NALCOR ENERGY
CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022

Deloitte LLP
5 Springdale Street
Suite 1000
St. John's, NL A1E 0E4 Canada

Tel: (709) 576-8480
Fax: (709) 576-8460
www.deloitte.ca

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, 2022, 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, 2022, 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, 2023

NALCOR ENERGY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31 (millions of Canadian dollars)	Notes	**2022**	2021
ASSETS			
Current assets			
Cash and cash equivalents	5	**566**	407
Restricted cash		**1,307**	813
Short-term investments	11	**61**	8
Trade and other receivables	6	**187**	177
Inventories	7	**132**	115
Other current assets	8	**30**	24
Total current assets		**2,283**	1,544
Non-current assets			
Property, plant and equipment	9	**17,921**	17,739
Intangible assets	10	**35**	38
Investments	11	**507**	262
Other long-term assets		**5**	7
Total assets		**20,751**	19,590
Regulatory deferrals	12	**540**	184
Total assets and regulatory deferrals		**21,291**	19,774
LIABILITIES AND EQUITY			
Current liabilities			
Short-term borrowings	15	**131**	55
Trade and other payables	13	**301**	384
Current portion of long-term debt	15	**69**	68
Current portion of deferred credits	17	**130**	2
Other current liabilities	14	**88**	72
Total current liabilities		**719**	581
Non-current liabilities			
Long-term debt	15	**10,721**	9,792
Class B limited partnership units	16	**739**	681
Deferred credits	17	**1,654**	1,809
Decommissioning liabilities	18	**96**	126
Employee future benefits	19	**98**	139
Other long-term liabilities	20	**81**	111
Total liabilities		**14,108**	13,239
Shareholder’s equity			
Share capital	22	**123**	123
Shareholder contributions		**4,859**	4,859
Reserves		**(19)**	(81)
Retained earnings		**2,187**	1,607
Total equity		**7,150**	6,508
Total liabilities and equity		**21,258**	19,747
Regulatory deferrals	12	**33**	27
Total liabilities, equity and regulatory deferrals		**21,291**	19,774

Commitments and contingencies (Note 32)

See accompanying notes

On behalf of the Board:

DIRECTOR

DIRECTOR

NALCOR ENERGY

CONSOLIDATED STATEMENT OF PROFIT AND COMPREHENSIVE INCOME

For the year ended December 31 (millions of Canadian dollars)	Notes	**2022**	2021
Energy sales	24	**1,327**	976
Other revenue	25	**32**	37
Revenue		**1,359**	1,013
Fuels		**188**	122
Power purchased		**81**	80
Operating costs	26	**264**	230
Production, marketing and transportation costs	27	**30**	31
Transmission rental		**23**	24
Depreciation, depletion, amortization and impairment		**224**	202
Net finance expense	28	**225**	127
Other expense	29	**95**	157
Expenses		**1,130**	973
Share of loss of joint arrangement		**-**	1
Profit for the year before regulatory adjustments		**229**	39
Regulatory adjustments	12	**(351)**	(33)
Profit for the year		**580**	72
Other comprehensive income			
Total items that may or have been reclassified to profit or loss:			
Actuarial gain on employee future benefits	19	**48**	21
Net fair value loss on reserve fund	11	**(3)**	(1)
Net fair value loss on cash flow hedges		**(62)**	(61)
Reclassification adjustments related to:			
Cash flow hedges recognized in profit or loss		**79**	58
Other comprehensive income for the year		**62**	17
Total comprehensive income for the year		**642**	89

See accompanying notes

NALCOR ENERGY
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(millions of Canadian dollars)	Notes	Share Capital	Shareholder Contributions	Fair Value Reserve	Employee Benefit Reserve	Retained Earnings	Total
Balance at January 1, 2022		**123**	**4,859**	**(69)**	**(12)**	**1,607**	**6,508**
Profit for the year		**-**	**-**	**-**	**-**	**580**	**580**
Other comprehensive income		**-**	**-**	**14**	**48**	**-**	**62**
Total comprehensive income for the year		**-**	**-**	**14**	**48**	**580**	**642**
Balance at December 31, 2022		**123**	**4,859**	**(55)**	**36**	**2,187**	**7,150**
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	31	-	250	-	-	-	250
Balance at December 31, 2021		123	4,859	(69)	(12)	1,607	6,508

See accompanying notes

NALCOR ENERGY
CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31 (millions of Canadian dollars)	Notes	**2022**	2021
Operating activities			
Profit for the year		**580**	72
Adjustments to reconcile profit to cash provided from operating activities:			
Depreciation, depletion, amortization and impairment		**224**	202
Amortization of deferred credits	17	**(77)**	(11)
Hibernia South Extension (HSE) Redetermination re-balancing adjustment	29	**(22)**	89
Loss (gain) on disposal of property, plant and equipment	29	**19**	(24)
Amortization of rate stabilization plan fuel credit		**-**	33
Maritime Link operating costs		**20**	7
Regulatory adjustments	12	**(351)**	(33)
Finance income	28	**(67)**	(27)
Finance expense	28	**292**	154
Other		**23**	26
		641	488
Changes in non-cash working capital balances	33	**59**	(11)
Interest received		**48**	12
Interest paid		**(400)**	(387)
Net cash provided from operating activities		**348**	102
Investing activities			
Additions to property, plant and equipment and intangible assets	34	**(271)**	(452)
Proceeds on disposal of property, plant and equipment		**-**	40
(Increase) decrease in investments		**(311)**	76
Other		**5**	2
Changes in non-cash working capital balances	33	**(160)**	(4)
Net cash used in investing activities		**(737)**	(338)
Financing activities			
Proceeds from long-term debt	15	**1,000**	287
Repayment of long-term debt		**(60)**	(61)
(Increase) decrease in restricted cash		**(494)**	47
Increase in deferred credits		**13**	6
Increase (decrease) in short-term borrowings		**76**	(207)
Shareholder contributions		**-**	250
Other		**13**	(8)
Net cash provided from financing activities		**548**	314
Net increase in cash and cash equivalents		**159**	78
Cash and cash equivalents, beginning of the year		**407**	329
Cash and cash equivalents, end of the year		**566**	407

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 Labrador-Island Link General Partner (2021) Corporation (LIL GP (2021)) and Labrador-Island Link Holding (2021) Corporation (LIL Holdco (2021)), created to control, manage and hold Nalcor's interest in the LIL (2021) Limited Partnership (the 2021 Partnership or LIL (2021) LP).

A limited partnership interest in the LIL (2021) LP. The 2021 partnership will hold the common shares of LIL Holdco and administer a Federal Government of Canada investment in the LIL that is a component of the Province's Rate Mitigation Plan.

