regulated's application to recover this cost through its July 1, 2021, RSP rate update. The Supply Cost Deferral Accounts include the Isolated Systems Supply Cost Variance Deferral Account, the Revised Energy Supply Cost Variance Deferral Account, and the Holyrood Conversion Rate Deferral Account. The primary reason for the large balance due from customers related to lower than anticipated off-island purchases in 2020.

Hydro Regulated's application for approval of its Network Additions Policy to establish a cost recovery approach for transmission upgrades on the Labrador Interconnected System was approved by the PUB on March 17, 2021, in Order No. P.U. 7 (2021). Hydro Regulated proposed the policy to address the minimal transmission capacity available in Labrador East and West, and the requirement for transmission upgrades as a result of load growth. The policy was effective April 1, 2021, and Hydro Regulated is advancing its implementation plan in order to establish a cost recovery approach for anticipated transmission system upgrades on the Labrador interconnected system.

Resource Adequacy

The Reliability and Resource Adequacy (RRA) Study addresses Hydro Regulated's long-term approach to providing least cost, reliable service. On September 30, 2020, Hydro Regulated filed a report providing a preliminary assessment of the potential to modify the HTGS to become a suitable long-term back-up generating facility, if required, and is proceeding with a study to assess the feasibility. This work is expected to be completed in Q1 2022. In the latter part of March 2021, in Order No. P.U. 8 (2021), the PUB approved an amendment to the existing RRA Deferral Account to allow for the deferral of external costs for professional services related to assessment of the long-term potential of the HTGS.

In March 2021, Hydro Regulated filed an assessment with the PUB regarding the reliability of the LIL, which was completed by an external consultant. Additional work relevant to this assessment was completed with a report filed with the PUB on December 22, 2021. The PUB review process remains ongoing, and will continue throughout 2022.

In February 2022, Hydro Regulated advised the PUB of its decision to extend the operation of the HTGS by an additional year, to March 31, 2024. This will allow the Holyrood TGS to serve as a backup facility during the winters of 2022 – 2023 and 2023 – 2024, providing a two-year period of standby operation during the early operation of the Muskrat Falls Project assets.

Electrification

Throughout 2021, Hydro Regulated undertook several initiatives towards electrification in the province. Electrification generally refers to the conversion of fossil fuel powered processes to electricity. Advances in electrification have the potential to increase utility revenues thereby lowering customer rates, while offering cost savings for participating customers. As such, electrification contributes to Hydro Regulated's statutory obligation to provide electrical service at the lowest possible cost consistent with reliable service.

On July 8, 2021, Hydro Regulated filed an application with the PUB relating to the provision of Electrification and Conservation and Demand Management programming in the province. This process is ongoing, with a technical conference held in Q1 2022.

In August 2021, Hydro Regulated completed the provinces first electric vehicle (EV) fast charging network, which includes 14 direct current fast charging (DCFC) stations, located generally along the Trans-Canada Highway on the island portion of the province, constructed in partnership with the Province and the Government of Canada. EV charging infrastructure is key to the electrification of the provinces' light duty vehicles. As a part of Hydro Regulated's ongoing Electrification and Conservation and Demand Management application, the PUB issued Order No. P.U. 30(2021) on September 29, 2021, which approved the construction of an additional nine DCFC stations by Hydro Regulated in the province, including the recovery of these costs from ratepayers. These nine DCFC stations are scheduled to be constructed in 2022.

Hydro Regulated, in partnership with the Province, launched the oil to electric heat and EV rebate programs, on August 30, 2021 and September 1, 2021, respectively. Both programs provide $2,500 towards either the conversion of residential oil to electric heat or the purchase or lease of a new or used EV in the province. Both programs have a planned conclusion date of March 15, 2022.

MUSKRAT FALLS/LCP TRANSMISSION

Completion, commissioning and operating activities are ongoing at both the Soldiers Pond and Muskrat Falls sites in accordance with the LCP health and safety guidelines and COVID-19 protocols.

Construction on the Muskrat Falls Generating Station continued throughout 2021. Unit 2 was successfully synchronized to the Labrador electricity grid on May 15, 2021 and, on June 12, 2021, it was deemed ready for commercial operation. On July 16, 2021, Muskrat Falls Unit 3 was synchronized to the grid and on August 14, 2021 it was deemed ready for commercial operation. The fourth unit was successfully synchronized to the grid on November 4, 2021 and on November 22, 2021 was deemed ready for commercial operation. As such, the Muskrat Falls facility is now considered commissioned as per the commercial and financial agreements. Energy flow from Muskrat Falls over the LIL has contributed to the energy supply for the Island, delivery of the Nova Scotia Block and export sales in Atlantic Canada and the northeastern United States.

The LIL was released for limited operation on December 17, 2021 and has been operating since then at power levels up to 421 MW, however, due to further delays by GE, completion of the LIL and the overall LCP has not yet been achieved. Management is continuing to work with GE towards commissioning by May 31, 2022; however, management has reviewed GE's past performance and historical trends and determined it would be reasonable to assess overall project completion later in 2022. Management is currently reviewing the forecast total cost of the project.

Rate Mitigation and Financial Restructuring of the LCP

On July 28, 2021, the Government of Canada together with the Province announced an agreement in principle with respect to rate mitigation worth approximately $5.2 billion that provides for $2 billion in federal financing, including a $1 billion investment in the LIL and a third federal loan guarantee of $1 billion for capital restructuring in relation to the Muskrat Falls and LTA. In addition, the Prime Minister also announced the Government of Canada is prepared to make annual transfers to the Province equivalent to Canada's yearly net revenue from the Hibernia offshore oil project Net Profit Interest (NPI) and Incidental Net Profit Interest (INPI), which current estimates indicate will total $3.2 billion between now and the end of the Hibernia project's life.

On February 14, 2022, as part of the Province's Rate Mitigation Plan, Hydro, the Province and the Government of Canada signed term sheets for a $1 billion federal loan guarantee and capital restructuring of Muskrat Falls and Labrador Transco, and for a $1 billion investment by the Government of Canada in the LIL. Hydro initiated a Request for Financing to obtain the best financing solution to optimize the value of the $1 billion federal loan guarantee on February 16, 2022. The arrangements will provide rate relief to island customers, keep financing costs low and maintain ownership in the Muskrat Falls and LTA as well as control of the LIL, all of which generate long term benefits.

CHURCHILL FALLS

In August 2021, Churchill Falls and Hydro-Québec reached a Settlement Agreement regarding the Declaratory Judgment case surrounding the interpretation of the Renewed Power Contract, which came into effect September 1, 2016, and alignment on a final Annual Energy Base (AEB). The final AEB value establishes Hydro-Québec's annual energy entitlement for the term of the contract. In addition, a new short-term energy sales agreement was reached for the sale of excess energy from Churchill Falls to Hydro-Québec, which matured August 31, 2021.

In December 2021, Churchill Falls entered into an agreement for the sale of excess energy to Hydro-Québec. The Agreement has a term of 5 years.

In 2021, Churchill Falls renegotiated union agreements with IBEW Local 2351. The two collective agreements covering Operations Unit and Office and Support Workers, respectively, were signed in November 2021 and cover a two-year term, effective from January 1, 2021 to December 31, 2022.

In January 2022, Churchill Falls purchased Wabush Resources Inc. 12.5% interest and Wabush Iron Co. Limited's 4.6% interest in Twin Falls Labrador Corporation Limited, bringing Churchill Falls' total ownership in Twin Falls to 50.4%.

ENERGY TRADING

Electricity prices in 2021 improved significantly compared to 2020. The elevation in prices was largely due to an increase in natural gas prices, which are highly correlated with electricity prices, as a result of a lower supply of natural gas in the United States, and higher global Liquefied Natural Gas (LNG) prices. These trends, coupled with several extreme weather events throughout the year, including a deep freeze that impacted a large portion of the southern United States, a heat wave in June and the impacts of Hurricane Ida, along with easing of COVID-19 restrictions in the United States, have led to electricity prices exceeding historical averages within Energy Trading's principal markets of New England and New York.

In Q2 2021, Energy Trading delivered Muskrat Falls commissioning period energy to Corner Brook Pulp and Paper Limited (CBP&PL) in order to support its operations and enable Grand Lake reservoir storage levels to recover. A total of 52 GWh was delivered in the second quarter, which will subsequently be returned within a three year period to Energy Trading. During October, the agreement with CBP&PL was amended to allow additional energy to be provided, however, to date no additional energy has been delivered. In January 2022, CBP&PL began returning energy to the Company.

On October 20, 2021, Energy Trading entered into a firm energy sale contract with a US counterparty for the delivery of up to 219 GWh of energy over a 12-month period commencing November 1, 2021.

OTHER - POWER SUPPLY

In March 2021, the Company entered into an agreement to perform front end engineering and design work for Tata Steel Minerals Canada Ltd. ("Tata Mines") on a cost recovery basis. The agreement considers the potential provision of transmission and energy from the Menihek Generating Station to Tata Mines.

In August 2021, the Company agreed with Emera to commence delivery of the Nova Scotia Block with commissioning of Muskrat Falls Unit 3, subject to the availability of LIL during commissioning activities. As part of this, a number of commercial matters under the agreements between the Company and Emera have also been addressed.

OIL AND GAS

On March 1, 2021, First Redetermination under the HSE Operating Agreement became effective, resulting in a reduction in Oil and Gas' working interest in the HSE field from 10% to 8.7%. The decrease in working interest, including the impact of an amount owing related to historical barrels of oil received in excess of the working interest, which will be settled by a reduction in Oil and Gas' share of future production over approximately two years which commenced May 1, 2021, will have an impact on the profit of Oil and Gas, most significantly in the first quarter of 2021.

On September 8, 2021 Cenovus announced an Atlantic assets restructuring plan to restructure its working interests in the Terra Nova and White Rose project and if a decision is taken to restart West White Rose Cenovus will reduce its working interest in the White Rose project. Cenovus and its partners continue to evaluate options on the West White Rose Project with a decision expected in mid-2022.

After a significant decline in prices in Q1 2020, oil prices have risen in 2021, driven by production cuts and rising oil demand.

CONSOLIDATED FINANCIAL RESULTS

CONSOLIDATED STATEMENT OF PROFIT (LOSS) HIGHLIGHTS

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2021**	2020	Variance	**2021**	2020	Variance
Revenue	**284**	229	55	**1,013**	930	83
Fuels	**39**	36	3	**122**	158	(36)
Power purchased	**22**	21	1	**80**	91	(11)
Operating costs	**69**	51	18	**230**	211	19
Production, marketing and transportation costs	**6**	9	(3)	**31**	39	(8)
Transmission rental	**6**	6	-	**24**	26	(2)
Depreciation, depletion, amortization and impairment	**55**	51	4	**202**	437	(235)
Net finance expense	**42**	28	14	**127**	109	18
Other expense (income)	**17**	(2)	19	**157**	(37)	194
Share of loss of joint arrangement	**1**	-	1	**1**	-	1
Profit (loss) for the period before regulatory adjustments	**27**	29	(2)	**39**	(104)	143
Regulatory adjustments	**(8)**	(1)	(7)	**(33)**	(14)	(19)
Profit (loss) for the period	**35**	30	5	**72**	(90)	162

Non-GAAP Operating Profit Disclosure

Reconciliation of the Company's profit (loss) to operating profit for the three months and year ended December 31, 2021 and 2020 is as follows:

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2021**	2020	Variance	**2021**	2020	Variance
Profit (loss) for the period	**35**	30	5	**72**	(90)	162
Impairment of property, plant and equipment	**-**	2	(2)	**-**	227	(227)
Operating profit for the period	**35**	32	3	**72**	137	(65)

Revenue

Revenue for the three months ended December 31, 2021 was $284 million, an increase of $55 million compared to the same period in 2020. Revenue for the year ended December 31, 2021 was $1,013 million, an increase of $83 million compared to the same period in 2020. The increase for the quarter was primarily due to a higher average Dated Brent price per barrel of oil and higher average export electricity prices, favourable adjustments from regulatory mechanisms, and an increase in energy sales to regulated utility customers; partially offset by lower oil sales volume. The increase for the year was primarily due to a higher average Dated Brent and export electricity prices, a settlement with Hydro Québec in Churchill Falls in relation to the Declaratory Judgement case and commencement of the delivery of the Nova Scotia Block to Emera. These increases were partially offset by decreases in oil sales volume and regulated utility customer energy sales, unfavourable foreign exchange, and higher oil royalties. Although regulatory mechanisms impact revenue, they are offset in the regulatory adjustments line.

Fuels

Fuel costs for the three months ended December 31, 2021 were $39 million, an increase of $3 million compared to the same period in 2020. Fuel costs for the year ended December 31, 2021 were $122 million, a decrease of $36 million compared to the same period in 2020. The increase for the quarter was primarily due to increased price for No. 6 and diesel fuels and increased volume of gas turbine fuel; partially offset by lower volume of No. 6 fuel used at the HTGS. The decrease for the year was primarily due to lower price and volume of No. 6 fuel used at the HTGS; partially offset by higher volumes of gas turbine fuel. Certain variances in fuel are offset through regulatory mechanisms in the regulatory adjustments line.

Power purchased

Power purchased for the three months ended December 31, 2021 was comparable to the same period in 2020. Power purchased for the year ended December 31, 2021 was $80 million, a decrease of $11 million compared to the same period in 2020. The decrease for the year was primarily due to lower off-island power purchases over the Maritime Link. Certain variances in power purchased are offset through regulatory mechanisms in the regulatory adjustments line.

Operating costs

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2021**	2020	Variance	**2021**	2020	Variance
Salaries and benefits	**34**	33	1	**140**	142	(2)
Maintenance and materials	**18**	8	10	**47**	31	16
Professional services	**8**	6	2	**23**	19	4
Insurance	**2**	2	-	**8**	7	1
Travel and transportation	**2**	1	1	**7**	5	2
Other operating costs	**5**	1	4	**5**	7	(2)
	69	51	18	**230**	211	19

Operating costs for the three months ended December 31, 2021 were $69 million, an increase of $18 million compared to the same period in 2020. Operating costs for the year ended December 31, 2021 were $230 million, an increase of $19 million compared to the same period in 2020. The increase for the quarter and year was primarily due to an increase in operating costs associated with completion of the Muskrat Falls Generating Station in 2021 and an increase in non-cash operating costs associated with the Maritime Link.

Production, marketing and transportation costs

Production, marketing and transportation costs for the three months ended December 31, 2021 were comparable to the same period in 2020. Production, marketing and transportation costs for the year ended December 31, 2021 were $31 million, a decrease of $8 million compared to the same period in 2020. The decrease for the year is a result of lower HSE project operating costs and processing fees as a result of First Redetermination.

Transmission rental

Transmission rental for the three months and year ended December 31, 2021 was comparable to the same periods in 2020.

Depreciation, depletion, amortization and impairment

Depreciation, depletion, amortization and impairment for the three months ended December 31, 2021 was comparable to the same period in 2020. Depreciation, depletion, amortization and impairment for the year ended December 31, 2021 was $202 million, a decrease of $235 million compared to the same period in 2020. The decrease for the year was primarily related to the impairment of White Rose and HSE assets in 2020 as a result of a significant decrease in crude oil prices and the COVID-19 pandemic, along with a decrease in depletion for White Rose and HSE in 2021 resulting from lower production and a reduction in asset base. These decreases have been partially offset by the commencement of depreciation of the Maritime Link in Q3 2021.

Net finance expense

Net finance expense for the three months ended December 31, 2021 was $42 million, an increase of $14 million compared to the same period in 2020. Net finance expense for the year ended December 31, 2021 was $127 million, an increase of $18 million compared to the same period in 2020. The increase for the quarter and year was due to the expensing of borrowing costs in Muskrat Falls which started with the completion of Muskrat Falls in Q4 2021.

Other expense (income)

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2021**	2020	Variance	**2021**	2020	Variance
HSE Redetermination re-balancing adjustment	**(5)**	-	(5)	**89**	-	89
HSE Redetermination royalty adjustment	**-**	-	-	**31**	-	31
Settlement of commodity price swap contracts	**17**	(9)	26	**59**	(49)	108
Loss (gain) on disposal of property, plant and equipment	**6**	3	3	**(24)**	3	(27)
Other	**(1)**	4	(5)	**2**	9	(7)
	17	(2)	19	**157**	(37)	194

Other expense for the three months ended December 31, 2021 was $17 million compared to income of $2 million for the same period in 2020, an increase of $19 million. Other expense for the year ended December 31, 2021 was $157 million compared to income of $37 million for the same period in 2020, an increase of $194 million. The increase in expense for the quarter was primarily due to an unfavourable variance in the settlement of commodity price swap contracts. The increase in expense for the year was primarily due to the net impact of HSE Redetermination and an unfavourable variance in the settlement of commodity price swap contracts.

Regulatory adjustments

Regulatory recoveries for the three months ended December 31, 2021 were $8 million, an increase of $7 million compared to the same period in 2020. Regulatory recoveries for the year ended December 31, 2021 were $33 million, an increase of $19 million compared to the same period in 2020. The increase for the quarter and year was primarily due to variations in supply cost mechanisms. The variance for the quarter is also partially offset by amortization of the RSP.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION HIGHLIGHTS

Significant changes in the Consolidated Statement of Financial Position between December 31, 2021 and 2020 include:

ASSETS *(millions of Canadian dollars)*	Increase (Decrease)	**Explanation**
Cash and cash equivalents	78	Increase was primarily a result of cash from operations and equity contributions from the Province partially offset by additions to Property, Plant and Equipment. See Liquidity and Capital Resources for additional details on movements in cash during the year.
Restricted cash	(47)	Decrease was primarily due to the draw-down of restricted cash to fund interest and construction costs of the LCP.
Short-term investments	(97)	Decrease was primarily due to a maturity of an investment in Q4 2021 which was not reinvested.
Property, plant and equipment	511	Increase driven by capital expenditures primarily related to the construction of the LCP; partially offset by depreciation and depletion.
LIABILITIES AND EQUITY		
Short-term borrowings	(207)	Decrease related to a reduction in promissory notes in Hydro Regulated, primarily as a result of the issuance of long-term debt, described below.
Other current liabilities	55	Increase related to the reclassification of the current portion of the liability associated with HSE Redetermination, described below.
Long-term debt	215	Increase due to the issuance of long-term debt in Hydro Regulated, partially offset by the required repayment of debt in Muskrat Falls and LCP Transmission.
Class B limited partnership units	53	Increase driven by accrued interest on partnership units.
Other long-term liabilities	41	Increase related to the liability associated with HSE Redetermination required repayment of historical barrels of Brent Crude received over and above the revised ownership interest.
Shareholder contributions	250	Increase was a result of equity injections from the Province to fund the LCP.
Retained earnings	72	Increase was due to the profit recorded for the year ended December 31, 2021. Refer to the discussion of drivers of this profit above.