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 100% beneficial interest (through Churchill Falls) in Twin Falls Power Corporation Limited (Twin Falls). On January 25, 2022, Churchill Falls purchased Wabush Resources Inc.'s 12.5% interest and Wabush Iron Co. Limited's 4.6% interest in Twin Falls for a purchase price of $875 thousand, increasing its ownership share to 50.4%. On November 1, 2022, Churchill Falls purchased Iron Ore Company of Canada (IOC)'s 49.6% interest in Twin Falls for a nominal amount and provided an indemnity to IOC for any contingent environmental liabilities associated with Twin Falls. The purchase of the IOC shares increased Churchill Falls' ownership to 100.0%.

Given Twin Falls has no assets, other than cash, that would be capable of being managed for the purpose of providing goods or services to customers, or otherwise generating income, Twin Falls does not meet the definition of a business and therefore the acquisition is scoped out of *IFRS 3 Business Combinations*. Upon acquisition of the remaining shares, Churchill Falls measured its previously held equity interest in Twin Falls using the accumulated carrying amount and, accordingly, no gain or loss was recorded.

The acquisition has been accounted for prospectively in the financial statements. As such, the Consolidated Statement of Financial Position as at December 31, 2022 includes Twin Falls assets and liabilities, with any intercompany transactions eliminated.

The Company's profit for the year ended December 31, 2022 includes a share of loss of joint venture representing Churchill Falls' share of Twin Falls net revenue and expenditures for the period of January 1, 2022 through October 31, 2022. The revenue and expenditures for Twin Falls post acquisition for the period of November 1, 2022 to December 31, 2022 have been consolidated with any intercompany transactions eliminated.

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 10, 2023.

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 segments 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 from 69 to 735 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 Churchill Falls 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. 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.

Petroleum and Natural Gas Properties

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

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

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

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

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

<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 and costs of technical services, 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

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

2.9 Impairment of Non-Financial Assets

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

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

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately in the Consolidated Statement of Profit and Comprehensive Income.

2.10 Investments in Joint Arrangements

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

Nalcor holds 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.

2.11 Employee Future Benefits

<u>Pension Plan</u>

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

<u>Other Benefits</u>

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 and Comprehensive Income as a regulatory adjustment.

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

2.12 Provisions

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

2.13 Decommissioning, Restoration and Environmental Liabilities

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

2.14 Revenue Recognition

Revenue from Contracts with Customers

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

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

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

Nalcor 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 and Comprehensive Income as other expense.

2.17 Income Taxes

Nalcor is exempt from paying income taxes under Paragraph 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 and Comprehensive Income for the period in other expense. Amounts recognized in other comprehensive income are transferred to the Consolidated Statement of Profit and Comprehensive Income for the period when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognized or when a forecast sale occurs.

2.19 Government Grants

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

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

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

2.20 Regulatory Deferrals

Nalcor’s revenues from its electrical sales to most customers within the Province are subject to rate regulation by the PUB. Hydro's borrowing and capital expenditure programs are also subject to review and approval by the PUB. Rates are set through periodic general rate applications utilizing a cost of service methodology. Hydro’s allowed rate of return on rate base based upon Board Order No. P.U. 30 (2019) is 5.4% in 2022 and 5.4% in 2021. 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.

3.1 Use of Judgments

(i) <u>Asset Impairment and Reversals</u>

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, 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 and Comprehensive Income through net finance expense. Differences between the recorded decommissioning liabilities and the actual decommissioning costs incurred are recorded as a gain or loss in the settlement period.

(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 amendments that have been issued and are effective for accounting periods commencing on or after January 1, 2022, as specified.

- *IAS 37 – Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Costs of Fulfilling a Contract (Amendments to IAS 37)*[1]
- *IAS 1 – Presentation of Financial Statements– Disclosure of Accounting Policies (Amendments to IAS 1)* [2]
- *IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Accounting Estimates (Amendments to IAS 8)* [2]
- *IAS 1 – Presentation of Financial Statements – Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)* [3]

[1] Effective for annual periods beginning on or after January 1, 2022.
[2] Effective for annual periods beginning on or after January 1, 2023, with earlier application permitted.
[3] These amendments were originally effective for annual periods beginning on or after January 1, 2023, however, in 2022 the IASB deferred the effective date to January 1, 2024, with earlier application permitted.

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

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

4.2 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. Management does not expect this change will have a material impact on the financial statements.

4.3 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 will not have an impact on Nalcor’s financial statements.

4.4 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. Additional information was added to clarify that only covenants with which an entity is required to comply on or before the reporting date affect the classification of a liability as current or non-current. In addition, an entity has to disclose information in the notes that enables users of financial statements to understand the risk that non-current liabilities with covenants could become repayable within twelve months. The amendments are applied retrospectively upon adoption. The application of these amendments is not expected to have a material impact on Nalcor's financial statements.

5. CASH AND CASH EQUIVALENTS

As at December 31, 2022 and 2021, cash and cash equivalents consisted entirely of cash.

6. TRADE AND OTHER RECEIVABLES

As at December 31 (millions of Canadian dollars)		**2022**	2021
Trade receivables		**189**	176
Other receivables	(a)	**23**	24
Loss allowance		**(25)**	(23)
		187	177

(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)	**2022**	2021
0-60 days	**176**	168
60+ days	**11**	9
	187	177

As at December 31 (millions of Canadian dollars)	**2022**	2021
Loss allowance, beginning of the year	**(23)**	(17)
Change in balance during the year	**(2)**	(6)
Loss allowance, end of the year	**(25)**	(23)

7. INVENTORIES

As at December 31 (millions of Canadian dollars)	**2022**	2021
Materials and other	**70**	65
Fuel	**59**	46
Crude oil	**3**	4
	132	115

The amount of inventory recognized as an expense during the year was $192.3 million (2021 - $126.1 million) and is included in fuels and operating costs.

8. OTHER CURRENT ASSETS

As at December 31 (millions of Canadian dollars)	**2022**	2021
Prepayments	**22**	21
Derivative assets	**8**	3
	30	24

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, 2021	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
Additions	**-**	**-**	**31**	**23**	**400**	**454**
Disposals	**(17)**	**(15)**	**-**	**(3)**	**-**	**(35)**
Transfers	**71**	**42**	**-**	**13**	**(126)**	**-**
Decommissioning liabilities and revisions	**2**	**-**	**(36)**	**-**	**-**	**(34)**
Balance as at December 31, 2022	**2,191**	**3,293**	**1,602**	**604**	**12,536**	**20,226**
Depreciation, depletion and impairment						
Balance as at January 1, 2021	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
Depreciation and depletion	**54**	**70**	**99**	**14**	**-**	**237**
Disposals	**(9)**	**(5)**	**-**	**(2)**	**-**	**(16)**
Impairment reversal	**-**	**-**	**(18)**	**-**	**-**	**(18)**
Balance as at December 31, 2022	**754**	**382**	**883**	**231**	**55**	**2,305**
Carrying value						
Balance as at January 1, 2021	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
Balance as at December 31, 2022	**1,437**	**2,911**	**719**	**373**	**12,481**	**17,921**

Capitalized interest for the year ended December 31, 2022 was $167.7 million (2021 - $292.2 million) related to assets under development.

On a quarterly basis, the Company assesses its CGUs for indicators that events or changes in circumstances may have impacted the recoverable amount of the associated assets. The Company determines the recoverable amount of its CGUs using value in use, which, for petroleum and natural gas properties, is estimated using discounted future cash flows based on forecasted oil prices, proved and probable reserves, forecasted future operating and capital costs and a discount rate derived from post-tax weighted average cost of capital, adjusted to reflect specific risks to the CGUs. For the year ended December 31, 2022, the Company recognized a net reversal of previously recorded impairment of $18.4 million.

The forecasted oil prices as at December 31, 2022 used to determine future cash flows from oil reserves were:

	2023	2024	2025	2026	2027	Average Annual Change thereafter
Brent Price (CAD/barrel)	90.00	87.00	82.00	83.64	85.31	2.00%

10. INTANGIBLE ASSETS

(millions of Canadian dollars)	Computer Software	Assets Under Development	Total
Cost			
Balance as at January 1, 2021	46	13	59
Additions	1	4	5
Transfers	6	(6)	-
Balance as at December 31, 2021	53	11	64
Additions	**-**	**2**	**2**
Transfers	**4**	**(4)**	**-**
Balance as at December 31, 2022	**57**	**9**	**66**
Amortization			
Balance as at January 1, 2021	21	-	21
Amortization	5	-	5
Balance as at December 31, 2021	26	-	26
Amortization	**5**	**-**	**5**
Balance as at December 31, 2022	**31**	**-**	**31**
Carrying value			
Balance as at January 1, 2021	25	13	38
Balance as at December 31, 2021	27	11	38
Balance as at December 31, 2022	**26**	**9**	**35**

11. INVESTMENTS

As at December 31 (millions of Canadian dollars)		**2022**	2021
Investments	(a)	**282**	-
Sinking Funds	(b)	**237**	227
Reserve Fund	(c)	**49**	43
Total investments		**568**	270
Less: amounts maturing within the next year, classified as short-term		**(61)**	(8)
		507	262

(a)

As at December 31 (millions of Canadian dollars)	Year of Maturity	**2022**	2021
Muskrat Falls/Labrador Transco			
Amortizing Fixed Rate Deposit Notes with interest paid at a rate of 3.745% per annum	2023-2029	**282**	-
Less: redemptions to be received within the next year, classified as short-term		**(41)**	-
		241	-

On March 31, 2022, Muskrat Falls and Labrador Transco jointly purchased structured deposit notes using the proceeds from issued long-term debt. The investments are restricted in nature and subject to the provisions contained within the MF/LTA PFA.

(b) As at December 31, 2022, sinking funds include $201.9 million (2021 - $191.7 million) related to repayment of Hydro's long-term debt and $35.0 million (2021 - $35.6 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 2023 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% (2021 - 1.42% 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 for LIL LP, and Tranche B, C and U debentures for Muskrat Falls and Labrador Transco. The sinking fund payment originally required for Tranche A for Muskrat Falls and Labrador Transco was removed as part of an amendment to the MF/LTA PFA in March 2022. Sinking fund instalments commence in 2029 for Muskrat Falls and Labrador Transco.

The movements in sinking funds for the year are as follows:

As at December 31 (millions of Canadian dollars)	**2022**	2021
Sinking funds, beginning of the year	**227**	219
Contributions	**7**	7
Earnings	**15**	14
Disposals and maturities	**(2)**	(2)
Change in sinking fund investments in own debentures	**(10)**	(11)
Sinking funds, end of the year	**237**	227
Less: amounts classified as short-term	**(11)**	(2)
	226	225

Sinking fund instalments due over the next five years are as follows:

(millions of Canadian dollars)	2023	2024	2025	2026	2027
Sinking fund instalments	70	70	70	67	67

(c) Under the Shareholder's Agreement, Churchill Falls is required to maintain a $75.0 million segregated reserve fund to contribute towards the funding of capital expenditures related to Churchill Falls' existing facilities and their replacement. In December 2022, $13.1 million was invested (2021 - $9.4 million) into the fund to re-establish the $75.0 million in accordance with the Shareholder's Agreement.

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)	**2022**	2021
Reserve fund, beginning of the year	**43**	39
Principal contributions	**9**	5
Mark-to-market adjustment	**(3)**	(1)
Reserve fund, end of the year	**49**	43
Less: amounts classified as short-term	**(9)**	(6)
	40	37

As at December 31, 2022, the reserve fund has been restored to the required balance per the Shareholder's Agreement.

12. REGULATORY DEFERRALS

(millions of Canadian dollars)		January 1 2022	Reclass and Disposition	Regulatory Activity	**December 31 2022**	Remaining Recovery Settlement Period
Regulatory asset deferrals						
Supply cost variance deferral account	(a)	18	-	172	**190**	n/a
Power purchase expense recognition	(b)	18	-	148	**166**	n/a
Rate stabilization plan (RSP)	(c)	56	12	(16)	**52**	n/a
Foreign exchange losses	(d)	44	-	(2)	**42**	19.0
Retirement asset pool	(e)	19	-	16	**35**	n/a
Muskrat Falls PPA monetization	(f)	-	-	26	**26**	n/a
Supply deferrals	(g)	12	(12)	9	**9**	n/a
Business system transformation program	(h)	5	-	3	**8**	n/a
Deferred energy conservation costs	(i)	8	-	(1)	**7**	n/a
Other		4	-	1	**5**	n/a
		184	-	356	**540**	
Regulatory liability deferrals						
Removal provision	(j)	(17)	-	(5)	**(22)**	n/a
Insurance amortization and proceeds	(k)	(7)	-	3	**(4)**	n/a
Other		(3)	-	(4)	**(7)**	n/a
		(27)	-	(6)	**(33)**	

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

For the year ended December 31 (millions of Canadian dollars)		**2022**	2021
RSP amortization		**19**	(24)
RSP fuel deferral		**-**	33
RSP interest		**(3)**	(3)
Rural rate adjustment		**-**	2
Total RSP activity	(c)	**16**	8
Supply deferral recovery		**-**	4
Supply deferrals		**(9)**	(12)
Total supply deferral activity	(g)	**(9)**	(8)
Supply cost variance deferrals	(a)	**(172)**	(18)
Power purchase expense recognition	(b)	**(148)**	(18)
Loss on disposal	(e)	**(16)**	(6)
Muskrat Falls PPA monetization	(f)	**(26)**	-
Removal provision	(j)	**5**	5
Other		**(1)**	4
		(351)	(33)

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 the year ended December 31, 2022 would have decreased by $350.8 million (2021 - $32.7 million).