SEGMENTED RESULTS AND ANALYSIS

The following presents an overview of the Company's profit (loss) for the three months and year ended December 31, 2021, by business segment, in comparison to the three months and year ended December 31, 2020. This discussion should be read in conjunction with Note 33 of the financial statements:

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2021**	2020	Variance	**2021**	2020	Variance
Hydro Regulated	**(4)**	6	(10)	**36**	36	-
Hydro Non-Regulated	**1**	2	(1)	**3**	6	(3)
NL Hydro	**(3)**	8	(11)	**39**	42	(3)
Other-Power Development	-	-	-	-	-	-
Power Development	-	-	-	-	-	-
Muskrat Falls	**(1)**	(5)	4	**(107)**	(6)	(101)
LCP Transmission	**19**	(3)	22	**102**	(25)	127
Churchill Falls	**11**	10	1	**52**	33	19
Energy Trading	**12**	(2)	14	**26**	(5)	31
Other-Power Supply	**(10)**	-	(10)	**(14)**	1	(15)
Power Supply	**31**	-	31	**59**	(2)	61
Oil and Gas	**13**	30	(17)	**(9)**	(112)	103
Corporate	**(4)**	(5)	1	**(10)**	(14)	4
Inter-segment	**(2)**	(3)	1	**(7)**	(4)	(3)
Profit (loss) for the period	**35**	30	5	**72**	(90)	162

NL HYDRO

HYDRO REGULATED

The operations of Hydro Regulated are influenced by many external factors including regulation, performance of the domestic economy, weather patterns and fuel costs. The demand for electricity is met through a combination of hydroelectric generation, thermal generation and power purchases, including wind generation and off-island purchases. Hydro Regulated uses regulatory mechanisms, 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 and variations in certain supply costs, including power purchase costs from Muskrat Falls and LCP Transmission, with future recovery subject to applications to and approval by the PUB. Adjustments related to these regulatory mechanisms 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)	**2021**	2020	Variance	**2021**	2020	Variance
Revenue	**171**	133	38	**554**	563	(9)
Fuels	**39**	36	3	**122**	158	(36)
Power purchased	**67**	17	50	**123**	75	48
Operating costs	**30**	30	-	**129**	135	(6)
Transmission rental	**-**	-	-	**-**	1	(1)
Depreciation and amortization	**24**	20	4	**84**	79	5
Net finance expense	**23**	23	-	**91**	90	1
Other expense	**-**	2	(2)	**2**	4	(2)
(Loss) profit for the period before regulatory adjustments	**(12)**	5	(17)	**3**	21	(18)
Regulatory adjustments	**(8)**	(1)	(7)	**(33)**	(15)	(18)
(Loss) profit for the period	**(4)**	6	(10)	**36**	36	-

Revenue

Revenue for the three months ended December 31, 2021 was $171 million, an increase of $38 million compared to the same period in 2020. Revenue for the year ended December 31, 2021 was $554 million, a decrease of $9 million compared to the same period in 2020. The increase for the quarter was primarily due to higher utility customer energy sales and favourable adjustments from regulatory mechanisms. The decrease for the year was primarily due to lower utility and industrial customer energy sales; partially offset by revenue associated with transmission tariffs and the sale of greenhouse gas credits. Regulatory mechanisms impacting revenue are offset in the regulatory adjustments line.

	Three months ended		Twelve months ended	
For the periods ended December 31 (GWh)	**2021**	2020	**2021**	2020
Customer:				
Newfoundland Power	**1,509**	1,448	**5,433**	5,529
Rural	**316**	313	**1,117**	1,126
Industrial	**102**	126	**469**	518
	1,927	1,887	**7,019**	7,173
Generation:				
Hydraulic generation[1]	**1,219**	1,194	**4,495**	4,508
Holyrood generation	**181**	278	**711**	989
Standby generation[2]	**15**	(2)	**17**	(3)
Thermal diesel generation	**11**	12	**45**	46
Purchases:				
Domestic[3]	**472**	474	**1,735**	1,761
Off-Island[4]	**120**	12	**346**	209
Gross generation	**2,018**	1,968	**7,349**	7,510
Losses	**91**	81	**330**	337
Net generation	**1,927**	1,887	**7,019**	7,173

[1] Includes Hydro owned generation only.

[2] Includes Gas Turbine and Diesel generation.

[3] Domestic purchases include Recapture 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 external market purchases imported over the Maritime Link for use on the Island Interconnected System.

Fuels

Fuel costs for the three months ended December 31, 2021 were $39 million, an increase of $3 million compared to the same period in 2020. Fuel costs for the year ended December 31, 2021 were $122 million, a decrease of $36 million compared to the same period in 2020. The increase for the quarter was primarily due to increased price for No. 6 and diesel fuels and increased volume of gas turbine fuel partially offset by lower volume of No. 6 fuel used at the HTGS. The decrease for the year was primarily due to lower price and volume of No. 6 fuel used at the HTGS, partially offset by higher volumes of gas turbine fuel. Certain variances in fuel are offset through regulatory mechanisms in the regulatory adjustments line.

	Three months ended		Twelve months ended	
For the periods ended December 31	**2021**	2020	**2021**	2020
No. 6 fuel consumption: Millions of barrels	**0.3**	0.5	**1.3**	1.7
Average price (CAD/bbl)	**$86.96**	$67.91	**$78.70**	$84.19
Gas Turbine fuel consumption: Millions of liters	**7.0**	0.6	**11.5**	3.0
Average price (CAD/liter)	**$0.81**	$0.80	**$0.79**	$0.84
Diesel fuel consumption: Millions of liters	**3.6**	3.8	**13.8**	14.4
Average price (CAD/liter)	**$1.07**	$0.78	**$0.95**	$0.87

Fuel costs are summarized below:

	Three months ended		Twelve months ended	
For the periods ended December 31 (millions of Canadian dollars)	**2021**	2020	**2021**	2020
No. 6 fuel and other	**29**	33	**100**	143
Gas Turbine fuel	**6**	-	**9**	2
Diesel fuel	**4**	3	**13**	13
	39	36	**122**	158

Power purchased

Power purchased for the three months ended December 31, 2021 was $67 million, an increase of $50 million compared to the same period in 2020. Power purchased for the year ended December 31, 2021 was $123 million, an increase of $48 million compared to the same period in 2020. The increase for the quarter and year was primarily due to the recording of expense related to power purchases from Muskrat Falls, partially offset by lower off-island power purchases over the Maritime Link. Certain variances in power purchased are offset through regulatory mechanisms in the regulatory adjustments line.

Operating costs

Operating costs for the three months ended December 31, 2021 were comparable to the same period in 2020. Operating costs for the year ended December 31, 2021 were $129 million, a decrease of $6 million compared to the same period in 2020. The decrease for the year was primarily due to lower salary related costs and a reduction in bad debt expense.

Transmission rental

Transmission rental for the three months and year ended December 31, 2021 was comparable to the same periods in 2020.

Depreciation and amortization

Depreciation and amortization for the three months ended December 31, 2021 was $24 million, an increase of $4 million compared to the same period in 2020. Depreciation and amortization for the year ended December 31, 2021 was $84 million, an increase of $5 million compared to the same period in 2020. The increase for the quarter and year was primarily due to asset additions at the HTGS as well as an overall increase in asset base year over year.

Net finance expense

Net finance expense for the three months and year ended December 31, 2021 was comparable to the same periods in 2020.

Other expense

Other expense for the three months and year ended December 31, 2021 was comparable to the same periods in 2020.

Regulatory adjustments
Regulatory recoveries for the three months ended December 31, 2021 were $8 million, an increase of $7 million compared to the same period in 2020. Regulatory recoveries for the year ended December 31, 2021 were $33 million, an increase of $18 million compared to the same period in 2020. The increase for the quarter and year was primarily due to variations in supply cost mechanisms. The variance for the quarter is also partially offset by amortization of the RSP.

HYDRO NON-REGULATED

Hydro Non-Regulated activities include the sale of power to mining operations in Labrador West as well as costs related to operations that NL 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)	**2021**	2020	Variance	**2021**	2020	Variance
Revenue	**12**	13	(1)	**47**	50	(3)
Power purchased	**12**	11	1	**43**	43	-
Operating costs	-	-	-	**1**	1	-
Other income	**(1)**	-	(1)	-	-	-
Profit for the period	**1**	2	(1)	**3**	6	(3)

Revenue
Revenue for the three months ended December 31, 2021 was comparable to the same period in 2020. Revenue for the year ended December 31, 2021 was $47 million, a decrease of $3 million compared to the same period in 2020. The decrease for the year was primarily due to lower energy sales to industrial customers in Labrador West.

Power purchased
Power purchased for the three months and year ended December 31, 2021 was comparable to the same period in 2020.

Operating costs
Operating costs for the three months and year ended December 31, 2021 were comparable to the same period in 2020.

Other income
Other income for the three months and year ended December 31, 2021 was comparable to the same period in 2020.

POWER DEVELOPMENT

OTHER – POWER DEVELOPMENT

Other – Power Development includes costs associated with potential future power development activities, such as costs and assets associated with Gull Island. Other – Power Development assets total $140 million as at December 31, 2021 (December 31, 2020 - $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, the Impacts and Benefits Agreement, engineering, commercial, and other related activities.

Financial Highlights
There was no profit or loss recorded in the results of Other – Power Development for the three months and year ended December 31, 2021 and 2020.

POWER SUPPLY

MUSKRAT FALLS

Muskrat Falls includes the operating activities of the 824 MW hydroelectric generating facility in Labrador on the Lower Churchill River. The Muskrat Falls Generating Station was completed in Q4 2021.

Financial Highlights

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2021**	2020	Variance	**2021**	2020	Variance
Revenue	**48**	-	48	**59**	-	59
Operating costs	**7**	1	6	**13**	2	11
Transmission rental	**27**	4	23	**135**	4	131
Net finance expense	**14**	-	14	**14**	-	14
Other expense	**1**	-	1	**4**	-	4
Loss for the period	**(1)**	(5)	4	**(107)**	(6)	(101)

Revenue
Revenue for the three months ended December 31, 2021 was $48 million, an increase of $48 million compared to the same period in 2020. Revenue for the year ended December 31, 2021 was $59 million, an increase of $59 million compared to the same period in 2020. The increase for the quarter and year was primarily due to the recording of revenue associated with the sale of energy and capacity to Hydro Regulated under the Muskrat Falls PPA.

Operating costs
Operating costs for the three months ended December 31, 2021 were $7 million, an increase of $6 million compared to the same period in 2020. Operating costs for the year ended December 31, 2021 were $13 million, an increase of $11 million compared to the same period in 2020. The increase for the quarter and year was due to costs associated with substantial completion of all four of the units of Muskrat Falls over the last year, starting with Unit 1 in Q4 2020.

Transmission rental
Transmission rental for the three months ended December 31, 2021 was $27 million, an increase of $23 million compared to the same period in 2020. Transmission rental for the year ended December 31, 2021 was $135 million, an increase of $131 million compared to the same period in 2020. The increase for the quarter and year was due to the recognition of expense from Muskrat Falls' use of the LTA interconnection services which started when the first unit of Muskrat Falls achieved commercial operation in Q4 2020.

Net finance expense
Net finance expense for the three months ended December 31, 2021 was $14 million, an increase of $14 million compared to the same period in 2020. Net finance expense for the year ended December 31, 2021 was $14 million, an increase of $14 million compared to the same period in 2020. The increase for the quarter and year was due to borrowing costs being expensed which started when Muskrat Falls was substantially complete in Q4 2021.

Other expense
Other expense for the three months ended December 31, 2021 was comparable to the same period in 2020. Other expense for the year ended December 31, 2021 was $4 million, an increase of $4 million compared to the same period in 2020. The increase for the year was primarily due to higher water power rental costs paid to the Province.

LCP TRANSMISSION

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

Financial Highlights

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2021**	2020	Variance	**2021**	2020	Variance
Revenue	**28**	4	24	**135**	4	131
Operating costs	**2**	1	1	**8**	6	2
Net finance expense	**6**	6	-	**24**	22	2
Other expense	**1**	-	1	**1**	1	-
Profit (loss) for the period	**19**	(3)	22	**102**	(25)	127

Revenue
Revenue for the three months ended December 31, 2021 was $28 million, an increase of $24 million compared to the same period in 2020. Revenue for the year ended December 31, 2021 was $135 million, an increase of $131 million compared to the same period in 2020. The increase for the quarter and year was due to the recognition of revenue from Muskrat Falls' use of the LTA interconnection services which started when the first unit of Muskrat Falls achieved commercial operation in Q4 2020.

Operating costs
Operating costs for the three months and year ended December 31, 2021 were comparable to the same periods in 2020.

Net finance expense
Net finance expense for the three months and year ended December 31, 2021 was comparable to the same periods in 2020.

Other expense
Other expense for the three months and year ended December 31, 2021 was comparable to the same periods in 2020.

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 expires August 31, 2041, provides 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 NL 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)	**2021**	2020	Variance	**2021**	2020	Variance
Revenue	**30**	27	3	**115**	94	21
Operating costs	**11**	10	1	**39**	38	1
Depreciation and amortization	**6**	5	1	**21**	21	-
Net finance income	**-**	-	-	**(1)**	(1)	-
Other expense	**3**	3	-	**7**	6	1
Share of loss of joint venture	**1**	-	1	**1**	-	1
Preferred dividends	**(2)**	(1)	(1)	**(4)**	(3)	(1)
Profit for the period	**11**	10	1	**52**	33	19

Revenue

Revenue for the three months ended December 31, 2021 was $30 million, an increase of $3 million compared to the same period in 2020. Revenue for the year ended December 31, 2021 was $115 million, an increase of $21 million compared to the same period in 2020. The increase for the quarter was primarily due to an increase in energy sales to Hydro-Québec. The increase for the year was primarily due to the Settlement Agreement that was reached between Churchill Falls and Hydro-Québec with regards to the Declaratory Judgement case.

Energy volume and revenue are summarized in the tables below:

	Three months ended		Twelve months ended	
For the periods ended December 31 (GWh)	**2021**	2020	**2021**	2020
Customer:				
Hydro-Québec	**8,688**	7,902	**30,696**	27,935
NL Hydro	**1,079**	990	**4,214**	4,132
	9,767	8,892	**34,910**	32,067
Generation[1]:				
Hydraulic generation	**9,928**	9,100	**35,569**	32,754
Losses and Station Services	**161**	208	**659**	687
Net generation	**9,767**	8,892	**34,910**	32,067

[1]Represents entire output of the Churchill Falls Generating Station and adjustments related to the Water Management Agreement with Muskrat Falls beginning in December 2020.

	Three months ended		Twelve months ended	
For the periods ended December 31 (millions of Canadian dollars)	**2021**	2020	**2021**	2020
Revenue				
Energy sales:				
Hydro-Québec	**10**	9	**41**	38
NL Hydro	**9**	9	**32**	32
Total energy sales	**19**	18	**73**	70
Guaranteed winter availability– Hydro-Québec	**10**	9	**25**	24
Other revenue	**1**	-	**17**	-
Total revenue	**30**	27	**115**	94

Operating costs

Operating costs for the three months and year ended December 31, 2021 were comparable to the same periods in 2020.

Depreciation and amortization

Depreciation and amortization for the three months and year ended December 31, 2021 was comparable to the same periods in 2020.

Net finance income

Net finance income for the three months and year ended December 31, 2021 was comparable to the same periods in 2020.

Other expense

Other expense for the three months and year ended December 31, 2021 was comparable to the same periods in 2020.

Share of loss of joint venture

Share of loss of joint venture for the three months and year ended December 31, 2021 was comparable to the same periods in 2020.

Preferred dividends

Preferred dividends for the three months and year ended December 31, 2021 were comparable to the same periods in 2020.

ENERGY TRADING

The revenue in this segment is derived primarily from the sale of available Recapture, the block of 300MW of capacity and related firm energy pursuant to the Power Contract, which Churchill Falls sells and delivers to Hydro Non-Regulated. A portion of the recaptured firm energy is normally surplus to the needs of Hydro Non-Regulated and is sold by Energy Trading to markets and customers in eastern Canada and the northeastern United States. Energy Trading also focuses on optimizing market opportunities, on behalf of Hydro Regulated, for which Energy Trading does not currently realize a profit.

Throughout 2021, Energy Trading marketed and facilitated the export of commissioning period energy on behalf of Muskrat Falls along with delivery of the Nova Scotia Block to Emera on behalf of Other Power Supply, via the LIL, NL Hydro's transmission system and the Maritime Link.

Financial Highlights

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2021**	2020	Variance	**2021**	2020	Variance
Revenue	**18**	7	11	**57**	29	28
Power purchased	**-**	1	(1)	**4**	4	-
Operating costs	**1**	1	-	**5**	5	-
Transmission rental	**7**	6	1	**26**	24	2
Other (income) expense	**(2)**	1	(3)	**(4)**	1	(5)
Profit (loss) for the period	**12**	(2)	14	**26**	(5)	31

Revenue

Revenue for the three months ended December 31, 2021 was $18 million, an increase of $11 million compared to the same period in 2020. Revenue for the year ended December 31, 2021 was $57 million, an increase of $28 million compared to the same period in 2020. The increase for the quarter and year was primarily driven by higher average export electricity prices.

Export electricity prices and volumes

Prices and volumes for the three months and year ended December 31, 2021, with 2020 comparatives, for sales in export markets, are summarized in the table below:

	Three months ended		Twelve months ended	
For the periods ended December 31	**2021**	2020	**2021**	2020
Average Export Electricity Price (USD/MWh)[1]	**43**	20	**31**	17
Realized Export Electricity Price (USD/MWh)[2]	**43**	19	**31**	17
Realized Export Electricity Price (CAD/MWh)[3]	**54**	25	**39**	23
Export Sales Volume (GWh)				
Recapture	**328**	264	**1,379**	1,264
Muskrat Falls[4]	**-**	6	**79**	6
Other[5]	**1**	2	**4**	10
	329	272	**1,462**	1,280

[1]The Average Export Electricity Price reflects actual prices achieved in the export market for all exports.

[2]The Realized Export Price (USD) includes the impact of financial transmission rights for all periods.

[3]The Realized Export Price (CAD) includes the impact of financial transmission rights for all periods and foreign exchange.

[4]Energy Trading markets and facilitates the export of this energy on behalf of Muskrat Falls and the energy sales revenue associated with these exports is recognized in Muskrat Falls.

[5]Other refers to sales volumes purchased from export markets and subsequently sold using available firm transmission.

Average and realized export electricity prices for the three months and year ended December 31, 2021 were higher compared to the same periods in 2020 due to higher natural gas prices as a result of a lower supply of natural gas in the United States and higher global LNG prices. Also contributing to the annual increase were several extreme weather events, including a deep freeze that impacted a large portion of the southern United States, a heat wave in June and the impacts of Hurricane Ida, along with easing of COVID-19 restrictions in the United States. These events resulted in increased market prices across the country, including those in Energy Trading's core markets in the northeastern United States.

Recapture export volumes for the three months ended December 31, 2021 were 328 GWh, an increase of 64 GWh compared to the same period in 2020. Recapture export volumes for the year ended December 31, 2021 were 1,379 GWh, an increase of 115 GWh compared to the same period in 2020. The increase for the quarter and year was primarily due to less Recapture used by Hydro to service customer requirements, resulting in higher volumes available for export during Q4. Lower Recapture usage by Hydro in Q1 2021 also contributed to the annual increase.

Muskrat Falls export volume for the year ended December 31, 2021 was 79 GWh, an increase of 73 GWh compared to the same period in 2020. Muskrat Falls Unit 1 was deemed ready for commercial operation in late December 2020, with the remainder of the units entering operation throughout 2021. During the three months ended December 31, 2021, with LIL assets operating at a reduced capacity, available Muskrat Falls energy was delivered to Emera to meet contractual obligations and to Hydro Regulated to serve Island load.

Power purchased
Power purchased for the three months and year ended December 31, 2021 was comparable to the same periods in 2020.

Operating costs
Operating costs for the three months and year ended December 31, 2021 were comparable to the same periods in 2020.

Transmission rental
Transmission rental for the three months and year ended December 31, 2021 was comparable to the same periods in 2020.