(a) Supply Cost Variance Deferral Account

In Board Order No's. P.U. 33 (2021) and P.U. 4 (2022), 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. During 2022, Hydro deferred $172.1 million (2021 - $18.3 million) for future recovery from customers resulting in a total balance owing from customers of $190.4 million (2021 - $18.3 million).

(b) Power Purchase Expense Recognition

In Board Order No's. P.U. 9 (2021) and 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. For the year ended December 31, 2022, IFRS power purchase expenses were $148.2 million (2021 - $17.6 million) higher than commercial payments which resulted in a total regulatory asset of $165.8 million (2021 - $17.6 million).

(c) 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.

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 should be maintained to provide timely recovery of the remaining balance which results in the continuation of recovery and interest charges and, in 2022, Hydro recovered $19.1 million (2021 - $23.9 million refund) from customers; which was partially offset by Board Order No. P.U. 16 (2022) which approved the recovery of the 2021 Supply deferrals from the RSP Current Plan of $12.4 million. This activity and associated interest and other adjustments in 2022 of $2.5 million (2021 - $3.2 million) resulted in a remaining balance for future recovery from customers of $52.3 million (2021 - $56.5 million).

(d) 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 2022, amortization expense of $2.2 million (2021 - $2.2 million) was recorded.

(e) Retirement Asset Pool

As per Board Order No. P.U. 30 (2019), the Board approved Hydro's proposed depreciation methodology which includes the deferral of gains and losses on retirement of assets. The deferral will be recovered through future depreciation expense. In 2022, Hydro deferred $16.1 million (2021 - $6.1 million) of retirement asset activity resulting in a total balance of $35.4 million (2021 - $19.3 million).

(f) Muskrat Falls PPA Monetization

Under the Muskrat Falls PPA, 30 days following the calendar year end Hydro is able to monetize an amount of undelivered Schedule II energy at an Annual Average Sales Price of Muskrat Falls energy exports for the previous year. In Board Order No's. P.U. 33 (2021) and P.U. 4 (2022), the Board approved Hydro's proposal to recognize an estimate of the monetized energy in the year in which the energy was exported by Muskrat Falls, instead of waiting until Hydro can monetize in the following year. In 2022, Hydro recorded an estimate of $25.8 million (2021 - $nil).

(g) Supply Deferrals

Pursuant to Board Order No. P.U. 22 (2017), the Board approved supply cost deferrals using three specific deferral accounts: the Energy Supply, Holyrood Conversion and Isolated Systems Supply cost deferrals. As per

Board Order No. P.U. 33 (2021) and Hydro's compliance application, the Energy Supply and Holyrood Conversion deferrals were discontinued with the account maintained to provide for a timely recovery of the remaining balance. During 2022, Hydro recorded a net decrease in the supply deferral asset of $3.4 million (2021 - $47.4 million) resulting in a balance from customers of $8.9 million (2021 - $12.3 million). The decrease in the supply deferral asset is primarily due to the recovery of the 2021 supply cost variance deferral, which resulted in a net decrease to the supply deferral of $12.4 million as per Board Order No. P.U. 16 (2022); and normal operation of the supply deferral, resulting in a net increase of $9.0 million (2021 - $12.3 million), with recovery of the period's activity to be determined through an annual application process.

(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 $3.1 million (2021 – $1.0 million), resulting in a total deferral of $7.7 million (2021 - $4.6 million). As per Board Order No. P.U. 27, (2022), the Board approved the recovery of a portion of the deferred costs up to the end of 2022, which totalled $6.7 million, through customer rates to be established in Hydro's next general rate application.

(i) Deferred Energy Conservation Costs

In 2022, Hydro deferred $1.1 million (2021 - $1.1 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 $1.9 million (2021 - $1.5 million) of the balance through a rate rider which resulted in a total deferred balance of $7.5 million (2021 - $8.3 million).

(j) 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 2022 activity of $5.0 million (2021 - $4.9 million) resulting in a total balance of $21.9 million (2021 - $16.9 million). The increase was driven by removal depreciation of $5.5 million (2021 - $5.2 million) which was partially offset by removal costs of $0.5 million (2021 - $0.3 million).

(k) 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 2022, Hydro recorded a net decrease of $2.8 million (2021 - $4.2 million net increase) to the regulatory liability. The decrease was driven by an adjustment of $2.6 million (2021 - $nil) and insurance amortization of $0.2 million (2021 - $0.3 million).

13. TRADE AND OTHER PAYABLES

As at December 31 (millions of Canadian dollars)	**2022**	2021
Trade payables and accruals	**183**	269
Other payables	**68**	59
Accrued interest payable	**50**	56
	301	384

14. OTHER CURRENT LIABILITIES

As at December 31 (millions of Canadian dollars)	Notes	**2022**	2021
Current portion of long-term payables	20(b)	**53**	38
Derivative liabilities	(a)	**30**	31
Current portion of decommissioning liabilities	18	**4**	2
Current portion of deferred contributions	20(a)	**1**	1
		88	72

(a) Included in derivative liabilities as at December 31, 2022 is $25.2 million (2021 - $18.4 million) 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(b). 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. Also included in derivative liabilities are foreign exchange forward contracts, as disclosed in Note 30.

15. DEBT

15.1 Short-term Borrowings

Nalcor maintains a $250.0 million CAD or USD equivalent committed revolving term credit facility with its banker with a maturity date of July 31, 2023. There were no amounts drawn on this facility as at December 31, 2022 (2021 - $nil), however $6.2 million CAD equivalent of the borrowing limit has been used to issue eight irrevocable letters of credit (2021 - $5.9 million CAD equivalent to issue eight 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, Secured Overnight Financing Rate (SOFR) 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, 2022, there was a $131.0 million promissory note outstanding with a maturity date of January 3, 2023 bearing an interest rate of 4.27% (2021 - $55.0 million relating to two promissory notes outstanding bearing an average interest rate of 0.20%). Upon maturity, the promissory note was reissued.

Hydro maintains a $500.0 million CAD or USD equivalent committed revolving term credit facility with a maturity date of July 31, 2023. As at December 31, 2022, there were no amounts drawn on the facility (2021 - $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, SOFR Advances and letters of credit. The facility also provides coverage for overdrafts on Hydro's bank accounts, with interest calculated at the Prime Rate.

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, the issuance of a BA with interest calculated at the Prime Rate or prevailing Government BA Fee and letters of credit. 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, 2022 (2021 - $nil).

Churchill Falls has issued three irrevocable letters of credit totaling $2.0 million (2021 - $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 (2021 - $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, 2022, there were no amounts drawn on this facility (2021 - $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 (2021 - $20.9 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, 2022, there were no amounts drawn on this facility (2021 - $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, SOFR Advances and letters of credit. $4.8 million of the borrowing limit has been used to issue five irrevocable letters of credit (2021 - $6.4 million to issue six 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.