Other (income) expense
Other income for the three months ended December 31, 2021 was $2 million compared to expense of $1 million for the same period in 2020, an increase of $3 million. Other income for the year ended December 31, 2021 was $4 million compared to expense of $1 million for the same period in 2020, an increase of $5 million. The increase for the quarter and year was primarily due to fair value gains related to the anticipated value of Energy Trading's future energy sales commitments and gains on financial transmission rights contracts.

OTHER – POWER SUPPLY

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

Financial Highlights

	Three months ended			Twelve months ended		
For the periods ended December 31(millions of Canadian dollars)	**2021**	2020	Variance	**2021**	2020	Variance
Revenue	**9**	2	7	**18**	8	10
Power purchased	**4**	-	4	**4**	-	4
Operating costs	**6**	1	5	**14**	6	8
Transmission rental	**1**	-	1	**1**	-	1
Depreciation and amortization	**8**	1	7	**13**	1	12
(Loss) profit for the period	**(10)**	-	(10)	**(14)**	1	(15)

Revenue

Revenue for the three months ended December 31, 2021 was $9 million, an increase of $7 million compared to the same period in 2020. Revenue for the year ended December 31, 2021 was $18 million, an increase of $10 million compared to the same period in 2020. The increase for the quarter and year was primarily driven by an increase in non-cash revenue associated with the commencement of the delivery of the Nova Scotia Block to Emera in Q3 2021.

Power purchased

Power purchased for the three months and year ended December 31, 2021 was $4 million, an increase of $4 million compared to the same period in 2020. The increase for the quarter and year was primarily due to a requirement pertaining to the delivery of Nova Scotia Block to Emera.

Operating costs

Operating costs for the three months ended December 31, 2021 were $6 million, an increase of $5 million compared to the same period in 2020. Operating costs for the year ended December 31, 2021 were $14 million, an increase of $8 million compared to the same period in 2020. The increase for the quarter and year was primarily due to an increase in non-cash operating costs associated with the Maritime Link.

Transmission rental

Transmission rental for the three months and year ended December 31, 2021 was comparable to the same periods in 2020.

Depreciation and amortization

Depreciation and amortization for the three months ended December 31, 2021 was $8 million, an increase of $7 million compared to the same period in 2020. Depreciation and amortization for the year ended December 31, 2021 was $13 million, an increase of $12 million compared to the same period in 2020. The increase for the quarter and year was due to the commencement of depreciation of the Maritime Link in Q3 2021.

OIL AND GAS

Oil and Gas is 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, a 5.0% working interest in White Rose and an 8.7% working interest in HSE. On March 1, 2021, First Redetermination under the HSE Operating Agreement became effective and Oil and Gas' ownership interest in HSE decreased from 10% to 8.7%.

Financial Highlights

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2021**	2020	Variance	**2021**	2020	Variance
Revenue						
Petroleum, natural gas and other	**63**	59	4	**298**	243	55
Royalty expense	**(7)**	(4)	(3)	**(38)**	(27)	(11)
	56	55	1	**260**	216	44
Operating costs	**7**	1	6	**10**	4	6
Production, marketing and transportation costs	**6**	8	(2)	**31**	38	(7)
Depreciation, depletion, amortization and impairment	**17**	22	(5)	**80**	330	(250)
Net finance expense	**1**	1	-	**4**	3	1
Other expense (income)	**12**	(7)	19	**144**	(47)	191
Profit (loss) for the period	**13**	30	(17)	**(9)**	(112)	103

Non-GAAP Operating Profit (Loss) Disclosure

Reconciliation of Oil and Gas profit (loss) to operating profit (loss) for the three months and year ended December 31, 2021 and 2020 is as follows:

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2021**	2020	Variance	**2021**	2020	Variance
Profit (loss) for the period	**13**	30	(17)	**(9)**	(112)	103
Impairment of property, plant and equipment	**-**	-	-	**-**	225	(225)
Operating profit (loss) for the period	**13**	30	(17)	**(9)**	113	(122)

Revenue

Revenue for the three months ended December 31, 2021 was comparable to the same period in 2020. Revenue for the year ended December 31, 2021 was $260 million, an increase of $44 million compared to the same period in 2020. The increase for the year was primarily due to a higher average Dated Brent price per barrel, partially offset by a decrease in volumes, unfavorable impact of foreign exchange and higher royalties.

Oil price and volume

Oil price and volume data for the three months and year ended December 31, 2021, with 2020 comparatives is summarized in the table below:

	Three months ended		Twelve months ended	
For the periods ended December 31	**2021**	2020	**2021**	2020
Average Dated Brent Price (USD/bbl)[1]	**78**	45	**69**	40
Realized Price (USD/bbl)[2]	**56**	52	**56**	47
Realized Price (CAD/bbl)[3]	**72**	69	**71**	63
Oil Sales Volume (Mbbls)	**641**	997	**3,432**	4,611

[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 and foreign exchange hedges.

Variances in average Dated Brent and realized prices in the table above are due to continued fluctuations in global market prices as a result of ongoing global supply and demand factors. Average Dated Brent and realized prices for the three months and year ended December 31, 2021 were higher in comparison to the same period in 2020. The decrease in 2020 reflects the significant impact on prices associated with decreased demand resulting from the COVID-19 pandemic and increased global supply due to disputes between oil producing nations over production restrictions.

Oil sales volume for the three months and year ended December 31, 2021 was lower than the same periods in 2020 primarily due to the timing of lifts and lower volume for HSE due to the reduction in working interest and the repayment of historical barrels as a result of First Redetermination.

Operating costs

Operating costs for the three months ended December 31, 2021 were $7 million, an increase of $6 million compared to same period in 2020. Operating costs for the year ended December 31, 2021 were $10 million, an increase of $6 million compared to same period in 2020. The increase for the quarter and year was due to an allowance related to amounts owing from affiliated entities.

Production, marketing and transportation costs

Production, marketing and transportation costs for the three months ended December 31, 2021 were comparable to the same period in 2020. Production, marketing and transportation costs for the year ended December 31, 2021 were $31 million, a decrease of $7 million compared to the same period in 2020. The decrease for the year was primarily a result of decreased HSE project operating costs and processing fees as a result of First Redetermination.

Depreciation, depletion, amortization and impairment

Depreciation, depletion, amortization and impairment for the three months ended December 31, 2021 was $17 million, a decrease of $5 million compared to the same period in 2020. Depreciation, depletion, amortization and impairment for the year ended December 31, 2021 was $80 million, a decrease of $250 million compared to the same period in 2020. The decrease for the quarter and year was due to lower production and a reduced asset base. Also contributing to the decrease for the year is the impairment of White Rose and HSE assets in 2020 as a result of the significant decrease in crude oil prices.

Net finance expense

Net finance expense for the three months and year ended December 31, 2021 was comparable to the same periods in 2020.

Other expense (income)

Other expense for the three months ended December 31, 2021 was $12 million compared to income of $7 million for the same period in 2020, an increase of $19 million. Other expense for the year ended December 31, 2021, was $144 million, compared to income of $47 million for the same period in 2020, an increase of $191 million. The increase in expense for the quarter was primarily due to unfavourable variances in the settlement of commodity price swap contracts. The increase in expense for the year was primarily due to unfavourable variances in the settlement of commodity price swap contracts and the net impact of First Redetermination.

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, 2021 with 2020 comparatives are summarized in the table below:

	2021		2020	
	Light and Medium Oil		Light and Medium Oil	
As at December 31 (Mbbls)	**Gross**	**Net**	Gross	Net
Developed[1]	**13,318**	**11,522**	14,962	12,649
Undeveloped[2]	**4,160**	**3,700**	6,937	6,623
Total Proved[3]	**17,478**	**15,222**	21,899	19,272
Probable[4]	**20,956**	**16,951**	26,956	22,016
Total Proved Plus Probable	**38,434**	**32,173**	48,855	41,288

[1]Barrels which are expected to be produced from existing wells and installed facilities.

[2]Barrels which are expected to be produced from known accumulations of oil, requiring additional wells or infrastructure in order to extract.

[3]Barrels which can be estimated with a high degree of certainty to be recoverable.

[4]Barrels which are less certain to be recovered than proved reserves.

Decrease in remaining reserves at December 31, 2021 as compared to the same period in 2020 primarily relates to a decrease in proved plus probable reserves, including the impact of HSE Redetermination, as well as the impact of barrels produced during 2021.

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)	**2021**	2020	Variance	**2021**	2020	Variance
Revenue	**-**	-	-	**1**	-	1
Operating costs	**4**	4	-	**11**	12	(1)
Depreciation and amortization	**1**	2	(1)	**4**	5	(1)
Net finance income	**(1)**	(1)	-	**(4)**	(3)	(1)
Loss for the period	**(4)**	(5)	1	**(10)**	(14)	4

Results of Corporate for the three months and year ended December 31, 2021 were comparable to the same periods in 2020.

LIQUIDITY AND CAPITAL RESOURCES

CASH FLOW HIGHLIGHTS

	Twelve months ended		
For the year ended December 31 (millions of Canadian dollars)	**2021**	2020	Variance
Cash and cash equivalents, beginning of the year	**329**	174	155
Net cash provided from operating activities	**95**	164	(69)
Net cash used in investing activities	**(338)**	(549)	211
Net cash provided from financing activities	**321**	540	(219)
Cash and cash equivalents, end of the year	**407**	329	78

Operating Activities

Net cash provided from operating activities during the year ended December 31, 2021 was $95 million, a decrease of $69 million compared to the same period in 2020. The decrease in cash was primarily due to unfavourable changes in non-cash working capital and lower interest received during the period.

Investing Activities

	Twelve months ended		
For the year ended December 31 (millions of Canadian dollars)	**2021**	2020	Variance
Additions to property, plant and equipment and intangible assets	**(452)**	(551)	127
Proceeds on disposal of property, plant and equipment and intangible assets	**40**	2	38
Decrease (increase) in investments	**76**	(31)	107
Other	**2**	2	-
Changes in non-cash working capital balances	**(4)**	29	(61)
Net cash used in investing activities	**(338)**	(549)	211

Net cash used in investing activities during the year ended December 31, 2021 was $338 million, a decrease of $211 million compared to the same period in 2020. The decrease was primarily driven by lower capital expenditures resulting from the wind down of construction of the LCP and a maturity of an investment which was not reinvested, partially offset unfavourable variances in non-cash working capital.

Financing Activities

	Twelve months ended		
For the year ended December 31 (millions of Canadian dollars)	**2021**	2020	Variance
Proceeds from long-term debt	**287**	-	287
Repayment of long-term debt	**(61)**	(30)	(31)
Decrease in restricted cash	**47**	600	(553)
(Decrease) increase in short-term borrowings	**(207)**	29	(236)
Shareholder contributions	**250**	-	250
Rate stabilization plan fuel credit	**(3)**	(55)	52
Other	**8**	(4)	12
Net cash provided from financing activities	**321**	540	(219)

Net cash provided from financing activities during the year ended December 31, 2021 was $321 million, a decrease of $219 million compared to the same period in 2020. The decrease was partially due to the change in restricted cash due to significant draw-down in 2020 to fund interest and construction costs of the LCP and decrease in short-term borrowings relating to reduction in promissory notes in Hydro Regulated. This variance was partially offset by the issuance of long-term debt in Hydro Regulated and the receipt of shareholder contributions from the Province in 2021. The issuance of long-term debt offset the repayment of short-term borrowings in Hydro Regulated.

CAPITAL RESOURCES

Hydro's capital resources consist primarily of cash, restricted cash, investments, proceeds from debt issuances and equity from the Province. These capital resources are used to fund the Company's consolidated capital resource requirements, which continue to include working capital needs, capital expenditures, and the servicing and repayment of debt. Capital resources are managed at the subsidiary level, taking into account the specific cash flow and liquidity needs of each subsidiary. Cash from operations is a primary source of funding for most segments and 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 costs incurred to service customers, foreign exchange rates, oil production and electricity export volume. As a result, the Company 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.

The Company's ability to sufficiently fund future capital resource requirements is largely impacted by the resolution of rate mitigation decisions by the Province. On July 28, 2021, the Government of Canada together with the Province announced an agreement in principle with respect to rate mitigation worth $5.2 billion, which includes an estimated $3.2 billion to the Province in relation to revenue associated with the Hibernia offshore oil project and $2 billion related to financial restructuring of the LCP which will reduce the cost of financing enabling the provision of lower electricity rates for customers on the Island. On February 14, 2022 term sheets were executed in relation to the federal loan guarantee and capital restructuring as well as the investment by the Government of Canada in the LIL. Hydro initiated a Request for Financing to obtain the best financing solution to optimize the value of the $1 billion federal loan guarantee on February 16, 2022.

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, 2021, there were two notes outstanding for a total of $55 million under this program (December 31, 2020 - $262 million). On April 16, 2021, Hydro Regulated increased its $200 million CAD or USD equivalent committed revolving term credit facility to $500 million with a maturity date of July 31, 2022. As at December 31, 2021, there were no amounts drawn on the facility (December 31, 2020 - $nil). Hydro Regulated's $300 million committed credit facility matured on April 17, 2021 and was not renewed.

Hydro Regulated addresses longer-term capital funding requirements through long-term debt. The Province issues debt in the domestic capital markets, on Hydro Regulated's behalf, and in turn loans the funds to Hydro Regulated on a cost recovery basis. Any funding to address long-term capital requirements requires approval from the Province and the PUB. Access to long-term debt through the Province remains an important consideration for funding capital resource requirements. On April 13, 2021, the Province issued long-term debt with a face value of $300 million, specifically on Hydro Regulated's behalf. The debt matures on June 2, 2030 with a coupon rate of 1.75% paid semiannually.

Hydro Regulated's ability to access adequate capital within existing legislated debt caps in 2020 resulted in an Order in Council OC2020-18 to increase the level of short-term borrowings permitted from $300 million to $500 million, effective until March 31, 2022. Issuance of short-term borrowings and long-term debt by Hydro Regulated is further restricted by Bill 33, an amendment to the Newfoundland and Labrador Hydro Act of 2007, which effectively limits Hydro Regulated's total borrowings, which includes both short-term and long-term debt, to $2.6 billion at any point in time.

Timing of Hydro Regulated's next GRA Order and implementation of new customer rates, timing of completion and commissioning of the remaining LCP assets, and the results of rate mitigation decisions by the Province will have material impacts on Hydro Regulated's available capital resources and requirements going forward. Management will continue to monitor the potential impacts of these events.

Muskrat Falls and LCP Transmission

Capital resource requirements for Muskrat Falls and LCP Transmission consist primarily of capital and operating expenditures in connection with construction and operation of the LCP assets, debt servicing and repayment as well as reserve funding required under the project financing agreements. The primary source of financing for Muskrat Falls in the first three quarters of 2021 was cash from pre-funded equity as well as new equity contributions, however, in Q4 2021 upon commissioning of Muskrat Falls, the primary source of funding was payments from Hydro Regulated under the Muskrat Falls PPA. For LCP Transmission, the primary source of financing throughout 2021 was cash from pre-funded equity as well as new equity contributions. These funds will continue to be the primary source of funding for construction costs in 2022. Operations costs associated with the LCP assets post commissioning are funded by the Muskrat Falls PPA and the Transmission Funding Agreement (TFA) with Hydro Regulated.

Churchill Falls

Capital resource requirements for Churchill Falls consist primarily of working capital needs, reserve fund payments and capital expenditures. Churchill Falls capital resources consist primarily of cash from operations. In addition, Churchill Falls has access to a $10 million unsecured demand operating credit facility. There were no amounts drawn on this facility as at December 31, 2021 (December 31, 2020 - $nil); however, $1 million of the borrowing limit has been used to issue two irrevocable letters of credit (December 31, 2020 - $1 million was used to issue two irrevocable letters of credit).

Churchill Falls 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, 2021, the reserve fund balance was $66 million (December 31, 2020 - $59 million). The Company has recorded its 65.8% proportionate share of the amount invested of $43 million (December 31, 2020 - $39 million). Contributions will continue to be made over the coming years to replenish the reserve fund to its fully funded amount. Management believes these existing capital resources will be sufficient to fund planned 2022 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, 2021, Energy Trading had no amounts drawn on this facility (December 31, 2020 - $nil); however, $6 million of the borrowing limit has been used to issue six irrevocable letters of credit (December 31, 2020 - $3 million was used to issue four irrevocable letters of credit). Management believes existing capital resources will be sufficient to meet current and future working capital needs for Energy Trading.

Oil and Gas

Capital resource requirements for Oil and Gas 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, 2021, $21 million of the borrowing limit has been used to issue two irrevocable letters of credit (December 31, 2020 - $22 million was used to issue two irrevocable letters of credit). Management believes these existing capital resources will be sufficient to fund 2022 planned capital expenditures for Oil and Gas while meeting current working capital needs.

Additional Liquidity

The Company 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. The committed revolving term credit facility has an expiry date of July 31, 2022, recently extended from January 31, 2022. There were no amounts drawn on this facility as at December 31, 2021 (December 31, 2020 - $nil); however, $6 million of the borrowing limit has been used to issue eight irrevocable letters of credit (December 31, 2020 - $8 million was used to issue 10 irrevocable letters of credit). The eight letters of credit, some of which are denominated in USD, are issued on behalf of Energy Trading and relate to power purchase and sale contracts with various independent system operators, transmission providers and bilateral counterparties.

As at December 31, 2021 and December 31, 2020, external short-term credit facilities are as follows:

	2021			
As at December 31, 2021 (millions of Canadian dollars)	**Limit**	**Drawn**	**Letters of Credit Issued**	**Available Limit**
Revolving Term Facilities:				
Nalcor Energy	**250**	-	**6**	**244**
Hydro Regulated	**500**	-	-	**500**
Demand Operating Facilities:				
Churchill Falls	**10**	-	**1**	**9**
Energy Trading	**20**	-	**6**	**14**
Oil and Gas	**30**	-	**21**	**9**
Promissory Notes:				
Hydro Regulated	**300**	**55**	-	**245**
Total credit facilities	**1,110**	**55**	**34**	**1,021**

	2020			
As at December 31, 2020 (millions of Canadian dollars)	Limit	Drawn	Letters of Credit Issued	Available Limit
Revolving Term Facilities:				
Nalcor Energy	250	-	8	242
Hydro Regulated	200	-	-	200
Non-Revolving Term Facilities:				
Hydro Regulated	300	-	-	300
Demand Operating Facilities:				
Churchill Falls	10	-	1	9
Energy Trading	20	-	3	17
Oil and Gas	30	-	22	8
Promissory Notes:				
Hydro Regulated	300	262	-	38
Total credit facilities	1,110	262	34	814

CAPITAL STRUCTURE

The Company’s consolidated capital structure and associated performance indicators are shown in the table below:

As at (millions of Canadian dollars)	**December 31 2021**	December 31 2020
Short-term borrowings	**55**	262
Long-term debt (net of sinking funds)[1]	**9,668**	9,462
Class B limited partnership units[2]	**681**	628
Lease liabilities[1]	**5**	5
Total debt	**10,409**	10,357
Total shareholder's equity	**6,508**	6,169
Debt to capital[3]	**62%**	63%
Fixed rate debt as a percentage of total indebtedness[3]	**93%**	91%

[1]Includes current portion.

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

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

CAPITAL EXPENDITURES

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2021**	2020	Variance	**2021**	2020	Variance
Regulated	**37**	38	(1)	**115**	90	25
Non-Regulated	-	-	-	-	-	-
NL Hydro	**37**	38	(1)	**115**	90	25
Other - Power Development	-	-	-	-	-	-
Power Development	-	-	-	-	-	-
Muskrat Falls	**76**	174	(98)	**307**	434	(127)
LCP Transmission	**56**	73	(17)	**244**	245	(1)
Churchill Falls	**10**	21	(11)	**48**	42	6
Energy Trading	-	-	-	-	-	-
Other - Power Supply	**2**	1	1	**5**	3	2
Power Supply	**144**	269	(125)	**604**	724	(120)
Oil and Gas	**4**	7	(3)	**24**	37	(13)
Corporate	**2**	-	2	**4**	2	2
Inter-Segment	-	(2)	2	**(3)**	(4)	1
Total Capital Expenditures, excluding Maritime Link	**187**	312	(125)	**744**	849	(105)
Maritime Link – Non cash additions	-	1	(1)	**(12)**	6	(18)
Total	**187**	313	(126)	**732**	855	(123)

Capital expenditures for the three months ended December 31, 2021 were $187 million, a decrease of $126 million compared to the same period in 2020. Capital expenditures for the year ended December 31, 2021 were $732 million, a decrease of $123 million compared to the same period in 2020. The decrease for the quarter and year was primarily due to the wind down of construction of the Muskrat Falls assets as they near completion.

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

	Three months ended		Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2021**	2020	**2021**	2020	Total to Date[1]
Muskrat Falls	**55**	133	**176**	289	5,543
Labrador Transmission Assets	-	-	**1**	1	867
Labrador-Island Link	**7**	24	**37**	53	3,656
Facilities capital costs	**62**	157	**214**	343	10,066
Capitalized interest and financing costs	**51**	64	**243**	251	1,745
Class B Limited Partnership Unit Interest	**14**	13	**53**	50	272
Transition to Operations	**5**	13	**41**	35	142
Total capital expenditures	**132**	247	**551**	679	12,225

[1]Total to date excludes $310 million of allowance for funds used during construction on Nalcor's Class A limited partnership units in the LIL LP that are eliminated upon consolidation.

OBLIGATIONS AND COMMITMENTS

Outstanding commitments for capital projects, excluding those related to Oil and Gas, total approximately $85.7 million as at December 31, 2021 (December 31, 2020 - $214.8 million).

KEY BUSINESS RISKS

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

Announcement of Nalcor Energy Restructuring

On June 23, 2021, the Province announced that Nalcor operations would be moving under Hydro. The Company is leading the effort to review the existing corporate and governance structure and contractual arrangements and will consult with the Province on the results of its review, including any policy or legislative inputs recommended. In support of the Province's directive, along with Hydro's commitment to reduce duplication and find cost savings; on November 2, 2021 the Company announced streamlining of the Executive structure, including a reduction of the Executive team from 18 members to 11.

Further analysis in support of these commitments will continue into 2022. The extent to which these changes may impact our business, results of operations and financial position or cash flows will depend on future decisions and the results of ongoing analysis. Impacts on our business are being monitored as changes are made.

COVID-19

Hydro's COVID-19 response continues to be managed in accordance with both the Corporate Pandemic Plan and Business Continuity Plan, and the Company has followed a staged approach that aligns with the Province for the continuation of work. In recent months, Hydro had been increasing occupancy at its facilities and resuming non-priority work; however, in early 2022, we continued to see increased numbers of COVID-19 cases across the province as a result of the Omicron variant.

Further protection measures have been implemented across the Company, which includes the use of a limited, essential worker only screening program that utilizes rapid antigen testing. The program will ensure we have a required complement of essential employees available to work in a manner that is safe and decreases the risk of COVID-19 transmission to other essential team members in the workplace.

Rapid antigen testing for screening purposes does not replace other public health measures such as vaccination, symptom screening, physical distancing, masking and hand hygiene. These measures are still in effect at all Hydro sites as well as our mandatory vaccination policy, safe work practices and COVID-19 safety protocols.

At this time, Hydro does not require any major shift in work practices or protocols for our work environments. In line with our Corporate Pandemic Plan, we have implemented many practices over the past 2 years to help ensure we keep our employees, workplaces, and the communities in which we operate as safe as possible. We continue to monitor and update work practices and protocols to ensure alignment with public health guidance and to offer booster clinics to our employees. Employees who are able to work from home are recommended to do so.

Supply Chain globally has been impacted by lack of raw materials, work force capacity, logistical issues, rising costs, longer shipping and delivery times. Hydro is communicating with suppliers and sharing information with the business as the global supply chains in 2022 remain unpredictable and are expected to remain that way for some time. As manufacturers, freight transportation companies and supply chain processes continue to change in response to competing demands and varying responses across the countries, the effect on global supply chains will remain unpredictable.

There continues to be uncertainty around the duration and magnitude of the pandemic and therefore the extent of any future effect on the Company's operational and financial performance, including the ability to execute business strategies and initiatives in the expected timeframes, is unable to be determined at this time. The situation continues to be fluid and future impacts may materialize that are not yet known and may have a material adverse effect on the results of operations and financial position or cash flows of the Company.

REGULATORY RISK

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

There is no assurance that Hydro Regulated will receive approval of regulatory applications for deferral or recovery of costs from customers in advance of incurring those costs. There is also no assurance that rate orders issued by the PUB will result in Hydro Regulated recovering all costs incurred in providing electricity service.

Contractual payment obligations associated with the Muskrat Falls assets have commenced for Hydro Regulated and these contractual obligations will grow upon commercial commissioning of the LIL in 2022. Regulatory processes and outcomes may be impacted by the implementation of rate mitigation measures contemplated under the Agreement in Principal and recently signed term sheets between the Province and federal government, as well as any changes to LCP cost or schedule.

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

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

STRATEGIC RISKS

Sustainability of Future Electricity Rates

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

On July 28, 2021 the provincial and federal governments announced the Agreement in Principal on a financial restructuring plan for the LCP. The Company is actively participating with the provincial government to implement rate mitigation measures contemplated under the Agreement in Principal. On February 14, 2022, as part of the Province's Rate Mitigation Plan, Hydro, the Province and the Government of Canada signed term sheets for a $1 billion federal loan guarantee and capital restructuring of Muskrat Falls and Labrador Transco, and for a $1 billion investment by the Government of Canada in the LIL.

On July 29, 2021, Hydro Regulated filed an application with the PUB to address the new sources of cost variations associated with the LCP post-commissioning through a deferral account to enable Hydro Regulated to deal with recovery of LCP costs until the conclusion of the next GRA which was approved by the PUB in December 2021.

The structure and timing of final decisions on rate mitigation may have an adverse effect on the results of operations and financial position or cash flows of the Company.

Completion of Lower Churchill Project

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

For LCP, factors impacting capital costs and schedules are closely monitored. Muskrat Falls and the LTA have been commissioned, however, the Company continues to work closely with contractors to find solutions to any tactical execution risks that remain with the LIL. In addition, LCP maintains an owner-controlled insurance program, which is subject to coverage, limits and exclusions, as well as time sensitive claims discovery and reporting provisions.

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

Risk of Natural and Other Unexpected Occurrences

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

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

OPERATIONAL RISKS

Electricity System Integration Risk

At December 31, 2021, all units at Muskrat Falls have been released for commercial operation. While construction of the transmission interconnection between the isolated Island grid to North America is complete with the Maritime Link in-service, work continues on LIL commissioning. LIL has been operating since December 17, 2021 and has been operating at up to 421 MW to facilitate deliveries to the Island and to Emera. Hydro will continue to work with GE to ensure appropriate LIL functionality prior to concluding commissioning.

The PUB’s review of the RRA Study, which was filed in November 2019, continued into 2021. This regulatory process addresses Hydro Regulated’s long-term approach to providing least-cost, reliable service for its customers and focuses on Hydro Regulated’s proposed planning criteria (reflecting the inclusion of the LCP assets) and ability to meet customer and system requirements reliably over a ten-year planning period from 2020 to 2029. The RRA Study proceeding includes a risk assessment of potential outages of the LCP Transmission assets and determine any system investments required to mitigate these risks.

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

Asset Condition and Maintenance Risk

Generation and Transmission Assets

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

The Company 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 of the risks and hazards to which the Company is exposed. In addition, no assurance can be given that insurance will adequately cover all of the Company's liabilities or will be generally available in the future, or if available, that premiums will be commercially justifiable.

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

Joint Venture Interest in Oil and Gas Assets

Oil and Gas is subject to the operational risks of participation in offshore oil production, including equipment defects, malfunctions, failures, unplanned shut downs, safety or environmental incidents, reserve estimation uncertainties, regulatory approvals and compliance, as well as external factors such as hurricanes, ice conditions and other extreme weather. These risks and hazards create exposure to events such as workplace incidents, business interruption, property damage or destruction, or environmental liabilities. These operational risks are managed by the operator of projects in which the Company 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-ventures, and the exercise of Oil and Gas voting rights within operating agreements. The occurrence of such events could have an adverse effect on the results of operations and financial position or cash flows of the Company.

Safety Risk

Several of Hydro's lines of business have material inherent safety risks and regulatory and legislative requirements, in particular with respect to the provincial Occupational Health and Safety Act and Regulations, which have potential associated fines and penalties for non-compliance. 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 the LCP construction and various capital projects for Hydro Regulated and Churchill Falls. These facilities carry risks relating to working from heights and management of contractors onsite. Based on the industry and the nature of work performed, there are many hazards and risks that could result in workplace incidents that could cause serious injury or death to employees, contractors or members of the public. The Company has implemented a safety management system that is based on ISO 45001 Occupational Health and Safety. Unsafe work conditions can lead to workplace incidents and disruption of the business, which could have an adverse effect on the results of operations and financial position or cash flows of the Company.

Environmental Risk

Hydro 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 the Company's financial position in any given year. There is a potential for an environmental liability with existing assets or from assets assumed from another owner, or the presence or release of hazardous and other harmful substances. Planned work may be affected by the lack or absence of government approvals, permits, or renewals. The Company 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. The Company and its various lines of business have developed Environmental Emergency Response Plans to deal with any accidental releases which may occur in order to provide a quick and effective response to minimize impacts.

Environmental events causing significant damage may lead to claims by third parties, government fines, and disruption to operations which could have an adverse effect on the results of operations and financial position or cash flows of the Company.

Information Technology Infrastructure and Security Risk

The Company develops, maintains and manages complex IT systems which operate transmission and generation facilities and support critical financial and other business processes. Key systems are subject to the risk of unauthorized access, including cyber security threats, which may result in loss of confidential and critical data, processing capability due to hardware and/or software failure, or communication across the wide area network. The loss of confidentiality, integrity, or availability could reasonably be expected to have an adverse impact on organizational operations, assets or individuals, including: financial losses, impacted service levels, reputational damage, physical or psychological distress or trauma, or legal action. It could also cause delays in issuing accurate internal or external reporting, including financial reports, as well as information required to maintain contractual and regulatory compliance. It could result in delays in issuing vendor payments, processing payroll, or providing customer billings.

There are unique risks relating to the industrial control systems and other operational technologies that control the electricity grid and certain physical assets. Disruptions in service for any reason could result in the loss of control of physical assets where critical industrial control systems that generate, monitor, maintain and transmit power to the power grid are affected. This may result in additional impacts such as unplanned power outages and damage to physical assets. It could create unsafe working conditions in plants that cannot be safely controlled or shutdown, which could result in loss of life.

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

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

Human Resource Management Risk

The future success of Hydro is tied to attracting and retaining sufficient qualified staff to replace those seeking other opportunities or retiring. Approximately 20% of full time equivalent employees will be eligible to retire within the next five years. Hydro will utilize attrition opportunities to find efficiencies and reduce it operating costs. However it must also manage the pace and extent of change to ensure that it is able to deliver service to customers in a safe and cost effective manner and to integrate new assets into the system efficiently and effectively. This is dependent on attracting and retaining qualified trade and technical staff. Hydro is managing its overall workforce cognizant of the balance of labour cost reduction with prudent utility oversight and management.

The Company and union have ratified the three collective agreements between Hydro and Power Supply and IBEW Local 1615 and these agreements are now set to expire March 31, 2022. The two collective agreements between Churchill Falls and IBEW Local 2351 were ratified in November, 2021and cover a two year term, effective January 1, 2021 to December 21, 2022.

Inability to attract and retain qualified trade and technical staff could have an adverse effect on the results of operations and financial position or cash flows of the Company.

Oil and Gas Production Volume Risk

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

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

The impact of unanticipated declining or ceased production in either project could have a significant adverse effect on the results of operations and financial position or cash flows of the Company.

FINANCIAL RISK

Commodity Price Risk

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

The market price for electricity exports is impacted by a number of factors including emerging technologies, seasonality and changes in weather patterns and fluctuations in demand. North American electricity markets have seen above average prices in New York and New England in 2021, driven by an increase in natural gas prices, which are highly correlated with electricity prices, several extreme weather events throughout the year, and easing of COVID-19 restrictions in the United States.

The market price for oil is also impacted by a number of factors such as supply and demand, geopolitical events, and severe weather. Oil prices have seen significant negative impact associated with decreased demand resulting from the start of the COVID-19 pandemic in 2020, however, have risen in 2021 driven by production cuts and rising oil demand.

To help mitigate this risk in Oil and Gas and Energy Trading a financial risk management strategy articulating the extent to which commodity hedge contracts will be used to provide a measure of cash flow certainty is presented to the Board for approval on an annual basis and approved transactions are executed by Management in accordance with a Board approved Risk Management Policy.

Within Hydro Regulated, regulatory recovery mechanisms are available which mitigate the risk to profit from movements in commodity price relating to the purchase of No. 6 fuel, diesel fuel and gas turbine fuel. Hydro Regulated's exposure to commodity price fluctuations in No. 6 fuel is mitigated by regulatory mechanisms which transfer 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 also deferred, reducing their impact on profit, with recovery subject to annual PUB approval. Therefore, while regulatory mechanisms mitigate the impact of fuel price volatility on profit, risk remains on the timing of cash flows, which is managed by ensuring sufficient short-term liquidity is available to address capital requirements. Once LCP is operating at full capacity, usage of No. 6 fuel is expected to be materially reduced.

Fluctuations in commodity prices could have an adverse effect on the results of operations and financial position or cash flows of the Company.

Foreign Exchange Rate Risk

Foreign exchange rate risk arises when a financial transaction is denominated in a currency other than the Company's base currency, the Canadian dollar. The Company'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.

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

For oil sales and export energy sales, profit is sensitive to fluctuations in the USD/CAD exchange rate. The financial risk management strategy referenced above also covers the management of foreign exchange rate risk.
Fluctuations in foreign exchange rates could have an adverse effect on the results of operations and financial position or cash flows of the Company.

Credit Risk

Credit risk represents the financial loss that would be suffered if Hydro's counterparties in a transaction fail to meet or discharge their obligation to the Company. The Company 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.

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

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

Investments are similarly restricted to high-quality securities. Investments held within the sinking fund portfolios and the reserve fund are limited to securities issued by, or guaranteed, by the Government of Canada, any of the provincial governments and Schedule 1 Canadian Chartered Banks. In addition, portfolio investments held within the reserve fund of Churchill Falls do not exceed 10% with any one entity with the exception of the Government of Canada. Hedge contracts are executed with highly rated banking institutions only.

Non-performance by counterparties to its financial instruments or in non-performance of suppliers and/or contractors, to which Hydro has extended significant credit, could have an adverse effect on the results of operations and financial position or cash flows of the Company.

Liquidity Risk

Liquidity risk is the risk that Hydro will not be able to meet its financial obligations as they become due. The Company 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 operations. Cash flows are monitored continuously and the Company maintains a committed revolving term credit facility with its bank to ensure additional liquidity is available to each of its lines of business. In addition, Hydro Regulated maintains a term credit facility, as well as, a government guaranteed promissory note program. Demand operating credit facilities are maintained for Oil and Gas, Churchill Falls and Energy Trading.

Hydro Regulated addresses longer-term capital funding through a process whereby the Province issues debt specifically on Hydro Regulated's behalf and lends the proceeds to Hydro Regulated on a cost recovery basis. The funding obligations associated with a portion of Hydro Regulated's long-term debt are managed through a sinking fund investment program. To ensure Hydro Regulated has the ability to access adequate capital, the Lieutenant-Governor in Council issued Order in Council OC2020-18 to increase the level of short-term borrowings permitted by Hydro from $300.0 million to $500.0 million, effective until March 31, 2022. Issuance of short-term borrowings and long-term debt by Hydro is further restricted by Bill 33 which limits Hydro Regulated's total borrowings to $2.6 billion.

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

COMPLIANCE RISK

Legislative Compliance

In addition to environmental and occupational, health and safety requirements, Hydro'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 the Churchill

Falls airport, privacy and other various employment laws. Certain legal issues are managed by the Company's corporate legal team, but most compliance risks are managed by the line of business they relate to.

The Energy Trading segment is subject to 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 maintain an appropriate compliance framework.

In certain instances, the outcome of noncompliance could have an adverse effect on the results of operations and financial position or cash flows of the Company.

Contractual Compliance

Hydro has contracts in place with various related companies and third parties including, but not limited to, arrangements relating to federally guaranteed debt, power purchase and other agreements governing the sale of power and transmission access through Québec, Ontario, Atlantic Canada and the northeastern US, the use of the Company's 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 Hydro's internal purchasing policies and guidelines, and standardized contracts are normally used.

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

SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING JUDGMENTS AND ESTIMATES AND INTERNAL CONTROLS

The Company's significant accounting policies are described in Note 2 of the financial statements.

CURRENT CHANGES IN ACCOUNTING POLICIES

Amendments to IFRS standards that are applicable to and have been adopted by the Company in 2021 are as follows:

Leases – COVID-19 Related Rent Concessions beyond June 30, 2021

The IASB issued an amendment to IFRS 16 *Leases* that provides an extension to the practical expedient available to lessees that permits a lessee to elect not to assess whether a COVID-19 related rent concession is a lease modification. The extension allows the application of the practical expedient to reductions in lease payments originally due on or before June 30, 2022. Since the Company's does not have any COVID-19 related rent concessions, the application of this amendment does not have an impact on the Company's financial statements.

FUTURE CHANGES IN ACCOUNTING POLICIES

Amendments to IFRS standards that have been issued, are applicable to and will be adopted by the Company in future periods are as follows:

Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Costs of Fulfilling a Contract

The amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* are effective on January 1, 2022, with earlier application permitted, and specify that the cost of fulfilling a contract comprises the costs that relate directly to the contract, including incremental costs or an allocation of other costs directly related to fulfilling the contract. These amendments apply to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the amendments. These amendments are currently not applicable to the Company, however, may apply to future transactions.

Presentation of Financial Statements – Classification of Liabilities as Current or Non-Current

The IASB issued amendments to IAS 1 *Presentation of Financial Statements* to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The amendments are effective January 1, 2023 with earlier application permitted and are applied retrospectively upon adoption. Management is currently assessing the amendments and any potential impact on the Company's financial statements.

Presentation of Financial Statements – Disclosure of Accounting Policies

The IASB issued amendments to IAS 1 *Presentation of Financial Statements*, which change the requirements with regard to the disclosure of accounting policies. The amendments replace all instances of the term 'significant accounting policies' with 'material accounting policy information'. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments are effective January 1, 2023 with earlier application permitted. The application of these amendments will not have an impact on the Company's financial statements.

Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Accounting Estimates

The IASB issued amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. The amendments are intended to improve the understanding of the existing requirements and therefore are not expected to have an impact on the Company's financial statements. The amendments are effective January 1, 2023 with earlier application permitted.

SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

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

A summary of the Company's critical accounting judgments and estimates are as follows:

Revenue

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

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

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 Consolidated Statement of Financial Position date but before the financial statements are issued, the facts and circumstances are reviewed to determine whether it is a recognized subsequent event.