15.2 Long-term Debt

As at December 31 (millions of Canadian dollars)	Face Value	Coupon Rate %	Year of Issue	Year of Maturity	**2022**	2021
Hydro						
Y*	300	8.40	1996	2026	**298**	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**	482
1A	600	3.70	2017/2018	2048	**637**	638
2A	300	1.75	2021	2030	**288**	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 6-10	53	1.52-1.75	2017	2023-2025	**53**	74
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 6-10	104	1.52-1.75	2017	2023-2025	**105**	145
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
Tranche A-T	500	3.35-3.38	2022	2037-2047	**500**	-
Tranche U*	500	3.38	2022	2057	**500**	-
Total	10,872				**10,884**	9,944
Less: sinking fund investments in own debentures					**(94)**	(84)
					10,790	9,860
Less: repayment of debt due within one year					**(69)**	(68)
					10,721	9,792

*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, 2022 was $8.7 million (2021 - $8.6 million).

On March 31, 2022, an additional credit facility was jointly issued to Muskrat Falls and Labrador Transco in the amount of $1.0 billion available in 21 tranches (Tranches A through U). All tranches of the credit facility were drawn down by way of a single advance to an account administered by a Collateral Agent. 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**	**2022**	Units	2021
Class B limited partnership units, beginning of the year	**25**	**681**	25	628
Accrued interest	**-**	**58**	-	53
Class B limited partnership units, end of the year	**25**	**739**	25	681

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, deferrals related to telecommunications services to be provided by Churchill Falls to Hydro-Québec and funding from the Province.

As at December 31, 2022 (millions of Canadian dollars)	Deferred Energy Sales	Deferred Lease Revenue	Other	Total
Deferred credits, beginning of the year	1,769	40	2	1,811
Additions	19	12	19	50
Amortization	(75)	(1)	(1)	(77)
Deferred credits, end of the year	1,713	51	20	1,784
Less: current portion	(127)	-	(3)	(130)
	1,586	51	17	1,654

Nalcor has recorded deferred energy sales of $1,713.0 million (2021 - $1,769.0 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.

Included in Other are deferred credits relating to Churchill Falls' obligation to provide required telecommunications services to Hydro-Québec in exchange for significant upgrades to the microwave telecommunications equipment linking the Churchill Falls Generating Station to Hydro-Québec's transmission system. On November 4, 2022, Churchill Falls received legal title to the assets in consideration for providing telecommunications services to Hydro-Québec over the term of the contract ending August 31, 2041. The deferred credit will be recognized in other revenue evenly over the contract term as Churchill Falls satisfies its performance obligation.

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, 2022 and 2021 are as follows:

As at December 31 (millions of Canadian dollars)	**2022**	2021
Decommissioning liabilities, beginning of the year	**128**	124
Accretion	**4**	4
Additions	**2**	-
Revisions	**(34)**	-
Decommissioning liabilities, end of the year	**100**	128
Less: current portion	**(4)**	(2)
	96	126

The total estimated undiscounted cash flows required to settle the HTGS obligations at December 31, 2022 are $25.0 million (2021 - $15.2 million). Payments to settle the liability are expected to occur between 2023 and 2033. The fair value of the decommissioning liabilities was determined using the present value of future cash flows discounted at a credit adjusted risk free rate of 4.3% (2021 – 1.3%).

Oil and Gas' decommissioning liabilities result from net ownership interests in petroleum and natural gas properties and related well sites. The total undiscounted estimated cash flows required to settle the obligations, at December 31, 2022 are $199.8 million (2021 - $185.5 million). Payments to settle the liabilities are expected to occur between 2034 and 2041. The fair value of the decommissioning liabilities was determined using the present value of future cash flows discounted at rates ranging from 5.6% to 5.8% (2021 – 3.1% to 3.5%).

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, 2022 of $12.8 million (2021 - $13.1 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 2022, cash payments to beneficiaries for its unfunded other employee future benefits were $3.8 million (2021 - $4.3 million). An actuarial valuation was performed as at December 31, 2022.

As at December 31 (millions of Canadian dollars)	**2022**	2021
Accrued benefit obligation, beginning of the year	**139**	153
Current service cost	**6**	7
Interest cost	**5**	4
Benefits paid	**(4)**	(4)
Actuarial gain	**(48)**	(21)
Accrued benefit obligation, end of the year	**98**	139

For the year ended December 31 (millions of Canadian dollars)	**2022**	2021
Component of benefit cost		
Current service cost	**6**	7
Interest cost	**5**	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:

	2022	2021
Discount rate - benefit cost	**3.35%**	2.70%
Discount rate - accrued benefit obligation	**5.20%**	3.35%
Rate of compensation increase	**3.50%**	3.50%

Assumed healthcare trend rates:

	2022	2021
Initial health care expense trend rate	**5.42%**	5.53%
Cost trend decline to	**3.60%**	3.60%

Current rate 5.42%, 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)	**2022**	2021
Current service and interest cost	**2.3**	2.6
Accrued benefit obligation	**12.0**	22.4

Decrease (millions of Canadian dollars)	**2022**	2021
Current service and interest cost	**(1.6)**	(1.9)
Accrued benefit obligation	**(9.6)**	(17.1)

20. OTHER LONG-TERM LIABILITIES

As at December 31 (millions of Canadian dollars)		**2022**	2021
Deferred contributions	(a)	**40**	30
Long-term payables	(b)	**36**	76
Non-current lease liabilities		**5**	5
		81	111

(a) Deferred contributions:

As at December 31 (millions of Canadian dollars)	**2022**	2021
Deferred contributions, beginning of the year	**31**	27
Additions	**11**	5
Amortization	**(1)**	(1)
Deferred contributions, end of the year	**41**	31
Less: current portion	**(1)**	(1)
	40	30

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.

(b) Long-term payables:

As at December 31 (millions of Canadian dollars)	Notes	**2022**	2021
Long-term payables, beginning of the year		**114**	47
Additions		**-**	100
Settlements		**(33)**	(37)
Accretion		**3**	3
Revisions		**5**	1
Long-term payables, end of the year		**89**	114
Less: current portion	14	**(53)**	(38)
		36	76

As at December 31, 2022, 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 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, 2022, $2.7 million (2021 - $2.6 million) of the amount is current and is recorded in other current liabilities. Nalcor has sinking funds in the amount of $35.0 million (2021 - $35.6 million) to fund these future obligations. The present value of the remaining payments using a discount rate of 5.6% (2021 - 3.1%) is $38.1 million (2021 - $37.7 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 triggered 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, 2022 is $43.3 million (2021 - $71.9 million) of which $43.3 million (2021 - $33.4 million) is recorded as current and included in other current liabilities.