As at December 31, 2021, Hydro Regulated recognized a total of $184 million in regulatory assets (December 31, 2020 - $172 million) and $27 million in regulatory liabilities (December 31, 2020 - $17 million). For further detail of regulatory assets and liabilities please refer to Note 12 of the financial statements.

Depreciation and Depletion

Depreciation and depletion are significant estimates included in the financial statements due to the significant asset balances carried in property, plant and equipment. As at December 31, 2021, the Company's consolidated property, plant and equipment was $17.7 billion, or approximately 90% of total consolidated assets compared to $17.2 billion or approximately 89% of total consolidated assets as at December 31, 2020. Total depreciation and depletion was $199 million for the year ended December 31, 2021 (December 31, 2020 - $201 million).

Depreciation is recorded over the useful lives of the Company's assets as determined by independent specialists, historical experience and, in the case of Hydro Regulated, are approved by the PUB. These useful lives are Management's best estimate and are reviewed annually. Any change in these estimates can have a material impact on the calculation of depreciation and is accounted for prospectively in the financial statements.

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 the depletion 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, the Company 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 the recoverable amount of a non-financial asset or CGU 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. Changes to these estimates can have a material impact on this calculation and while no impact on cash flows for the year, can lead to large fluctuations in profit or loss between reporting periods. For the year ended December 31, 2021, there was no impairment recognized on the Company's assets and therefore no impact to the Company's profit or loss (December 31, 2020 - $225 million of impairment related to the Company's Oil and Gas assets and $2 million related to wind turbine assets).

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.

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. The Company has decommissioning liabilities associated with its net ownership interests in petroleum and natural gas properties and related well sites, the retirement of portions of the HTGS, and disposal of Polychlorinated Biphenyls.

A significant number of the Company'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 the Company is required to remove, a decommissioning liability for those assets will be recognized at that time.

Decommissioning liabilities are periodically reviewed by Management and any changes are recognized as an increase or decrease in the carrying amount of the liability and the related asset. As at December 31, 2021, decommissioning liabilities were $128 million (December 31, 2020 - $124 million), the majority of which relate to the Company's ownership interests in petroleum and natural gas properties and are anticipated to be incurred between 2032 and 2040.

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, 2021, the total employee future benefits liability was $139 million (December 31, 2020 - $153 million).

Contingencies

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

Hydro maintains appropriate systems of internal control and policies and procedures which provide Management with reasonable assurance that assets are safeguarded and its financial information is reliable. There were no changes made to the Company's internal control over financial reporting during the year ended December 31, 2021, that has materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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 Hydro's financial performance, condition, leverage and liquidity. These non-GAAP financial measures do not have any standardized meaning and cannot necessarily be compared to similar measures presented by other companies.

NON-GAAP FINANCIAL MEASURES

Debt to capital	Total debt (short-term borrowings, long-term debt including current portion less sinking funds, lease liabilities and Class B limited partnership units), divided by total debt plus shareholder's equity
EBIT	Profit (loss) excluding interest and taxes
EBITDA	Profit (loss) excluding interest, taxes, depreciation, depletion, amortization, impairment and accretion
Fixed rate debt as a percentage of total indebtedness	Long-term debt including current portion less Hydro's sinking funds, divided by total debt
Funds from operations (FFO)	Profit (loss) excluding depreciation, depletion, amortization, impairment, accretion, HSE Redetermination and non-cash revenues and expenditures associated with the Maritime Link and the delivery of Nova Scotia Block to Emera
Return on capital employed (ROCE)	Rolling twelve month average EBIT (excluding impairment)/Capital Employed (total assets, excluding assets that are under development)
Operating Profit (Loss)	Profit (loss) excluding extraordinary and non-recurring items that are not indicative of the Company's future financial performance. This non-GAAP financial measure provides a more accurate reflection of operating performance and analysis against prior periods.

RELATED PARTY TRANSACTIONS

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

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

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. Outstanding balances due to or from related parties are non-interest bearing with no set terms of repayment, unless otherwise stated. Refer to Note 30 in the financial statements for further information regarding transactions with related parties.

SUMMARY OF QUARTERLY RESULTS

The following table outlines the Company's quarterly results for the eight quarters ended March 31, 2020 through December 31, 2021. The quarterly information has been obtained from the Company's 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
December 31, 2021	**284**	**35**	**4.3%**	**87**	**187**
September 30, 2021	223	33	3.9%	84	176
June 30, 2021	229	61	3.5%	106	203
March 31, 2021	277	(57)	2.9%	92	166
December 31, 2020	229	30	5.2%	83	313
September 30, 2020	167	17	4.9%	66	214
June 30, 2020	186	34	4.2%	88	156
March 31, 2020	348	(171)	3.9%	116	172

[1] Excludes assets under development

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

DECEMBER 2021/DECEMBER 2020

2021 fourth quarter profit was $35 million, an increase of $5 million compared to the same period in 2020. Key drivers of the increase include the impact of energy sales from Muskrat Falls to Hydro Regulated, which have been included by Hydro Regulated in a regulatory deferral; partially offset by a decrease in oil sales volume and the expensing of borrowing costs in Muskrat Falls upon completion of the generating station in Q4 2021.

SEPTEMBER 2021/SEPTEMBER 2020

2021 third quarter profit was $33 million, an increase of $16 million compared to the same period in 2020. The key drivers of the increase include higher realized oil and electricity export prices and the impact of commissioning period energy sales from Muskrat Falls to Hydro Regulated, which have been included in a regulatory deferral; partially offset by a decrease in oil sales volume and an increase in depreciation associated with the Maritime Link.

JUNE 2021/JUNE 2020

2021 second quarter profit was $61 million, an increase of $27 million compared to the same period in 2020. The key drivers of the increase include higher realized oil prices and a settlement from Hydro-Québec in relation to the Declaratory Judgment case; partially offset by higher royalties.

MARCH 2021/MARCH 2020

2021 first quarter loss was $57 million compared to a loss of $171 million for the same period in 2020. The key driver of the reduction in loss for the quarter relates to the impairment of White Rose and HSE assets taken in 2020 as a result of a significant decrease in oil prices amid the COVID-19 pandemic. Also contributing to the reduction in loss is lower depletion and operating expenses. These variances are partially offset by the impact of HSE Redetermination and lower oil sales volumes.

OUTLOOK

2022 will see key changes taking place within the business as we continue to test and commission the LIL assets and integrate all of the LCP assets into the provincial electricity system.

In July of 2021, the Government of Canada together with the Province announced an agreement in principle worth $5.2 billion with respect to rate mitigation and, on February 14, 2022, as part of the Province's Rate Mitigation Plan, Hydro, the Province and the Government of Canada signed term sheets for a $1 billion federal loan guarantee and capital restructuring of Muskrat Falls and Labrador Transco, and for a $1 billion investment by the Government of Canada in the LIL. Hydro initiated a Request for Financing to obtain the best financing solution to optimize the value of the $1 billion federal loan guarantee on February 16, 2022. The arrangements will provide rate relief to island customers, keep financing costs low and maintain ownership in the Muskrat Falls and Labrador Transmission assets as well as control of the Labrador-Island Link, all of which generate long-term benefits. The timing associated with commissioning of the LCP and any remaining decisions by the Province surrounding rate mitigation could cause material fluctuations in the Company's future profit, cash flows and asset values. As further details become known, Management will assess the impact on the Company's results of operations.

On June 23, 2021, the Province announced that Nalcor operations would be moving under Hydro. The Company is leading the effort to review the existing corporate and governance structure and contractual arrangements for the Company and its subsidiaries and will consult with the Province on the results of its review, including any policy or legislative inputs recommended. In support of the Province's directive, along with Hydro's commitment to reduce duplication and find cost savings; on November 2, 2021 the Company announced streamlining of the Executive structure, including a reduction of the Executive team from 18 members to 11. Further analysis in support of these commitments will continue into 2022. Management will continue to communicate the implications for our business, including the results of operations and financial position, moving forward.

COVID-19 continues to bring uncertainty to the industry with the emergence and spread of variants and the effectiveness and administration of vaccines. The extent to which COVID-19 will have a future impact on the Company, is difficult to predict and, given the situation surrounding COVID-19 is fluid, unknown and unexpected future impacts may materialize that could have an adverse effect on the results of operations, financial position and cash flows of the Company. Management continues to monitor developments and will take reasonable and necessary actions to minimize the risk to the business.

NL HYDRO

HYDRO REGULATED

Hydro Regulated continues to assess the anticipated timeline of its next GRA. Additional information regarding the implementation of the Province's rate mitigation plan and the agreement in principle announced in July 2021 is required in order to prepare a GRA filing that would reasonably reflect the expected costs resulting from the commissioning of the LCP. Hydro Regulated will continue to provide quarterly updates to the PUB on the timing of its next GRA and will confirm a more definitive timeline when further details around rate mitigation agreements become available.

In November 2021, Hydro Regulated commenced payments under the Muskrat Falls PPA and anticipates commencing payments under the TFA upon commissioning of the Labrador-Island Link in 2022. In December 2021 the PUB approved Hydro Regulated's application for deferral account proposals to address material changes in system costs associated with the integration of the LCP assets to the provincial electricity system and defer net costs and revenues associated with the LCP until rate mitigation is implemented. This application and its associated deferral account proposals will mitigate the impacts of the LCP on Hydro Regulated's earnings until the conclusion of its next GRA.

The PUB review process of the RRA Study to address Hydro Regulated's long-term approach to providing least-cost, reliable service for its customers over a ten-year planning period is ongoing and will continue throughout 2022.

In February 2022, Muskrat Falls and Hydro entered into a short-term Purchase Power Agreement for the purchase and sale of residual block energy. Under this Agreement, residential and industrial customer load, previously serviced with Recapture energy from Churchill Falls, is now serviced with energy from the Muskrat Falls plant. Entering into this Agreement has allowed additional Recapture energy exports to external markets helping to ensure maximum value from the Company's hydrological resources.

POWER SUPPLY

MUSKRAT FALLS/LCP TRANSMISSION

Management is continuing to work with GE towards completion and commissioning and has determined it would be reasonable to assess overall project completion to occur later in 2022. Management is currently reviewing the forecast total cost of the project.

Muskrat Falls and LCP Transmission net income is anticipated to be significantly higher in 2022 than 2021 due to the completion of the LCP assets.

ENERGY TRADING

Energy Trading will continue to work to maximize the export value of Muskrat Falls Residual and Recapture energy on behalf of the Company and facilitate the scheduling and delivery of Nova Scotia Block energy to Emera. Energy Trading will also continue to work with Hydro Regulated to procure and/or facilitate the delivery of off-island energy as required and to optimize the value of the Province's hydraulic storage and production assets.

In February 2022, short-term agreements were executed to allow for the use Muskrat Falls energy to serve customers in Labrador and allow additional Recapture to be sold in export markets. Under the agreements, Energy Trading will continue to export Recapture energy, on NL Hydro's behalf and will provide scheduling and administrative services related to export sales to Muskrat Falls.

OTHER-POWER SUPPLY

Delivery of the Nova Scotia Block will continue in 2022. Although the transactions associated with this delivery are non-cash, they will have a significant impact on the net income of Other-Power Supply in 2022.

OIL AND GAS

Cenovus and its partners continue to evaluate options on the West White Rose Project with a decision expected to be made mid-2022.Further suspension or cancellation of the West White Rose project would have an impact on Oil and Gas future profit and cash flow and may result in further impairment of Oil and Gas' assets.

Oil price continues to be volatile and any significant price change for 2022 unhedged production will impact profitability. To mitigate commodity price risk in 2022, Oil and Gas has commodity price swap contracts covering 56.71% of anticipated oil sales volumes for January to December 2022, at an average price of $69.74 USD per barrel. In addition, Oil and Gas holds foreign exchange forward contracts covering 51.64% of the associated forecasted USD cash receipts with an average rate of $1.26 CAD per USD.

CAPITAL EXPENDITURE OUTLOOK

Capital expenditures for Hydro in 2022 are forecasted to be significantly lower than 2021 capital expenditures of $704 million due to the wind down of construction associated with the Lower Churchill Project.

Forward-Looking Information

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

Forward-looking information involves significant risks, uncertainties and assumptions. Hydro cautions readers that a number of factors could cause actual results, performance and achievements to differ materially from the results discussed or implied in forward-looking information. These factors should be considered carefully and undue reliance should not be placed on the forward-looking information. Risk factors which could cause results or events to differ from current expectations are detailed under the *Key Business Risks*. Key risk factors include, but are not limited to: uncertainty regarding the impact to the Company as a result of the ongoing COVID-19 pandemic, uncertainty regarding the outcome of regulatory proceedings in Hydro Regulated; adequacy of future capital resources; the sustainability of future electricity rates and impact of any future rate mitigation; the impact of fluctuations in oil and electricity prices and foreign exchange rates and risk associated with the completion of the Company's capital expenditure program, including completion of major capital projects, such as the LCP, in the timelines anticipated and at the expected costs, and the integration of these assets into the electrical system.

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

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 21, 2022. 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.

Jennifer Williams
President and Chief Executive Officer

Lisa Hutchens
VP, Chief Financial Officer

APPENDIX 2

CONSOLIDATED FINANCIAL STATEMENTS – DECEMBER 31, 2021

NALCOR ENERGY
CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021

Deloitte.

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Independent Auditor's Report

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

Opinion

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

Basis for Opinion

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

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

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

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

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

Auditor’s Responsibilities for the Audit of the Financial Statements

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

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

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

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

Deloitte LLP

Chartered Professional Accountants
March 21, 2022

NALCOR ENERGY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31 (millions of Canadian dollars)	Notes	**2021**	2020
ASSETS			
Current assets			
Cash and cash equivalents	5	**407**	329
Restricted cash		**813**	860
Short-term investments	11	**8**	105
Trade and other receivables	6	**177**	163
Inventories	7	**115**	122
Other current assets	8	**24**	30
Total current assets		**1,544**	1,609
Non-current assets			
Property, plant and equipment	9	**17,739**	17,228
Intangible assets	10	**38**	38
Investments	11	**262**	253
Other long-term assets		**7**	7
Total assets		**19,590**	19,135
Regulatory deferrals	12	**184**	172
Total assets and regulatory deferrals		**19,774**	19,307
LIABILITIES AND EQUITY			
Current liabilities			
Short-term borrowings	15	**55**	262
Trade and other payables	13	**384**	401
Current portion of long-term debt	15	**68**	68
Other current liabilities	14	**74**	19
Total current liabilities		**581**	750
Non-current liabilities			
Long-term debt	15	**9,792**	9,577
Class B limited partnership units	16	**681**	628
Deferred credits	17	**1,809**	1,819
Decommissioning liabilities	18	**126**	124
Employee future benefits	19	**139**	153
Other long-term liabilities	20	**111**	70
Total liabilities		**13,239**	13,121
Shareholder's equity			
Share capital	22	**123**	123
Shareholder contributions		**4,859**	4,609
Reserves		**(81)**	(98)
Retained earnings		**1,607**	1,535
Total equity		**6,508**	6,169
Total liabilities and equity		**19,747**	19,290
Regulatory deferrals	12	**27**	17
Total liabilities, equity and regulatory deferrals		**19,774**	19,307

Commitments and contingencies (Note 31) and Subsequent event (Note 34)

See accompanying notes

On behalf of the Board:

DIRECTOR DIRECTOR

NALCOR ENERGY

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

For the year ended December 31 (millions of Canadian dollars)	Notes	**2021**	2020
Energy sales	24	**976**	913
Other revenue	30	**37**	17
Revenue		**1,013**	930
Fuels		**122**	158
Power purchased		**80**	91
Operating costs	25	**230**	211
Production, marketing and transportation costs	26	**31**	39
Transmission rental		**24**	26
Depreciation, depletion, amortization and impairment		**202**	437
Net finance expense	27	**127**	109
Other expense (income)	28	**157**	(37)
Expenses		**973**	1,034
Share of loss of joint arrangement		**1**	-
Profit (loss) for the year before regulatory adjustments		**39**	(104)
Regulatory adjustments	12	**(33)**	(14)
Profit (loss) for the year		**72**	(90)
Other comprehensive income			
Total items that may or have been reclassified to profit or loss:			
Actuarial gain (loss) on employee future benefits	19	**21**	(2)
Net fair value (loss) gain on reserve fund	11	**(1)**	1
Net fair value (loss) gain on cash flow hedges		**(61)**	46
Reclassification adjustments related to:			
Cash flow hedges recognized in profit or loss		**58**	(42)
Other comprehensive income for the year		**17**	3
Total comprehensive income (loss) for the year		**89**	(87)

See accompanying notes

NALCOR ENERGY

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(millions of Canadian dollars)	Note	Share Capital	Shareholder Contributions	Fair Value Reserve	Employee Benefit Reserve	Retained Earnings	Total
Balance at January 1, 2021		**123**	**4,609**	**(65)**	**(33)**	**1,535**	**6,169**
Profit for the year		**-**	**-**	**-**	**-**	**72**	**72**
Other comprehensive income		**-**	**-**	**(4)**	**21**	**-**	**17**
Total comprehensive income for the year		**-**	**-**	**(4)**	**21**	**72**	**89**
Shareholder contributions	30	**-**	**250**	**-**	**-**	**-**	**250**
Balance at December 31, 2021		**123**	**4,859**	**(69)**	**(12)**	**1,607**	**6,508**
Balance at January 1, 2020		123	4,608	(70)	(31)	1,625	6,255
Loss for the year		-	-	-	-	(90)	(90)
Other comprehensive income		-	-	5	(2)	-	3
Total comprehensive loss for the year		-	-	5	(2)	(90)	(87)
Shareholder contributions		-	1	-	-	-	1
Balance at December 31, 2020		123	4,609	(65)	(33)	1,535	6,169

See accompanying note

NALCOR ENERGY

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31 (millions of Canadian dollars)	Notes	**2021**	2020
Operating activities			
Profit (loss) for the year		**72**	(90)
Adjustments to reconcile profit (loss) to cash provided from operating activities:			
Depreciation, depletion, amortization and impairment		**202**	437
Hibernia South Extension Redetermination re-balancing adjustment	28	**89**	-
(Gain) loss on disposal of property, plant and equipment and intangible assets	28	**(24)**	6
Amortization of rate stabilization plan fuel credit		**33**	24
Regulatory adjustments	12	**(33)**	(14)
Finance income	27	**(27)**	(32)
Finance expense	27	**154**	141
Other		**15**	23
		481	495
Changes in non-cash working capital balances	32	**(11)**	32
Interest received		**12**	24
Interest paid		**(387)**	(387)
Net cash provided from operating activities		**95**	164
Investing activities			
Additions to property, plant and equipment and intangible assets	33	**(452)**	(551)
Proceeds on disposal of property plant and equipment and intangible assets		**40**	2
Decrease (increase) in investments		**76**	(31)
Other		**2**	2
Changes in non-cash working capital balances	32	**(4)**	29
Net cash used in investing activities		**(338)**	(549)
Financing activities			
Proceeds from long-term debt	15	**287**	-
Repayment of long-term debt		**(61)**	(30)
Decrease in restricted cash		**47**	600
(Decrease) increase in short-term borrowings		**(207)**	29
Shareholder contributions	30	**250**	-
Rate stabilization plan fuel credit		**(3)**	(55)
Other		**8**	(4)
Net cash provided from financing activities		**321**	540
Net increase in cash and cash equivalents		**78**	155
Cash and cash equivalents, beginning of the year		**329**	174
Cash and cash equivalents, end of the year		**407**	329

See accompanying notes

1. DESCRIPTION OF BUSINESS

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

1.1 Subsidiaries

Nalcor holds interests in the following subsidiaries:

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

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

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

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

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

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

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

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

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

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

1.2 Investment in Joint Arrangement

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

These financial statements have been prepared on a historical cost basis, except for financial instruments at fair value through profit or loss (FVTPL) and fair value through other comprehensive income (FVTOCI) which have been measured at fair value. The financial statements are presented in Canadian Dollars (CAD) and all values rounded to the nearest million, except when otherwise noted. The financial statements were approved by Nalcor's Board of Directors (the Board) on March 4, 2022.

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

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

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

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

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

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

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

Depreciation commences when the assets are ready for their intended use. Residual values and useful lives are reviewed at the end of each year and adjusted prospectively, if appropriate. Depreciation is calculated on a straight-line basis over the estimated useful lives for all lines of business except Hydro, where depreciation is calculated based on the average group methodology. As per Board Order P.U. 30 (2019), Hydro was approved to recover gains and losses through accumulated amortization and to record removal costs through depreciation. To comply with International Accounting Standard (IAS) 16, the adjustments related to the recovery of gains and losses through accumulated amortization and removal depreciation are presented as a regulatory adjustment in Note 12. The depreciation rates used are as follows:

Generation plant	
Hydroelectric	7 to 110 years
Thermal	20 to 70 years
Diesel	3 to 70 years
Transmission	
Lines	26 to 75 years
Terminal stations	7 to 70 years
Distribution system	20 to 60 years
Service facilities and other assets	3 to 100 years

Hydroelectric generation plant includes the powerhouse, turbines and generators, governors and exciters, and auxiliary systems, as well as water conveying and control structures, including dams, dikes, tailraces, surge chambers, spillways, penstocks, draft tube 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 and terminal stations include the support structures, foundations, conductors and insulators associated with lines at voltages of 735, 350, 315 and 230, 138 and 69 kilovolt. Terminal station assets which are used to step up voltages of electricity for transmission and to step down voltages for distribution, provide switching and protection functions, and include HVDC Converters to convert between AC and DC voltages, synchronous condensers and auxiliary systems. Distribution system assets include poles, transformers, insulators, conductors, subsea cables, and electrode equipment.

Service facilities and other assets include roads, telecontrol, buildings, airport, aircraft, vehicles, heavy equipment, furniture, tools and equipment, and the town site, including municipal water and sanitary sewer systems.

The carrying amount of a replaced asset is derecognized when replaced. Gains and losses on disposal of an item of property, plant and equipment, including petroleum and natural gas interests, are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recorded in other expense (income). Pursuant to Board Order P.U. 30 (2019), Hydro's gains and losses are deferred on retirement of property, plant and equipment. The deferral will be recovered through future depreciation expense.

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

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

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

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

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

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

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

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

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

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

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

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

2.8 Borrowing Costs

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

2.9 Impairment of Non-Financial Assets

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

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

2.10 Investments in Joint Arrangements

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

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

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

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

2.11 Employee Future Benefits

Pension Plan

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

Other Benefits

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

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

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

2.12 Provisions

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

2.13 Decommissioning, Restoration and Environmental Liabilities

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

2.14 Revenue Recognition

Revenue from Contracts with Customers

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

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

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

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

Revenue from Crude Oil Sales

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

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

2.15 Leasing

Lessee Accounting

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

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

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

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

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

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

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

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

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

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

2.16 Foreign Currencies

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

2.17 Income Taxes

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

2.18 Financial Instruments

Classification and Initial Measurement

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

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

Financial Assets at Amortized Cost

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

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

Financial Assets at FVTOCI

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

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

Financial Assets at FVTPL

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

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

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

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

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

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

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

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

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

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

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

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

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

quantity of hedged item. Nalcor formally documents all hedges and the related risk management objectives at the inception of the hedge. Derivative instruments that have been designated and qualify for hedge accounting are classified as either cash flow or fair value hedges.

The effective portion of the gain or loss on a cash flow hedging instrument is recognized directly in other comprehensive income, while any ineffective portion is recognized immediately in the Consolidated Statement of Profit (Loss) and Comprehensive Income (Loss) for the period in other expense (income). Amounts recognized in other comprehensive income are transferred to the Consolidated Statement of Profit (Loss) 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.

2.19 Government Grants

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

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

2.20 Regulatory Deferrals

Nalcor's revenues from its electrical sales to most customers within the Province are subject to rate regulation by the PUB. Hydro's borrowing and capital expenditure programs are also subject to review and approval by the PUB. Rates are set through periodic general rate applications utilizing a cost of service methodology. Hydro's allowed rate of return on rate base based upon Board Order No. P.U. 30 (2019) is 5.4% in 2021 and 5.4% in 2020. Hydro applies various regulator approved accounting policies that differ from enterprises that do not operate in a rate regulated environment. Generally, these policies result in the deferral and amortization of costs or credits which are expected to be recovered or refunded in future rates. In the absence of rate regulation, these amounts would be included in the determination of profit or loss in the year the amounts are incurred. The effects of rate regulation on the financial statements are disclosed in Note 12.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

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

3.1 Use of Judgments

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

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

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

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

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

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

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

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

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

(viii) Leases

Definition of a Lease

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

Lease Extension and Termination Options

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

(ix) Regulatory adjustments

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

3.2 Use of Estimates

(i) Property, Plant and Equipment

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

(ii) Oil and Natural Gas Reserves

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

(iii) 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 (Loss) 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.

(iv) 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.

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

4. CURRENT AND FUTURE CHANGES IN ACCOUNTING POLICIES

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

- *IFRS 16 – Leases – COVID-19 Related Rent Concessions beyond June 30, 2021 (Amendment to IFRS 16)*[1]
- *IAS 37 – Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Costs of Fulfilling a Contract (Amendments to IAS 37)*[2]
- *IAS 1 – Presentation of Financial Statements – Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)*[3]
- *IAS 1 – Presentation of Financial Statements– Disclosure of Accounting Policies (Amendments to IAS 1)*[3]
- *IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Accounting Estimates (Amendments to IAS 8)*[3]

[1] Effective for annual periods beginning on or after April 1, 2021.
[2] Effective for annual periods beginning on or after January 1, 2022, with earlier application permitted.
[3] Effective for annual periods beginning on or after January 1, 2023, with earlier application permitted.

4.1 IFRS 16 – Leases – COVID-19 Related Rent Concessions beyond June 30, 2021 (Amendment to IFRS 16)

The IASB issued an extension to the practical expedient available to lessees that permits a lessee to elect not to assess whether a COVID-19 related rent concession is a lease modification. The extension allows the application of the practical expedient to reductions in lease payments originally due on or before June 30, 2022. Since Nalcor does not have any COVID-19 related rent concessions, the application of this amendment does not have an impact on Nalcor's financial statements.

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

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

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

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

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

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

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

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

5. CASH AND CASH EQUIVALENTS

As at December 31, 2021 and 2020, cash and cash equivalents consisted entirely of cash.

6. TRADE AND OTHER RECEIVABLES

As at December 31 (millions of Canadian dollars)		**2021**	2020
Trade receivables		**176**	157
Other receivables	(a)	**24**	23
Loss allowance		**(23)**	(17)
		177	163

a) Other receivables are comprised primarily of harmonized sales tax as well as bank interest and advances.

As at December 31 (millions of Canadian dollars)	**2021**	2020
0-60 days	**168**	149
60+ days	**9**	14
	177	163

As at December 31 (millions of Canadian dollars)	**2021**	2020
Loss allowance, beginning of the year	**(17)**	(14)
Change in balance during the year	**(6)**	(3)
Loss allowance, end of the year	**(23)**	(17)

7. INVENTORIES

As at December 31 (millions of Canadian dollars)	**2021**	2020
Materials and other	**65**	65
Fuel	**46**	54
Crude oil	**4**	3
	115	122

The amount of inventory recognized as an expense during the year was $126.1 million (2020 - $162.1 million) and is included in operating costs and fuels.

8. OTHER CURRENT ASSETS

As at December 31 (millions of Canadian dollars)	**2021**	2020
Prepayments	**21**	27
Derivative assets	**3**	3
	24	30

9. PROPERTY, PLANT AND EQUIPMENT

(millions of Canadian dollars)	Generation Plant	Transmission and Distribution	Petroleum and Natural Gas Properties	Other	Assets Under Development	Total
Cost						
Balance as at January 1, 2020	2,014	1,368	1,575	518	12,855	18,330
Additions	1	-	37	3	809	850
Disposals	(6)	(3)	(2)	(3)	(2)	(16)
Transfers	41	72	-	14	(127)	-
Decommissioning liabilities and revisions	1	-	18	-	-	19
Other adjustments	-	(1)	-	-	(4)	(5)
Balance as at December 31, 2020	2,051	1,436	1,628	532	13,531	19,178
Additions	**1**	**-**	**24**	**12**	**690**	**727**
Disposals	**(13)**	**(2)**	**(46)**	**(2)**	**-**	**(63)**
Transfers	**96**	**1,836**	**-**	**27**	**(1,959)**	**-**
Decommissioning liabilities and revisions	**-**	**-**	**1**	**-**	**-**	**1**
Other adjustments	**-**	**(4)**	**-**	**2**	**-**	**(2)**
Balance as at December 31, 2021	**2,135**	**3,266**	**1,607**	**571**	**12,262**	**19,841**
Depreciation, depletion and impairment						
Balance as at January 1, 2020	606	242	433	196	55	1,532
Depreciation and depletion	55	32	101	13	-	201
Disposals	(4)	(2)	(1)	(3)	-	(10)
Impairment	2	-	225	-	-	227
Balance as at December 31, 2020	659	272	758	206	55	1,950
Depreciation and depletion	**57**	**46**	**81**	**15**	**-**	**199**
Disposals	**(7)**	**(1)**	**(37)**	**(2)**	**-**	**(47)**
Balance as at December 31, 2021	**709**	**317**	**802**	**219**	**55**	**2,102**
Carrying value						
Balance as at January 1, 2020	1,408	1,126	1,142	322	12,800	16,798
Balance as at December 31, 2020	1,392	1,164	870	326	13,476	17,228
Balance as at December 31, 2021	**1,426**	**2,949**	**805**	**352**	**12,207**	**17,739**

Capitalized interest for the year ended December 31, 2021 was $292.2 million (2020 - $297.3 million) related to assets under development.

On a quarterly basis, the Company assesses its cash generating units (CGUs) for indicators of impairment or when events or changes in circumstances indicate the carrying amount may exceed its recoverable amount. As at March 31, 2020, the impact of the COVID-19 pandemic resulted in a significant decline in global demand for crude oil, and in the same time-frame, an over-supply of crude oil resulted in a significant decrease in crude oil commodity prices, which was considered an indicator of impairment for the Company's Oil and Gas CGU's. The impairment assessments of these CGUs were completed based on value in use, estimating discounted future cash flows based on forecasted oil prices, proved and probable reserves and a discount rate derived from post-tax weighted average cost of capital, adjusted to reflect specific risks to the CGUs. As at December 31, 2021, management determined that no further adjustments to provisions were required.

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

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

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

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

10. INTANGIBLE ASSETS

(millions of Canadian dollars)	Computer Software	Feasibility Studies	Assets Under Development	Total
Cost				
Balance as at January 1, 2020	45	2	10	57
Additions	2	-	3	5
Disposals	(5)	(1)	-	(6)
Transfers	4	-	(4)	-
Other adjustments	-	-	4	4
Balance as at December 31, 2020	46	1	13	60
Additions	**1**	-	**4**	**5**
Transfers	**6**	-	**(6)**	-
Balance as at December 31, 2021	**53**	**1**	**11**	**65**
Amortization				
Balance as at January 1, 2020	20	1	-	21
Amortization	4	1	-	5
Disposals	(3)	(1)	-	(4)
Balance as at December 31, 2020	21	1	-	22
Amortization	**5**	-	-	**5**
Balance as at December 31, 2021	**26**	**1**	-	**27**
Carrying value				
Balance as at January 1, 2020	25	1	10	36
Balance as at December 31, 2020	25	-	13	38
Balance as at December 31, 2021	**27**	-	**11**	**38**

11. INVESTMENTS

As at December 31 (millions of Canadian dollars)		**2021**	2020
Sinking funds	(a)	**227**	219
Reserve fund	(b)	**43**	39
Investments	(c)	-	100
Total investments		**270**	358
Less: amounts classified as short-term		**(8)**	(105)
		262	253

a) As at December 31, 2021, sinking funds include $191.7 million (2020 - $182.6 million) related to repayment of Hydro's long-term debt and $35.6 million (2020 - $36.1 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 2022 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 1.42% to 6.82% (2020 - 1.52% to 6.82%).

LIL LP, Muskrat Falls and Labrador Transco are required to contribute to sinking funds as part of the federal loan guarantee on

Tranche A, B and C debentures.

Nalcor's sinking funds are held to fund the annual payments to the Innu Nation as required under the UCRA.

The movements in sinking funds for the year are as follows:

As at December 31 (millions of Canadian dollars)	**2021**	2020
Sinking funds, beginning of the year	**219**	211
Contributions	**7**	7
Earnings	**14**	13
Disposals and maturities	**(2)**	(2)
Change in sinking fund investments in own debentures	**(11)**	(10)
Sinking funds, end of the year	**227**	219
Less: amounts classified as short-term	**(2)**	(2)
	225	217

Sinking fund instalments due over the next five years are as follows:

(millions of Canadian dollars)	2022	2023	2024	2025	2026
Sinking fund instalments	151	151	151	151	151

b) In 2007 Churchill Falls commenced the creation of a $75.0 million segregated reserve fund pursuant to the terms of the Shareholders' Agreement to contribute towards the funding of capital expenditures related to Churchill Falls' existing facilities and their replacement. The fund must remain in place until the end of the Shareholders’ Agreement in 2041. 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.

The movement in Nalcor's proportionate share of the reserve fund for the year is as follows:

As at December 31 (millions of Canadian dollars)	**2021**	2020
Reserve fund, beginning of the year	**39**	25
Principal contributions	**5**	13
Mark-to-market adjustment	**(1)**	1
Reserve fund, end of the year	**43**	39
Less: amounts classified as short-term	**(6)**	(3)
	37	36

c) Nalcor’s Redeemable Guaranteed Investment Certificate matured in December 2021 and was not reinvested.

12. REGULATORY DEFERRALS

(millions of Canadian dollars)		January 1 2021	Reclass and Disposition	Regulatory Activity	**December 31 2021**	Remaining Recovery Settlement Period (years)
Regulatory asset deferrals						
Rate stabilization plan (RSP)	(a)	40	24	(8)	**56**	n/a
Foreign exchange losses	(b)	46	-	(2)	**44**	20.0
Retirement asset pool	(c)	13	-	6	**19**	n/a
Supply cost variance deferral account	(d)	-	-	18	**18**	n/a
Power purchase expense recognition	(e)	-	-	18	**18**	n/a
Supply deferrals	(f)	59	(55)	8	**12**	n/a
Deferred energy conservation costs	(g)	8	-	-	**8**	n/a
Business system transformation program	(h)	4	-	1	**5**	n/a
Other	(k-t)	2	-	2	**4**	n/a
		172	(31)	43	**184**	
Regulatory liability deferrals						
Removal provision	(i)	(12)	-	(5)	**(17)**	n/a
Insurance amortization and proceeds	(j)	(3)	-	(4)	**(7)**	n/a
Other	(k-t)	(2)	-	(1)	**(3)**	n/a
		(17)	-	(10)	**(27)**	

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

For the year ended December 31 (millions of Canadian dollars)		**2021**	2020
RSP amortization		**(24)**	(32)
Rural rate adjustment		**2**	2
RSP fuel deferral		**33**	57
RSP interest		**(3)**	(2)
Total RSP activity	(a)	**8**	25
Supply deferral recovery		**4**	11
Supply deferrals		**(12)**	(55)
Total supply deferral activity	(f)	**(8)**	(44)
Supply cost variance deferrals	(d)	**(18)**	-
Power purchase expense recognition	(e)	**(18)**	-
Removal provision	(i)	**5**	4
Other	(b,c,g,h,j-t)	**(2)**	1
		(33)	(14)

The following section describes Nalcor's regulatory assets and liabilities which will be, or are expected to be, reflected in customer rates in future periods and have been established through the rate setting process. In the absence of rate regulation, these amounts would be reflected in operating results in the year and profit for 2021 would have decreased by $32.7 million (2020 - $14.2 million).

(a) RSP

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

During 2021, Hydro recorded a net increase in the RSP balance of $16.6 million (2020 - $23.7 million) resulting in a balance from customers of $56.5 million (2020 - $39.9 million). The increase in the RSP asset is primarily due to the recovery of the

2020 energy supply deferrals as per Board Order No. P.U. 15 (2021) resulting in a net increase to the RSP of $54.9 million (2020 - $19.8 million); and Board Order No. P.U. 6 (2021) which approved a transfer of the remaining balance in the 2017 GRA Cost Recovery Rider to the Island Industrial Customer RSP Current Plan resulting in a net increase to the RSP of $0.3 million; partially offset by adjustments related to the one-time fuel price bill credits for utility, rural and industrial customers as per Board Order No.'s P.U. 16 (2020) and P.U. 6 (2021) resulting in a net decrease of $30.9 million (2020 - net increase of $30.8 million) and normal operation of the RSP resulting in a net decrease of $7.7 million (2020 – $25.4 million).

Per Board Order No. P.U. 33 (2021) and Hydro's compliance filing, the RSP was discontinued for purposes of deferring variations in hydraulic production, No. 6 fuel, and load as at October 31, 2021. The Board ordered that the RSP will be maintained to provide timely recovery of the remaining balance resulting in the continuation of amortization and interest charges.

(b) 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 2021, amortization expense of $2.2 million (2020 - $2.2 million) was recorded.

(c) Retirement Asset Pool

As per Board Order No. P.U. 30 (2019), the Board approved Hydro's proposed depreciation methodology which includes the deferral of gains and losses on retirement of assets. The deferral will be recovered through future depreciation expense. In 2021, Hydro deferred $6.1 million (2020 - $2.1 million) of retirement asset activity resulting in a total balance of $19.3 million.

(d) Supply Cost Variance Deferral Account

In Board Order No. P.U. 33 (2021), the PUB approved Hydro's proposal to establish an account to defer payments under the Muskrat Falls Project agreements, rate mitigation funding, project cost recovery from customers and supply cost variances. The deferral commenced activity on November 1, 2021. As at December 31, 2021, $18.3 million was deferred for future recovery from customers.

(e) Power Purchase Expense Recognition

In Board Order No. P.U. 9 (2021) and Board Order No. P.U. 33 (2021), the PUB approved Hydro's proposal to deviate from IFRS to allow recognition of expenses related to the purchase of energy in accordance with the commercial terms of the Muskrat Falls Power Purchase Agreement. As at December 31, 2021, IFRS power purchase expenses were $14.8 million higher during Muskrat Falls pre-commissioning and $2.8 million higher during post-commissioning than commercial payments which resulted in the deferral of a regulatory asset of $17.6 million.

(f) Supply Deferrals

Pursuant to Board Order No. P.U. 22 (2017), the Board approved Supply deferral costs using three specific deferral accounts: the Energy Supply, Holyrood Conversion and Isolated Systems Supply cost deferrals. During 2021, Hydro recorded a net decrease to the supply deferrals of $47.4 million (2020 – net increase $24.3 million) resulting in a balance from customers of $12.3 million (2020 - $59.7 million). The decrease in the supply deferral asset is primarily due to the recovery of the 2020 supply cost deferral of $54.9 million from the RSP as per Board Order No. P.U. 15 (2021); Board Order No. P.U. 21 (2019) approved the recovery from customers of $18.4 million over a 20 month period; of which, in 2021 Hydro recovered $4.5 million (2020 - $10.9 million); Board Order No. P.U. 6 (2021) which approved a transfer of the remaining balance in the 2017 GRA cost recovery Rider to the Island Industrial Customer, which resulted in a net decrease to the supply deferral of $0.3 million (2020 - $nil); and normal operation of the supply deferral, resulting in a net increase of $12.3 million (2020 - $54.9 million), with recovery of the period's activity to be determined through an annual application process.