21. LEASES

Amounts recognized in the Consolidated Statement of Profit and Comprehensive Income

For the year ended December 31 (millions of Canadian dollars)		**2022**	2021
Variable lease payments not included in the measurement of leases	(a)	**29**	29

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

The total cash outflow for leases for the year ended December 31, 2022 amount to $29.0 million (2021 - $28.9 million).

22. SHAREHOLDER'S EQUITY

22.1 Share Capital

As at December 31 (millions of Canadian dollars)	**2022**	2021
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 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)	**2022**		2021	
Debt				
Sinking funds (Hydro portion only)	**(202)**		(192)	
Short-term borrowings	**131**		55	
Current portion of long-term debt	**69**		68	
Long-term debt	**10,721**		9,792	
Class B limited partnership units	**739**		681	
Lease liabilities	**5**		5	
	11,463	**62%**	10,409	62%
Equity				
Share capital	**123**		123	
Shareholder contributions	**4,859**		4,859	
Reserves	**(19)**		(81)	
Retained earnings	**2,187**		1,607	
	7,150	**38%**	6,508	38%
Total Debt and Equity	**18,613**	**100%**	16,917	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, 2022 and 2021, 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, 2022 and 2021, Hydro was in compliance with this covenant.

Legislation stipulates that the total of the 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 April 7, 2022, the Lieutenant-Governor in Council issued Order in Council OC2022-090 to maintain the level of short-term borrowings permitted by Hydro at $500 million, effective until March 31, 2023. As at December 31, 2022, there are $131.0 million in short-term borrowings outstanding (2021 - $55.0 million). The Hydro Corporations Act limits Hydro's total borrowings outstanding at any point in time, which includes both short-term borrowings and long-term debt, to $2.6 billion.

Historically, Hydro Regulated addressed longer-term capital funding requirements by issuing government guaranteed long-term debt in the domestic capital markets. However, in December 2017, Hydro Regulated’s process changed; the Province now issues debt in the domestic capital markets, on Hydro Regulated's behalf, and in turn loans the funds to Hydro Regulated on a cost recovery basis. Any additional funding to address long-term capital funding requirements requires 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. Cash generated from operations will be sufficient to fund the operating, maintaining and sustaining activities 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. Cash generated from operations will be sufficient to fund the operating, maintaining and sustaining activities 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.

The capital structure of LIL GP (2021) includes share capital. LIL GP (2021)’s objectives when managing capital are to maintain its ability to continue as a going concern and ensure payment of its obligations.

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)	**2022**	2021
Electricity sales	**968**	716
Petroleum and natural gas sales	**393**	298
Royalty expense	**(34)**	(38)
Total energy sales	**1,327**	976

25. OTHER REVENUE

For the year ended December 31 (millions of Canadian dollars)	**2022**	2021
Contract settlement	**-**	16
Lease revenue	**10**	9
Greenhouse gas performance credit sales	**9**	3
Other	**13**	9
Total other revenue	**32**	37

26. OPERATING COSTS

For the year ended December 31 (millions of Canadian dollars)	**2022**	2021
Salaries and benefits	**143**	140
Maintenance and materials	**62**	47
Professional services	**36**	23
Insurance	**12**	8
Travel and transportation	**8**	7
Other operating costs	**3**	5
Total operating costs	**264**	230

27. PRODUCTION, MARKETING AND TRANSPORTATION COSTS

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

For the year ended December 31 (millions of Canadian dollars)	**2022**	2021
Project operating costs	**21**	21
Transportation and transshipment	**7**	7
Processing and marketing	**2**	3
Total production, marketing and transportation costs	**30**	31

28. NET FINANCE EXPENSE

For the year ended December 31 (millions of Canadian dollars)	**2022**	2021
Finance income		
Interest on restricted cash	**29**	4
Interest on investments	**26**	18
Other interest income	**12**	5
	67	27
Finance expense		
Interest on long-term debt	**387**	361
Interest on Class B limited partnership units	**58**	53
Debt guarantee fee	**-**	23
Other	**15**	9
	460	446
Interest capitalized during construction	**(168)**	(292)
	292	154
Net finance expense	**225**	127

29. OTHER EXPENSE

For the year ended December 31 (millions of Canadian dollars)		**2022**	2021
Settlement of commodity price swap contracts		**69**	59
HSE Redetermination re-balancing adjustment	(a)	**(22)**	89
HSE Redetermination royalty adjustment	(a)	**-**	31
Loss (gain) on disposal of property, plant and equipment		**19**	(24)
Rental and royalty		**19**	12
Other		**10**	(10)
Total other expense		**95**	157

(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.

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

30.1 Fair Value

The estimated fair values of financial instruments as at December 31, 2022 and December 31, 2021 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, 2022 and 2021.

	Level	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
As at (millions of Canadian dollars)		**December 31, 2022**		December 31, 2021	
Financial assets					
Derivative assets	**2**	**8**	**8**	3	3
Sinking funds - investments in Hydro debt issue	**2**	**94**	**93**	84	94
Sinking funds - other investments	**2**	**237**	**243**	227	271
Investments, including short-term	**2**	**282**	**264**	-	-
Reserve fund	**2**	**49**	**49**	43	43
Financial liabilities					
Derivative liabilities	**2**	**30**	**30**	31	31
Long-term debt including amount due within one year (before sinking funds)	**2**	**10,884**	**9,910**	9,944	11,741
Class B limited partnership units	**3**	**739**	**739**	681	681
Long-term payables including amount due within one year	**2**	**89**	**96**	114	132

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% (2021 – 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	(51.3)	48.2

30.2 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.

<u>Credit Risk</u>

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.

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 (%)
	2022		2021	
Provincial governments	AA-to AAA	16.88%	AA-to AAA	17.44%
Provincial governments	A -to A+	25.17%	A- to A+	25.95%
Provincially owned utilities	AA-to AAA	26.57%	AA-to AAA	25.86%
Provincially owned utilities	A- to A+	31.38%	A- to A+	30.75%
		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 (%)
	2022		2021	
Government of Canada	AAA	2.56%	AAA	0.00%
Provincial governments	AA- to AAA	16.37%	AA- to AAA-	10.58%
Provincially owned utilities	AA- to AAA	4.14%	AA- to AAA	4.82%
Provincial governments	A- to A+	39.26%	A- to A+	38.14%
Provincially owned utilities	A- to A+	2.31%	A- to A+	5.30%
Schedule 1 Canadian banks	AA- to AAA-	12.95%	AA- to AAA	15.59%
Schedule 1 Canadian banks	A- to A+	22.41%	A- to A+	25.57%
		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 (%)
	2022		2021	
Provincially owned utilities	A- to A+	0.07%	A- to A+	100.00%
Schedule 1 Canadian Banks	A- to A+	99.93%	A- to A+	0.00%
		100.00%		100.00%

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

Nalcor does not have any significant amounts that are past due and uncollectable, for which a provision has not been recognized as at December 31, 2022.