Per Board Order No. P.U. 33 (2021) and Hydro's compliance application, the Energy Supply and Holyrood Conversion Deferrals were discontinued as at October 31, 2021 with the account maintained to provide for a timely recovery of the remaining balance.

(g) Deferred Energy Conservation Costs

In 2021, Hydro deferred $1.1 million (2020 - $0.6 million) in Energy Conservation Costs associated with an electrical conservation demand management program for residential, industrial, and commercial sectors. As per Board Order No. P.U. 22 (2017), Hydro recovered $1.5 million (2020 – $1.5 million) of the balance through a rate rider.

(h) Business System Transformation Program

As per Board Order No.'s P.U. 23 (2019) and P.U. 30 (2019), the Board approved the deferral of business system transformation program costs. The recovery of the deferral is subject to a future Board order. During the year, Hydro deferred $1.0 million (2020 – $1.1 million).

(i) Removal Provision

As per Board Order No. P.U. 30 (2019), the Board approved Hydro's proposed depreciation methodology which includes the provision for removal costs. Hydro recorded a net increase to the provision relating to 2021 activity of $4.9 million (2020 - $4.1 million) resulting in a total balance of $16.9 million (2020 - $12.0 million). The increase was driven by removal depreciation of $5.2 million (2020 - $5.1 million) which was partially offset by removal costs of $0.3 million (2020 - $1.0 million).

(j) 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 2021, Hydro recorded a net increase of $4.2 million (2020 - $nil) to the regulatory liability. The increase was driven by insurance proceeds of $4.5 million (2020 - $nil) which was partially offset by insurance amortization of $0.3 million (2020 - $nil).

(k) Deferred Lease Costs

In Board Order No's. P.U. 17 (2016), P.U. 23 (2016) and No. P.U. 49 (2016) the Board approved amortization of lease costs associated with mobile diesel units at Holyrood Thermal Generating Station (HTGS) over a period of five years. In 2021, Hydro recorded amortization of $0.1 million (2020 - $0.3 million) of the deferred lease costs.

(l) Deferred Foreign Exchange on Fuel

Hydro purchases fuel for HTGS in USD. There are regulatory mechanisms that allow Hydro to defer variances in fuel prices (including foreign exchange fluctuations). During 2021, Hydro recognized an increase to regulatory assets due to foreign exchange losses on fuel purchases of $0.6 million (2020 - $0.2 million gains).

(m) Phase Two Hearing Costs

Pursuant to Board Order No. P.U. 13 (2016), Hydro received approval to defer consulting fees and salary related costs relating to Phase Two of the investigation into the reliability and adequacy of power on the Island Interconnected system after the interconnection with the Muskrat Falls generating station. In 2019, Phase Two of the Board's investigation was concluded with recovery to be addressed in a future Board Order. There were no additions in 2021 or 2020. The total deferred balance is $1.4 million (2020 - $1.4 million).

(n) Asset Disposal

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

(o) Hydraulic Resources Optimization Deferral Account

In Board Order No. P.U. 49 (2018), a deferral account to capture the revenues and costs associated with the hydraulic optimization activities was approved. For the year ended December 31, 2021, the balance of hydraulic optimization activities is a net gain of $1.3 million (2020 - $1.0 million) recorded as a deferred liability.

(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 $0.2 million (2020 - $0.2 million) are deferred as a regulatory liability.

(q) Non-Customer Contributions in Aid of Construction

Pursuant to Board Order No. P.U. 1 (2017), Hydro recognized amortization of deferred contributions in aid of construction (CIAC) from entities which are non-customer related parties in profit or loss. During 2021, Hydro recorded $1.2 million (2020 - $0.9 million) in non-customer related party CIAC amortization as a regulatory adjustment. In the absence of rate regulation, IFRS requires these non-customer related party CIACs to be recorded as contributed capital with no corresponding amortization. As a result, during 2021 Hydro also recorded an increase of $1.2 million (2020 - $0.9 million) to contributed capital to recognize the amount that was reclassified to profit or loss.

(r) 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 2021 Hydro recorded $0.2 million (2020 - $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 2021 Hydro also recorded a decrease of $0.2 million (2020 - $0.1 million) to other comprehensive income to recognize the amount that was reclassified to profit or loss.

(s) Reliability and Resource Adequacy Study

Pursuant to Board Order No. P.U. 29 (2019), the Board approved the deferral of costs associated with the Reliability and Resource Adequacy proceeding. Hydro deferred $1.3 million in 2021 (2020 - $0.6 million) resulting in a regulatory asset of $2.1 million (2020 - $0.8 million). The recovery of the balance is to be determined in a future Board Order.

(t) Frequency Converter Revenue Deferral Account

In Board Order No. P.U. 35 (2020), the Board approved the deferral of the cumulative revenue requirement impact associated with the loss on the sale of a frequency converter, commencing December, 2019. The disposition of the cumulative revenue requirement impact included in the deferral account balance will be addressed as part of Hydro’s next general rate application. During 2021, Hydro deferred $0.2 million as a regulatory liability (2020 - $0.2 million).

13. TRADE AND OTHER PAYABLES

As at December 31 (millions of Canadian dollars)	**2021**	2020
Trade payables and accruals	**269**	307
Accrued interest payable	**56**	56
Other payables	**59**	38
	384	401

14. OTHER CURRENT LIABILITIES

As at December 31 (millions of Canadian dollars)	Notes	**2021**	2020
Current portion of long-term payable	20	**38**	8
Derivative liabilities	(a)	**31**	9
Current portion of decommissioning liabilities		**2**	-
Current portion of deferred credits		**2**	1
Current portion of deferred contributions		**1**	1
		74	19

a) Included in derivative liabilities as at December 31, 2021 is $18.4 million (2020 - $nil) related to an embedded derivative associated with the HSE Redetermination re-balancing liability which is recorded in long-term payables, as disclosed in Note 20. The embedded derivative represents the change in fair value of the liability based on current forward oil prices. The offsetting unrealized loss is recorded in other expense (income). Also included in derivative liabilities is the change in fair value of commodity price swap and foreign exchange forward contracts, as disclosed in Note 29.

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, the maturity date was extended during the year from January 31, 2022 to July 31, 2022. There were no amounts drawn on this facility as at December 31, 2021 (2020 - $nil), however $5.9 million of the borrowing limit has been used to issue 8 irrevocable letters of credit (2020 - $7.8 million to issue 10 irrevocable letters of credit) which relate to power purchases and sale contracts with various independent system operators, transmission providers and bilateral counterparties. Borrowings in CAD may take the form of Prime Rate Advances, Bankers' Acceptances (BAs) and letters of credit. Borrowings in USD may take the form of Base Rate Advances, London Interbank Offer Rate (LIBOR) Advances and letters of credit. The facility also provides coverage for overdrafts on Nalcor's bank accounts, with interest calculated at the Prime Rate.

Hydro utilized its $300.0 million government guaranteed promissory note program to fulfil its short-term funding requirements. As at December 31, 2021, there were two promissory notes outstanding for a total of $55.0 million with a maturity date of January 10, 2022 bearing an average interest rate of 0.20% (2020 - $262.0 million bearing an average interest rate of 0.17%). Upon maturity, the promissory notes were reissued.

Hydro’s $200.0 million CAD or USD equivalent committed revolving term facility with a maturity date of July 27, 2021 was increased to $500.0 million on April 16, 2021, and extended to reflect a new maturity date of July 31, 2022. As at December 31, 2021, there were no amounts drawn on the facility (2020 - $nil). Borrowings in CAD may take the form of Prime Rate Advances, BAs, and letters of credit, with interest calculated at the Prime Rate or BA fee. Borrowings in USD may take the form of Base Rate Advances and letters of credit. The facility also provides coverage for overdrafts on Hydro's bank accounts, with interest calculated at the Prime Rate. Hydro’s committed credit facility with its banker of $300.0 million matured during the year and was not renewed.

Churchill Falls maintains a $10.0 million CAD or USD equivalent unsecured demand operating credit facility with its banker. Advances may take the form of a 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, 2021 (2020 - $nil).

Churchill Falls has issued three irrevocable letters of credit totaling $2.0 million (2020 - $2.0 million to issue three irrevocable letters of credit), $1.0 million of which does not impact the borrowing limit of the operating credit facility (2020 - $1.0 million). The letters of credit ensure satisfactory management of its waste management system and compliance with a certificate of approval for the transportation of special and hazardous wastes, granted by the Provincial Department of Environment and Conservation.

Oil and Gas maintains a $30.0 million CAD or USD equivalent unsecured demand operating facility with its banker and as at December 31, 2021, there were no amounts drawn on this facility (2020 - $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. $20.9 million of the borrowing limit has been used to issue two irrevocable letters of credit (2020 - $22.2 million to issue two irrevocable letters of credit) to ensure compliance with service agreements and regulations relating to petroleum and natural gas exploration and production activities.

Energy Marketing maintains a $20.0 million CAD or USD equivalent demand operating credit facility with its banker, and as at December 31, 2021, there were no amounts drawn on this facility (2020 - $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. $6.4 million of the borrowing limit has been used to issue six irrevocable letters of credit (2020 - $3.0 million to issue four irrevocable letters of credit) to various independent system operators, transmission providers, and bilateral counterparties in relation to power purchase and sale contracts. These letters of credit have automatic renewal clauses, unless cancelled with appropriate notice by the issuer or beneficiary.

As at December 31, 2021, Nalcor, on behalf of Energy Marketing, has issued unconditional guarantees and sales contracts in the amount of $20.7 million (2020 - $15.0 million) in order to guarantee amounts under power purchase and sale contracts with bilateral counterparties.

15.2 Long-term Debt

As at December 31 (millions of Canadian dollars)	Face Value	Coupon Rate %	Year of Issue	Year of Maturity	**2021**	2020
Hydro						
Y*	300	8.40	1996	2026	**297**	297
AB*	300	6.65	2001	2031	**304**	304
AD*	125	5.70	2003	2033	**124**	124
AF	500	3.60	2014/2017	2045	**482**	481
1A	600	3.70	2017/2018	2048	**638**	639
2A	300	1.75	2021	2030	**287**	-
LIL LP						
Tranche A*	725	3.76	2013	2033	**725**	725
Tranche B*	600	3.86	2013	2045	**600**	600
Tranche C*	1,075	3.85	2013	2053	**1,075**	1,075
Tranche 4-10	74	1.36-1.75	2017	2022-2025	**74**	95
Tranche 11-20	105	1.84-2.37	2017	2025-2030	**105**	105
Tranche 21-30	105	2.41-2.64	2017	2030-2035	**105**	105
Tranche 31-40	105	2.66-2.80	2017	2035-2040	**105**	105
Tranche 41-50	105	2.81-2.86	2017	2040-2045	**105**	105
Tranche 51-60	105	2.84-2.86	2017	2045-2050	**105**	105
Tranche 61-70	105	2.85	2017	2050-2055	**105**	105
Tranche 71-74	315	2.85	2017	2055-2057	**316**	316
Labrador Transco/Muskrat Falls						
Tranche A*	650	3.63	2013	2029	**650**	650
Tranche B*	675	3.83	2013	2037	**675**	675
Tranche C*	1,275	3.86	2013	2048	**1,275**	1,275
Tranche 4-10	145	1.36-1.75	2017	2022-2025	**145**	185
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	9,934				**9,944**	9,718
Less: sinking fund investments in own debentures					**(84)**	(73)
					9,860	9,645
Less: repayment of debt due within one year					**(68)**	(68)
					9,792	9,577

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

Hydro's promissory notes and debentures are unsecured and unconditionally guaranteed as to principal and interest and, where applicable, sinking fund payments, by the Province, with exception of Series 1A and Series 2A, which are borrowed directly from the Province. 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 recorded for the year ended December 31, 2021 was $8.6 million (2020 - $8.6 million).

On April 13, 2021, the Province issued long-term debt with a face value of $300.0 million, specifically on Hydro's behalf. The debt matures on June 2, 2030 with a coupon rate of 1.75% paid semi-annually.

The LIL LP, Labrador Transco/Muskrat Falls funding benefits from a direct, absolute, unconditional and irrevocable guarantee from the Government of Canada, and thereby carries its full faith and credit (AAA rating or equivalent).

16. CLASS B LIMITED PARTNERSHIP UNITS

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

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

As at December 31 (millions of Canadian dollars)	**Units**	**2021**	Units	2020
Class B limited partnership units, beginning of the year	**25**	**628**	25	578
Accrued interest	**-**	**53**	-	50
Class B limited partnership units, end of the year	**25**	**681**	25	628

17. DEFERRED CREDITS

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

As at December 31, 2021 (millions of Canadian dollars)	Deferred Energy Sales	Deferred Lease Revenue	Other	Total
Deferred credits, beginning of the year	1,782	37	1	1,820
Additions	(4)	4	2	2
Amortization	(9)	(1)	(1)	(11)
Deferred credits, end of the year	1,769	40	2	1,811
Less: current portion	-	-	(2)	(2)
	1,769	40	-	1,809

Nalcor has recorded deferred energy sales of $1,769.0 million (2020 - $1,782.2 million) which represents Nalcor's obligation to deliver the Nova Scotia Block to Emera in exchange for construction and operation and maintenance of the Maritime Link. Nalcor has determined that it controls the Maritime Link asset for financial reporting purposes, and as such, has recorded the costs of construction within property, plant and equipment.

18. DECOMMISSIONING LIABILITIES

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

The reconciliation of the beginning and ending carrying amounts of decommissioning liabilities as at December 31, 2021 and 2020 are as follows:

As at December 31 (millions of Canadian dollars)	**2021**	2020
Decommissioning liabilities, beginning of the year	**124**	102
Accretion	**4**	4
Revisions	**-**	18
Decommissioning liabilities, end of the year	**128**	124
Less: current portion	**(2)**	-
	126	124

The total estimated undiscounted cash flows required to settle the HTGS obligations at December 31, 2021 are $15.2 million (2020 - $15.2 million). Payments to settle the liability are expected to occur between 2022 and 2025. The fair value of the decommissioning liabilities was determined using the present value of future cash flows discounted at a rate of 1.3% (2020 - 0.5%).

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

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

19. EMPLOYEE FUTURE BENEFITS

19.1 Pension Plan
Employees participate in the Province’s Public Service Pension Plan, a multi-employer defined benefit plan. The employer’s contributions for the year ended December 31, 2021 of $13.1 million (2020 - $13.0 million) are expensed as incurred.

19.2 Other Benefits
Nalcor provides group life insurance and health care benefits on a cost shared basis to retired employees, and in certain cases, their surviving spouses, in addition to a retirement allowance. In 2021, cash payments to beneficiaries for its unfunded other employee future benefits were $4.3 million (2020 - $4.4 million). An actuarial valuation was performed as at December 31, 2021.

As at December 31 (millions of Canadian dollars)	**2021**	2020
Accrued benefit obligation, beginning of the year	**153**	144
Current service cost	**7**	7
Interest cost	**4**	4
Benefits paid	**(4)**	(4)
Actuarial (gain) loss	**(21)**	2
Accrued benefit obligation, end of the year	**139**	153

For the year ended December 31 (millions of Canadian dollars)	**2021**	2020
Component of benefit cost		
Current service cost	**7**	7
Interest cost	**4**	4
Total benefit expense for the year	**11**	11

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

	2021	2020
Discount rate - benefit cost	**2.70%**	3.20%
Discount rate - accrued benefit obligation	**3.35%**	2.70%
Rate of compensation increase	**3.50%**	3.50%

Assumed healthcare trend rates:

	2021	2020
Initial health care expense trend rate	**5.53%**	5.64%
Cost trend decline to	**3.60%**	3.60%

Current rate 5.53%, reducing linearly to 3.6% in 2040 and thereafter.

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

Increase (millions of Canadian dollars)	**2021**	2020
Current service and interest cost	**2.6**	2.5
Accrued benefit obligation	**22.4**	26.3

Decrease (millions of Canadian dollars)	**2021**	2020
Current service and interest cost	**(1.9)**	(1.8)
Accrued benefit obligation	**(17.1)**	(19.9)

20. OTHER LONG-TERM LIABILITIES

As at December 31 (millions of Canadian dollars)		**2021**	2020
Long-term payables	(a)	**76**	39
Deferred contributions	(b)	**30**	26
Non-current lease liabilities		**5**	5
		111	70

(a) Long-term payables:

As at December 31(millions of Canadian dollars)	Note	**2021**	2020
Long-term payables, beginning of the year		**47**	49
Additions		**100**	6
Settlements		**(37)**	(10)
Accretion		**3**	2
Revisions		**1**	-
Long-term payables, end of the year		**114**	47
Less: current portion	14	**(38)**	(8)
		76	39

As at December 31, 2021, long-term payables consist of a payable to the Innu Nation under the UCRA, a payable to the NunatuKavut Community Council under the Community Development Agreement, and a payable as a result of First Redetermination under the

Hibernia South Extension (HSE) Operating Agreement, which became effective on March 1, 2021. 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, 2021, $2.6 million (2020 - $2.5 million) of the amount is current and is recorded in other current liabilities. Nalcor has sinking funds in the amount of $35.6 million (2020 - $36.1 million) to fund these future obligations. The present value of the remaining payments using a discount rate of 3.1% (2020 - 2.4%) is $37.7 million (2020 - $37.8 million).

HSE First Redetermination resulted in a reduction in Oil and Gas' working interest in the HSE field from 10% to 8.7%. The change in working interest triggers the re-balancing of historic barrels of oil, which requires Oil and Gas to repay oil received above the revised working interest over an estimated 30-month period, commencing May 2021. The balance of the liability as at December 31, 2021 is $71.9 million (2020 - $nil) with $33.4 million recorded as current and included in other current liabilities (2020 - $nil).

(b) Deferred contributions:

As at December 31 (millions of Canadian dollars)	**2021**	2020
Deferred contributions, beginning of the year	**27**	26
Additions	**5**	3
Amortization	**(1)**	(2)
Deferred contributions, end of the year	**31**	27
Less: current portion	**(1)**	(1)
	30	26

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.

21. LEASES

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

For the year ended December 31 (millions of Canadian dollars)		**2021**	2020
Variable lease payments not included in the measurement of leases	(a)	**29**	28

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

The total cash outflow for leases amount to $28.9 million for the year ended December 31, 2021 (2020 - $30.0 million).

22. SHAREHOLDER'S EQUITY

22.1 Share Capital

As at December 31 (millions of Canadian dollars)	**2021**	2020
Common shares of par value $1 each		
Authorized - unlimited		
Issued and outstanding - 122,500,000	**123**	123

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 the LCP. Therefore, Nalcor's primary objective when managing capital is to ensure ready access to capital at a reasonable cost, to minimize its cost of capital within the confines of established risk parameters, and to safeguard Nalcor's ability to continue as a going concern.