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 (2021 - $250.0 million) committed revolving term credit facility, with a maturity date of July 31, 2023. There were no amounts drawn on this facility at December 31, 2022 (2021 - $nil). In addition, Hydro has access to a $300.0 million promissory note program and a $500.0 million (2021 - $500.0 million) committed revolving term credit facility with a maturity date of July 31, 2023. There were no amounts drawn on this facility at December 31, 2022 (2021 - $nil). Oil and Gas, Energy Marketing and Churchill Falls also maintain demand operating facilities of $30.0 million (2021 - $30.0 million), $20.0 million (2021 - $20.0 million) and $10.0 million (2021 - $10.0 million), respectively. In addition, Churchill Falls maintains a $24.0 million minimum cash balance (2021 - $24.0 million).

Liquidity risk for Muskrat Falls, Labrador Transco, and LIL LP is considered to be minimal due to the prefunded equity reserves held in the respective reserve 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, 2022:

(millions of Canadian dollars)	<1 Year	1-3 Years	3-5 Years	>5 Years	Total
Trade and other payables	301	-	-	-	301
Short-term borrowings	131	-	-	-	131
Long-term debt (including sinking funds, interest and guarantee fees)	535	1,068	1,142	15,538	18,283
Class B limited partnership units (including interest)	50	175	178	3,728	4,131
Long-term payables	50	2	2	35	89
	1,067	1,245	1,322	19,301	22,935

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.

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 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. During 2022, total energy sales denominated in USD were $83.6 million (2021 - $39.5 million).

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 2022, total oil sales denominated in USD were $304.4 million (2021 - $238.2 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 31, 2022 Oil and Gas entered into a series of commodity price swap contracts with a notional value of $52.1 million USD and an average price of $96.43 USD per barrel. On June 23, 2022, Oil and Gas entered into a series of commodity price swap contracts with a notional value of $57.5 million USD and an average price of $98.81 USD per barrel. On September 29, 2022, Oil and Gas entered into a series of commodity price swap contracts with a notional value of $37.6 million USD and an average price of $82.50 USD per barrel. Additionally, on December 19, 2022 Oil and Gas entered into a series of commodity price swap contracts with a notional value of $35.4 million USD and an average price of $77.88 USD per barrel.

As at December 31, 2022, Oil and Gas has 60 commodity price swaps remaining, hedging 55.50% of anticipated January 2023 to December 2023 oil sales. The remaining contracts have a notional value of $123.4 million USD, and an average fixed price of $86.11 USD per barrel. As the contracts have been designated as hedging instruments, change in fair value has been recorded in other comprehensive income. During 2022, $69.0 million in realized losses (2021 - $59.0 million in realized losses) have been recorded in other expense and $4.8 million in unrealized gains (2021 - $12.4 million in unrealized losses) remain in other comprehensive income.

On March 31, 2022 Oil and Gas entered into a series of foreign exchange forward contracts with a notional value of $52.1 million USD and an average fixed exchange rate of $1.25 CAD per USD. On June 23, 2022, Oil and Gas entered into a series of foreign exchange forward contracts with a notional value of $57.5 million USD and an average fixed exchange rate of $1.30 CAD per USD. On September 29, 2022, Oil and Gas entered into a series of foreign exchange forward contracts with a notional value of $37.6 million USD and an average fixed exchange rate of $1.37 CAD per USD. Additionally, on December 20, 2022 Oil and Gas entered into a series of foreign exchange forward contracts with a notional value of $35.4 million USD and an average fixed exchange rate of $1.36 CAD per USD.

As at December 31, 2022, Oil and Gas has 34 foreign exchange forward contracts remaining hedging foreign exchange risk on 58.51% of anticipated USD cash flows from oil sales from January 2023 to January 2024. The remaining contracts have a notional value of $138.3 million USD, and an average fixed exchange rate of $1.31 CAD per USD. As the contracts have been designated as hedging instruments, changes in fair value have been recorded in other comprehensive income. During 2022, $5.3 million in realized losses (2021 - $4.3 million in realized gains) have been recorded in other expense and $5.1 million in unrealized losses (2021 - $0.2 million in unrealized losses) remain in other comprehensive income.

During 2022, additional financial transmission rights with notional values of $0.9 million (2021 - $0.5 million) were purchased to mitigate risk on congestion for the remainder of 2022, 2023 and a portion of 2024. As the rights have not been designated as hedging instruments, changes in fair value have been recorded in other expense.

31. RELATED PARTY TRANSACTIONS

Nalcor enters into various transactions with its shareholder and other related parties. Unless otherwise noted, 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. Outstanding balances due to or from related parties are non-interest bearing with settlement within 30 days, unless otherwise stated.

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	Wholly-owned subsidiary 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 NL	Limited Partner holding 25 Class B limited partnership units of LIL LP
PUB	Agency of the Province

Significant related party transactions, which are not otherwise disclosed separately in the financial statements, are summarized below:

As at December 31 (millions of Canadian dollars)		**2022**	2021
Trade and other receivables:			
Other related parties	(a)	**15**	17
Trade and other payables:			
The Province	(b,c)	**33**	21
Long-term debt:			
The Province		**925**	925
Shareholder contributions:			
The Province		**-**	250

For the year ended December 31 (millions of Canadian dollars)		**2022**	2021
Energy sales:			
Other related parties		**85**	66
The Province	(d)	**(34)**	(38)
Other revenue:			
Other related parties		**-**	16
Operating costs:			
Other related parties		**4**	4
Net finance expense:			
The Province		**36**	35
Other expense:			
The Province		**19**	9

(a) Included in trade and other receivables as at December 31, 2022 and 2021 is $5.7 million owing from Bull Arm Fabrication and Oil and Gas Corporation of Newfoundland and Labrador. The balance was allowed for in its entirety during 2021.

(b) 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, which is payable on an annual basis before March 31 of the following fiscal year.

(c) Muskrat Falls is required to pay the Province an annual rental fee based on megawatt hours of energy generated, which is payable on an annual basis, in the first quarter of the following fiscal year.

(d) Consists of amounts expensed to the Province for royalties associated with Oil and Gas, which are presented net of energy sales in the Consolidated Statement of Profit and Comprehensive Income.

31.1 Key Management Personnel

Compensation for key management personnel, which Nalcor defines as its executives who have the primary authority and responsibility in planning, directing and controlling the activities of the entity, includes compensation for senior executives. Salaries and employee benefits include costs such as base salaries 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)	**2022**	2021
Salaries and employee benefits	**4**	6
Post-employment benefits	**1**	1
	5	7

32. COMMITMENTS AND CONTINGENCIES

(a) Nalcor and its subsidiaries are subject to legal claims with respect to impact on land use, energy and capacity delivery, construction 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.