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

A summary of the consolidated capital structure is outlined below:

As at December 31 (millions of Canadian dollars)	**2021**		2020	
Debt				
Sinking funds (Hydro portion only)	**(192)**		(183)	
Short-term borrowings	**55**		262	
Current portion of long-term debt	**68**		68	
Long-term debt	**9,792**		9,577	
Class B limited partnership units	**681**		628	
Lease liabilities	**5**		5	
	10,409	**62%**	10,357	63%
Equity				
Share capital	**123**		123	
Shareholder contributions	**4,859**		4,609	
Reserves	**(81)**		(98)	
Retained earnings	**1,607**		1,535	
	6,508	**38%**	6,169	37%
Total Debt and Equity	**16,917**	**100%**	16,526	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, 2021 and 2020, 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 of the PUB. Hydro's committed operating facility has a covenant requiring Hydro to ensure that its consolidated debt to total capitalization ratio does not exceed 85%. As at December 31, 2021 and 2020, Hydro was in compliance with this covenant.

Legislation stipulates that the total of the Government guaranteed short-term loans issued by Hydro and outstanding at any time shall not exceed a limit as fixed by the Lieutenant-Governor in Council. Short-term loans are those loans issued with a term not exceeding two years. On February 20, 2020, the Lieutenant-Governor in Council issued Order in Council OC2020-18 to increase the level of short-term borrowings permitted by Hydro from $300 million to $500 million, effective until March 31, 2022. As a result, the current limit is now $500.0 million and $55.0 million is outstanding as at December 31, 2021 (2020 - $262.0 million). The Act limits Hydro's total borrowings outstanding at any point in time, which includes both short-term borrowings and long-term debt. Hydro's total borrowing limit under the Act is $2.6 billion.

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

23.2 Muskrat Falls

Capital includes share capital, shareholder contributions and long-term debt. Muskrat Falls' objectives for managing capital are to maintain its ability to continue as a going concern and to ensure timely payment of its contractual obligations. Subsequent to 2021, no further equity is anticipated as proceeds from energy sales will be sufficient to fund the operating, maintaining and sustaining costs of the MF Plant.

23.3 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 and ongoing sustaining capital requirements of the LIL while providing its partners a required return. 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 has provided guarantees to ensure partner contributions in relation to the construction of the LIL. These guarantees will ensure sufficient funds are available to finance remaining construction costs.

The capital structure of Labrador Transco includes share capital, shareholder contributions, and long-term debt. Labrador Transco's objectives for managing capital are to maintain its ability to continue as a going concern and to ensure timely payment of its contractual obligations. Subsequent to 2021, no further equity is anticipated as proceeds received under the Generator Interconnection Agreement will be sufficient to fund the operating, maintaining and sustaining costs of the Labrador Transmission Assets.

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

23.4 Churchill Falls

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

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

23.5 Energy Marketing

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

23.6 Oil and Gas

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

24. ENERGY SALES

For the year ended December 31 (millions of Canadian dollars)	**2021**	2020
Electricity sales	**716**	697
Petroleum and natural gas sales	**298**	243
Royalty expense	**(38)**	(27)
Total energy sales	**976**	913

25. OPERATING COSTS

For the year ended December 31 (millions of Canadian dollars)	**2021**	2020
Salaries and benefits	**140**	142
Maintenance and materials	**47**	31
Professional services	**23**	19
Insurance	**8**	7
Travel and transportation	**7**	5
Other operating costs	**5**	7
	230	211

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)	**2021**	2020
Project operating costs	**21**	26
Transportation and transshipment	**7**	7
Processing and marketing	**3**	6
	31	39

27. NET FINANCE EXPENSE

For the year ended December 31 (millions of Canadian dollars)	**2021**	2020
Finance income		
Interest on investments	**18**	17
Interest on restricted cash	**4**	12
Other interest income	**5**	3
	27	32
Finance expense		
Interest on long-term debt	**361**	357
Interest on Class B limited partnership units	**53**	50
Debt guarantee fee	**23**	23
Other	**9**	8
	446	438
Interest capitalized during construction	**(292)**	(297)
	154	141
Net finance expense	**127**	109

28. OTHER EXPENSE (INCOME)

For the year ended December 31 (millions of Canadian dollars)		**2021**	2020
HSE Redetermination re-balancing adjustment	(a)	**89**	-
HSE Redetermination royalty adjustment	(a)	**31**	-
Settlement of commodity price swap contracts		**59**	(49)
(Gain) loss on disposal of property, plant and equipment		**(24)**	3
Other		**2**	9
Other expense (income)		**157**	(37)

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

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

29.1 Fair Value

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

	Level	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
As at (millions of Canadian dollars)		**December 31, 2021**		December 31, 2020	
Financial assets					
Derivative assets	**2**	**3**	**3**	3	3
Sinking funds - investments in Hydro debt issue	**2**	**84**	**94**	73	88
Sinking funds - other investments	**2**	**227**	**271**	219	279
Reserve fund	**2**	**43**	**43**	39	39
Financial liabilities					
Derivative liabilities	**2**	**31**	**31**	9	9
Long-term debt including amount due within one year (before sinking funds)	**2**	**9,944**	**11,741**	9,718	12,543
Class B limited partnership units	**3**	**681**	**681**	628	628
Long-term payables including amount due within one year	**2**	**114**	**132**	47	49

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

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

Level 3 financial instruments include Class B limited partnership units.

The Class B limited partnership units are carried at amortized cost calculated using the effective interest rate method. The effective interest rate of 8.5% (2020 – 8.5%) is defined in the Newfoundland and Labrador Development Agreement as Emera NL's rate of return on equity, and is equal to the rate approved by the PUB for privately-owned regulated electrical utilities. Due to the unobservable nature of the effective interest rate and cash flows associated with the units, the fair value is assumed to approximate carrying value and the instruments have therefore been classified as Level 3.

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

(millions of Canadian dollars)	1% Increase	1% Decrease
Class B limited partnership units	(40.6)	38.5

29.2 Risk Management

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

Credit Risk

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

The COVID-19 pandemic has increased the credit risk of the Company, as the potential risk for non-performance of the Company's customers has increased with the current economic slowdown. Nalcor had established flexible collection practices during the COVID-19 pandemic for its customers and has since returned to its normal customer collections practices. Nalcor is continuing to monitor the risk of non-performance by its customers and as at December 31, 2021 the impact on the Company's expected credit loss allowance is not considered material. As well, Nalcor is continuing to monitor the implications of COVID-19, including the risk of credit losses, pronouncements from governments and regulators and, if required, will make adjustments to the expected credit loss allowance in future periods.

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

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

	Issuer Credit Rating	Fair Value of Portfolio (%)	Issuer Credit Rating	Fair Value of Portfolio (%)
	2021		2020	
Provincial governments	AA-to AAA	17.44%	AA-to AAA	17.80%
Provincial governments	A -to A+	25.95%	A- to A+	26.75%
Provincially owned utilities	AA-to AAA	25.86%	AA-to AAA	26.45%
Provincially owned utilities	A- to A+	30.75%	A- to A+	29.00%
		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 (%)
	2021		2020	
Provincial governments	AA- to AAA	10.58%	AA- to AAA	0.00%
Provincially owned utilities	AA- to AAA	4.82%	AA- to AAA	8.26%
Provincial governments	A- to A+	38.14%	A- to A+	40.58%
Provincially owned utilities	A- to A+	5.30%	A- to A+	6.00%
Schedule 1 Canadian banks	AA- to AAA	15.59%	AA- to AAA	18.53%
Schedule 1 Canadian banks	A- to A+	25.57%	A- to A+	26.63%
		100.00%		100.00%

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

	Issuer Credit Rating	Fair Value of Portfolio (%)	Issuer Credit Rating	Fair Value of Portfolio (%)
	2021		2020	
Provincially owned utilities	A- to A+	100.00%	A- to A+	0.20%
Schedule 1 Canadian Banks	A- to A+	0.00%	A- to A+	99.80%
		100.00%		100.00%

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

Nalcor does not have any significant amounts that are past due and uncollectable, for which a provision has not been recognized as at December 31, 2021.

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 (2020 - $250.0 million) committed revolving term credit facility, with a maturity date of July 31, 2022. There were no amounts drawn on this facility at December 31, 2021 (2020 - $nil). In addition, Hydro has access to a $300.0 million promissory note program and a $500.0 million (2020 - $200.0 million) committed revolving term credit facility. On April 16, 2021, Hydro increased its $200.0 million CAD or USD equivalent committed revolving term credit facility to $500.0 million with a new maturity date of July 31, 2022. These credit facilities are held with its primary banker in order to meet any requirements beyond those forecasted for a given period. Oil and Gas, Energy Marketing and Churchill Falls also maintain demand operating facilities of $30.0 million (2020 - $30.0 million), $20.0 million (2020 - $20.0 million) and $10.0 million (2020 - $10.0 million), respectively. In addition, Churchill Falls maintains a $24.0 million minimum cash balance (2020 - $23.0 million).

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

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 2030, 2045 and 2048.

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

The following are contractual maturities of Nalcor's financial liabilities as at December 31, 2021:

(millions of Canadian dollars)	<1 Year	1-3 Years	3-5 Years	>5 Years	Total
Trade and other payables	384	-	-	-	384
Short-term borrowings	55	-	-	-	55
Long-term debt (including sinking funds, interest and guarantee fees)	596	1,191	1,474	14,145	17,406
Class B partnership units (including interest)	45	168	161	4,119	4,493
Long-term payables	36	40	2	36	114
	1,116	1,399	1,637	18,300	22,452

Market Risk

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

Interest Rates

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

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

Nalcor does not have significant exposure to fluctuations in foreign exchange with respect to its trade and other receivables and trade and other payables.

During 2021, total energy sales denominated in USD were $39.5 million (2020 - $21.0 million). There were no hedges in place for the year ended December 31, 2021.

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

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

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

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

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

(2020 - $2.6 million in unrealized gains) remain in other comprehensive income.

During 2021, additional financial transmission rights with notional values of $0.5 million (2020 - $1.6 million) were purchased to mitigate risk on congestion for the remainder of 2021, 2022 and a portion of 2023. As the rights have not been designated as hedging instruments, changes in fair value have been recorded in other expense (income).

30. 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
Oil and Gas Corporation of Newfoundland and Labrador	Wholly-owned subsidiary of the Province
Bull Arm Fabrication Inc.	Wholly-owned subsidiary of Oil and Gas Corporation of Newfoundland and Labrador
Emera Newfoundland and Labrador Island Link Inc.	Limited Partner holding 25 Class B limited partnership units of LIL LP
PUB	Agency of the Province

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

(a) Hydro is required to incur the costs of operations, hearings and application costs of the PUB, including costs of any experts and consultants engaged by the PUB. During 2021, Hydro incurred $1.3 million (2020 - $1.1 million) in costs related to the PUB and has included $0.5 million (2020 - $0.1 million) in trade and other payables.

(b) The Hydro debt guarantee fee paid to the Province for 2021 was $8.6 million (2020 - $8.6 million). Interest paid to the Province on series 1A long-term debt for 2021 was $22.2 million (2020 - $22.2 million).

(c) During 2021, Hydro has purchased $28.5 million (2020 - $28.0 million) of power generated from assets related to Exploits Generation, which are held by the Province. Nalcor operates these assets on behalf of the Province and recovered costs in 2021 of $24.7 million (2020 - $25.5 million).

(d) Hydro recorded $2.4 million (2020 - $2.3 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, 2021, there is a balance of $0.2 million (2020 - $0.2 million) outstanding in trade and other receivables.

(e) During 2021, Churchill Falls generated revenue from Hydro-Québec of $125.1 million (2020 - $95.0 million) and Nalcor has recognized its share of $82.3 million (2020 - $62.5 million). Included in other revenue in 2021 is a Settlement Agreement regarding the Declaratory Judgment case surrounding the interpretation of the Renewed Power Contract, which came into effect September 1, 2016, and alignment on a final Annual Energy Base, which establishes Hydro-Québec's annual energy entitlement for the term of the contract.

(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. As at December 31, 2021, $9.2 million (2020 - $6.5 million) was payable to the Province. Nalcor has recognized its share of $6.0 million (2020 - $4.3 million).

(g) During 2021, Nalcor's shareholder contributed capital in the amount of $250 million (2020 - $nil) in relation to capital expenditures.

(h) During 2021, Oil and Gas expensed $38.2 million (2020 - $26.8 million) to the Province for royalties on its oil and gas operations.

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

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

(k) During 2021, Oil and Gas was charged $4.2 million (2020 - $4.2 million) by Oil and Gas Corporation of Newfoundland and Labrador for management services.

(l) Under the terms of the Lower Churchill Water Lease Agreement, Muskrat Falls is required to pay the Province an annual rental fee based on megawatt hours of energy generated during the year. As at December 31, 2021, $5.7 million (2020 - $0.1 million) was payable to the Province.

30.1 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)	**2021**	2020
Salaries and employee benefits	**6**	8
Post-employment benefits	**1**	1
	7	9

31. COMMITMENTS AND CONTINGENCIES

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

(b) Outstanding commitments for capital projects, excluding those related to Oil and Gas, total approximately $85.7 million as at December 31, 2021 (2020 - $214.8 million).

(c) Nalcor and its subsidiaries have issued 19 irrevocable letters of credit with a total value of $35.2 million as per Note 15.1.

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

(millions of Canadian dollars)	Total Commitments
2022	107.3
2023	73.9
2024	67.9
2025	67.7
2026	67.7
Thereafter	90.0

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

Type	Rating	Effective Date	Term
Hydroelectric	6.5 MW	2021	24 years
Hydroelectric	4 MW	1998	25 years
Hydroelectric	300 MW	1998	43 years
Hydroelectric	225 MW	2015	25 years
Cogeneration	15 MW	2003	20 years
Wind	390 kW	2004	Continual
Wind	27 MW	2008	20 years
Wind	27 MW	2009	20 years
Hydroelectric	240 kW Hydro	2019. Amended in 2020.	15 years
Solar	189 kW Solar	2019. Amended in 2020.	15 years
Battery	334.5 kW Battery	2019. Amended in 2020.	15 years
Biomass	450 kW	2018	1 year post in-service of Muskrat Falls

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

(millions of Canadian dollars)	2022	2023	2024	2025	2026
Power purchases	80.9	70.2	70.4	71.3	72.5

(f) In 2014, Hydro entered into three Capacity Assistance Agreements, one with Vale Newfoundland & Labrador Limited (Vale) and two with Corner Brook Pulp and Paper Limited (CBPP) for the purchase of relief power during the winter period. In May 2021, Hydro entered into a second revised agreement with CBPP that expires on April 30, 2023. In December 2021, Hydro entered into a revised agreement with Vale that expires in March of 2022. Payment for services will be dependent on the successful provision of capacity assistance for the winter period by Vale and CBPP.

(g) Energy Marketing has commitments for third party transmission rights as well as operational commitments totaling $8.0 million as at December 31, 2021 (2020 - $10.6 million).

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

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

2022	$19.7 million
2023	$19.9 million
2024	$5.0 million

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

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

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

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

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

32. SUPPLEMENTARY CASH FLOW INFORMATION

For the year ended December 31 (millions of Canadian dollars)	**2021**	2020
Trade and other receivables	**(15)**	77
Prepayments	**6**	-
Inventories	**9**	12
Trade and other payables	**(15)**	(28)
Changes in non-cash working capital balances	**(15)**	61
Related to:		
Operating activities	**(11)**	32
Investing activities	**(4)**	29
	(15)	61

33. SEGMENT INFORMATION

The operating structure as at December 31, 2021 is comprised of the following business segments. The designation of segments is based on a combination of regulatory status and management accountability. During Q4 2021, the Muskrat Falls assets were commissioned and therefore Muskrat Falls has been moved from the Power Development operating segment to Power Supply. Previously reported segmented information has been presented to conform to the current operating structure. The following summary provides a brief overview of the nature of the operations included in each of the Company's operating segments.

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

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

Power Development – includes costs associated with ongoing and potential future power development activities, such as costs and assets associated with Gull Island.

Power Supply – is comprised of the following:

- **Muskrat Falls** includes the 824MW hydroelectric generating facility in Labrador on the Lower Churchill River.
- **LCP Transmission** includes the construction and operation of the LIL and LTA, which consist of transmission lines connecting the Muskrat Falls Generating Station, the Churchill Falls Generating Station, and certain portions of the transmission system in Labrador to the island of Newfoundland.
- **Churchill Falls** owns and operates a hydroelectric generating facility which sells electricity to Hydro-Québec and Hydro.
- **Energy Trading** includes energy trading and commercial activities related to securing and optimizing markets to extract the greatest value from the Nalcor's existing generation resources through the participation in export electricity markets.
- **Other** includes revenues and expenditures associated with the delivery of the Nova Scotia Block of energy to Emera, expenditures associated with the Maritime Link (which is owned by Emera, but consolidated by Nalcor), revenues and costs recovered from Hydro-Québec associated with the operation of the Menihek Generating Station, costs related to Power Supply management, administration and community development, and costs associated with the management of the LCP construction.

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

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

	NL Hydro		Power Development	Power Supply									
(millions of Canadian dollars)	Regulated	Non-Regulated	Other	Muskrat Falls	LCP Transmission	Churchill Falls	Energy Trading	Other	Oil and Gas	Corporate	Inter-Segment	Total
	For the year ended December 31, 2021											
Energy sales	538	47	-	59	135	99	55	9	260	-	(226)	976
Other revenue	16	-	-	-	-	16	2	9	-	1	(7)	37
Revenue	554	47	-	59	135	115	57	18	260	1	(233)	1,013
Fuels	122	-	-	-	-	-	-	-	-	-	-	122
Power purchased	123	43	-	-	-	-	4	4	-	-	(94)	80
Operating costs	129	1	-	13	8	39	5	14	10	11	-	230
Production, marketing and transportation costs	-	-	-	-	-	-	-	-	31	-	-	31
Transmission rental	-	-	-	135	-	-	26	1	-	-	(138)	24
Depreciation, depletion and amortization	84	-	-	-	-	21	-	13	80	4	-	202
Net finance expense (income)	91	-	-	14	24	(1)	-	-	4	(4)	(1)	127
Other expense (income)	2	-	-	4	1	7	(4)	-	144	-	3	157
Preferred dividends	-	-	-	-	-	(4)	-	-	-	-	4	-
Expenses	551	44	-	166	33	62	31	32	269	11	(226)	973
Share of loss of joint arrangement	-	-	-	-	-	1	-	-	-	-	-	1
Profit (loss) for the year before regulatory adjustments	3	3	-	(107)	102	52	26	(14)	(9)	(10)	(7)	39
Regulatory adjustments	(33)	-	-	-	-	-	-	-	-	-	-	(33)
Profit (loss) for the year	36	3	-	(107)	102	52	26	(14)	(9)	(10)	(7)	72
Capital expenditures*	115	-	-	307	244	48	-	(7)	24	4	(3)	732
Total assets	2,910	7	140	6,856	6,454	718	82	1,821	869	353	(436)	19,774
Total debt**	1,914	-	-	3,664	4,831	-	-	-	-	-	-	10,409

*Capital expenditures (inclusive of property, plant and equipment and intangible assets) include non-cash additions of ($12.3) million related to the Maritime Link, $53.4 million related to Class B Limited Partnership Unit accrued interest, and $238.8 million of interest capitalized during construction.

**Total debt includes short-term borrowings, long-term debt including current portion less Hydro's sinking funds of $191.7 million, Class B Limited Partnership Units, and lease liabilities.

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

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

34. SUBSEQUENT EVENT

On February 14, 2022, as part of the Province's Rate Mitigation Plan, the Company, the Province and the Government of Canada (Canada) signed term sheets for a $1 billion federal loan guarantee and capital restructuring of Muskrat Falls and Labrador Transco, and for a $1 billion investment by Canada in the LIL. The final agreements contemplated under the term sheets are substantively complete and will be signed in the coming months.

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