(b) Outstanding commitments for capital projects, excluding those related to Oil and Gas, total approximately $94.9 million as at December 31, 2022 (2021 - $85.7 million).

(c) Nalcor and its subsidiaries have issued 18 irrevocable letters of credit with a total value of $33.9 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
2023	12.7
2024	5.7
2025	5.2
2026	5.3
2027	3.0
Thereafter	8.8

(e) The Company 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	15 years
Solar	189 kW Solar	2019	15 years
Battery	334.5 kW Battery	2019	15 years
Solar	103 kW	2022	Continual
Biomass	450 kW	2018	1 year post in-service of Lower Churchill Project

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

(millions of Canadian dollars)	2023	2024	2025	2026	2027
Power purchases	44.2	39.0	39.0	39.1	39.5

(f) In May 2021, Hydro entered into an amended Capacity Assistance Agreement with Corner Brook Pulp and Paper Limited (CBPP) for the purchase of relief power during the winter period that expires on April 30, 2023. Payment for services will be dependent on the successful provision of capacity assistance for the winter period by CBPP.

(g) Energy Marketing has commitments for third party transmission rights as well as operational commitments totaling $5.2 million as at December 31, 2022 (2021 - $8.0 million).

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

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

2023	$18.9 million
2024	$4.8 million

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

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

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

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

(m) Under the IBA, Nalcor is required to make 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.

(n) As at December 31, 2022, Nalcor, on behalf of Energy Marketing, has issued unconditional guarantees and sales contracts in the amount of $22.7 million (2021 - $20.7 million) in order to guarantee amounts under power purchase and sale contracts with bilateral counterparties and purchase and sale of transmission rights.

33. SUPPLEMENTARY CASH FLOW INFORMATION

For the year ended December 31 (millions of Canadian dollars)	**2022**	2021
Trade and other receivables	**(10)**	(15)
Prepayments	**(1)**	6
Inventories	**(17)**	9
Trade and other payables	**(73)**	(15)
Changes in non-cash working capital balances	**(101)**	(15)
Related to:		
Operating activities	**59**	(11)
Investing activities	**(160)**	(4)
	(101)	(15)

34. SEGMENT INFORMATION

The designation of segments is based on a combination of regulatory status and management accountability and have been updated in 2022 to reflect recent changes in reporting, leadership and focus. 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 operations included in each of the Company's operating segments as at December 31, 2022.

Hydro Regulated activities encompass sales of electricity to customers within the Province that are regulated by the PUB.

Muskrat Falls includes the operation of the 824 MW 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 5,428 MW hydroelectric generating facility, which sells electricity to Hydro-Québec and Hydro.

Energy Trading includes energy trading and commercial activities related to maximizing the value of the Province's surplus power and transmission interconnections with external electricity markets.

Other Electric 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 and managed by Emera, but consolidated by Nalcor), Hydro's sales of electricity to mining operations in Labrador West, and revenues and costs recovered from Hydro-Québec associated with the operation of the Menihek Generating Station.

Oil and Gas includes Nalcor's share in the development, production, transportation and processing of oil and gas from the Hebron, White Rose and HSE fields.

Corporate includes shared services functions along with community and business development.

(millions of Canadian dollars)	Hydro Regulated	Muskrat Falls	LCP Transmission	Churchill Falls	Energy Trading	Other Electric	Oil and Gas	Corporate	Inter-Segment	Total
	For the year ended December 31, 2022									
Energy sales	649	416	110	118	123	131	359	-	(579)	1,327
Other revenue	31	-	-	1	5	11	-	-	(16)	32
Revenue	680	416	110	119	128	142	359	-	(595)	1,359
Fuels	188	-	-	-	-	-	-	-	-	188
Power purchased	473	-	-	-	29	54	-	-	(475)	81
Operating costs	135	29	7	40	5	27	4	16	1	264
Production, marketing and transportation costs	-	-	-	-	-	-	30	-	-	30
Transmission rental	3	114	-	-	25	4	-	-	(123)	23
Depreciation, depletion, amortization and impairment	80	-	-	24	-	35	81	5	(1)	224
Net finance expense (income)	94	120	19	(3)	(1)	-	4	(7)	(1)	225
Other expense (income)	23	19	1	6	(2)	-	47	-	1	95
Preferred dividends	-	-	-	(5)	-	-	-	-	5	-
Expenses	996	282	27	62	56	120	166	14	(593)	1,130
(Loss) profit for the year before regulatory adjustments	(316)	134	83	57	72	22	193	(14)	(2)	229
Regulatory adjustments	(352)	-	-	-	-	-	-	-	1	(351)
Profit (loss) for the year	36	134	83	57	72	22	193	(14)	(3)	580
Capital expenditures*	104	28	214	69	-	10	31	3	(3)	456
Total assets	3,237	7,648	6,853	781	136	1,929	804	520	(618)	21,366
Total debt**	1,971	4,465	5,027	-	-	-	-	-	-	11,463

***Capital expenditures (inclusive of property, plant and equipment and intangible assets) include non-cash additions of ($1.5) million related to the Maritime Link, $18.8 million related to the transfer of the microwave telecommunications assets from Hydro-Québec, $57.9 million related to Class B Limited Partnership Unit accrued interest, and $109.8 million of interest capitalized during construction.**

****Total debt includes short-term borrowings, long-term debt including current portion less Hydro's sinking funds of $201.9 million, Class B Limited Partnership Units, and lease liabilities.**

(millions of Canadian dollars)	Hydro Regulated	Muskrat Falls	LCP Transmission	Churchill Falls	Energy Trading	Other Electric	Oil and Gas	Corporate	Inter-Segment	Total
	For the year ended December 31, 2021									
Energy sales	538	59	135	99	55	56	260	-	(226)	976
Other revenue	16	-	-	16	2	9	-	1	(7)	37
Revenue	554	59	135	115	57	65	260	1	(233)	1,013
Fuels	122	-	-	-	-	-	-	-	-	122
Power purchased	123	-	-	-	4	47	-	-	(94)	80
Operating costs	129	13	8	39	5	13	10	13	-	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	166	33	62	31	74	269	13	(226)	973
Share of loss of joint arrangement	-	-	-	1	-	-	-	-	-	1
Profit (loss) for the year before regulatory adjustments	3	(107)	102	52	26	(9)	(9)	(12)	(7)	39
Regulatory adjustments	(33)	-	-	-	-	-	-	-	-	(33)
Profit (loss) for the year	36	(107)	102	52	26	(9)	(9)	(12)	(7)	72
Capital expenditures*	115	307	244	48	-	(7)	24	4	(3)	732
Total assets	2,910	6,856	6,454	718	82	1,956	869	365	(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.