NALCOR ENERGY - OIL AND GAS INC.
FINANCIAL STATEMENTS
December 31, 2019

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

As at December 31 (thousands of Canadian dollars)	Notes	**2019**	2018
ASSETS			
Current assets			
Cash		**13,600**	10,458
Trade and other receivables	5	**45,346**	38,279
Inventory	6	**19,385**	14,459
Prepayments		**7,937**	6,361
Derivative assets	20	**3,616**	-
Total current assets		**89,884**	69,557
Non-current assets			
Property, plant and equipment	7	**1,142,644**	1,148,081
Intangible assets	8	**1,149**	1,188
Other long-term assets		**323**	744
Total assets		**1,234,000**	1,219,570
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	10	**34,692**	33,299
Current portion of deferred revenue	11	**98**	700
Derivative liabilities	20	**8,822**	775
Total current liabilities		**43,612**	34,774
Non-current liabilities			
Deferred revenue	11	**718**	966
Decommissioning liabilities	12	**86,838**	70,883
Long-term payable		**500**	750
Employee future benefits	14	**-**	1,106
Total liabilities		**131,668**	108,479
Shareholder's equity			
Share capital	15	**110,000**	110,000
Shareholder contributions		**906,112**	906,112
Reserves		**(5,205)**	(964)
Retained earnings		**91,425**	95,943
Total equity		**1,102,332**	1,111,091
Total liabilities and equity		**1,234,000**	1,219,570

Commitments and contingencies (Note 22)
Subesequent events (Note 25)

See accompanying notes

On behalf of the Board:

DIRECTOR

DIRECTOR

NALCOR ENERGY - OIL AND GAS INC.
STATEMENT OF PROFIT AND COMPREHENSIVE INCOME

For the year ended December 31 (thousands of Canadian dollars)	Notes	**2019**	2018
Petroleum and natural gas sales		**303,121**	310,083
Royalties	21	**(39,327)**	(18,007)
Other revenue		**3,933**	5,791
Revenue, net		**267,727**	297,867
Operating costs	16	**6,159**	6,028
Production, marketing and transportation costs	17	**36,011**	41,914
Depreciation, depletion and amortization		**89,712**	75,698
Exploration and evaluation expense		**32,716**	28,935
Net finance expense	18	**2,305**	2,859
Other expense	19	**5,022**	17,006
Expenses		**171,925**	172,440
Profit for the year		**95,802**	125,427
Other comprehensive income (loss)			
Total items that may or have been reclassified to profit or loss:			
Net fair value losses on cash flow hedges	20	**(7,463)**	(17,251)
Reclassification adjustments related to:			
Cash flow hedges recognized in profit or loss	20	**3,033**	21,084
Actuarial gain on employee future benefits		**(131)**	135
Other comprehensive (loss) income for the year		**(4,561)**	3,968
Total comprehensive income for the year		**91,241**	129,395

See accompanying notes

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

(thousands of Canadian dollars)	Notes	Share Capital	Shareholder Contributions	Fair Value Reserve	Employee Benefit Reserve	Retained Earnings	Total
Balance at January 1, 2019		**110,000**	**906,112**	**(775)**	**(189)**	**95,943**	**1,111,091**
Transfer of actuarial reserve upon extinguishment of liability		**-**	**-**	**-**	**189**	**(189)**	**-**
Profit for the year		**-**	**-**	**-**	**-**	**95,802**	**95,802**
Other comprehensive loss		**-**	**-**	**(4,430)**	**-**	**(131)**	**(4,561)**
Total comprehensive (loss) income for the year		**-**	**-**	**(4,430)**	**189**	**95,482**	**91,241**
Dividends	**15**	**-**	**-**	**-**	**-**	**(100,000)**	**(100,000)**
Balance at December 31, 2019		**110,000**	**906,112**	**(5,205)**	**-**	**91,425**	**1,102,332**
Balance at January 1, 2018		110,000	906,112	(4,608)	(324)	110,516	1,121,696
Profit for the year		-	-	-	-	125,427	125,427
Other comprehensive income		-	-	3,833	135	-	3,968
Total comprehensive income for the year		-	-	3,833	135	125,427	129,395
Dividends	15	-	-	-	-	(140,000)	(140,000)
Balance at December 31, 2018		110,000	906,112	(775)	(189)	95,943	1,111,091

See accompanying notes

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

For the year ended December 31 (thousands of Canadian dollars)	Notes	**2019**	2018
Operating activities			
Profit for the year		**95,802**	125,427
Adjustments to reconcile profit to cash provided from operating activities:			
Depreciation, depletion and amortization		**89,712**	75,698
Finance income	18	**(890)**	(278)
Finance expense	18	**207**	187
Accretion	12, 18	**2,988**	2,950
Settlement of decommissioning liabilities	12	**-**	1
Employee benefits	14	**(1,237)**	211
Gain on disposal of property, plant and equipment	19	**(32)**	(122)
Decrease in other long-term assets		**421**	76
Changes in non-cash working capital balances	24	**(6,443)**	11,348
		180,528	215,498
Interest received		**946**	278
Interest paid		**(127)**	(187)
Net cash provided from operating activities		**181,347**	215,589
Investing activities			
Additions to property, plant and equipment	7	**(73,438)**	(65,909)
Additions to intangible assets	8	**(146)**	(10)
Proceeds on disposal of property, plant and equipment		**-**	190
Change in non-cash working capital balances	24	**(4,038)**	(647)
Net cash used in investing activities		**(77,622)**	(66,376)
Financing activities			
Decrease in long-term payables		**(250)**	(250)
Repayment of lease liabilities		**(333)**	-
Dividends paid to Nalcor Energy	15	**(100,000)**	(140,000)
Net cash used in financing activities		**(100,583)**	(140,250)
Net increase in cash		**3,142**	8,963
Cash, beginning of the year		**10,458**	1,495
Cash, end of the year		**13,600**	10,458

See accompanying notes

1. DESCRIPTION OF BUSINESS

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

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of Compliance and Basis of Measurement

These annual audited financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). Oil and Gas has adopted accounting policies which are based on IFRS applicable as at December 31, 2019, and includes individual IFRS, International Accounting Standards (IAS), and interpretations made by the IFRS Interpretations Committee and the Standing Interpretations Committee.

These annual audited financial statements have been prepared on a historical cost basis, except for financial instruments at fair value through profit or loss (FVTPL) and fair value through other comprehensive income (FVTOCI) which have been measured at fair value. The annual audited financial statements are presented in Canadian Dollars and all values rounded to the nearest thousand, except when otherwise noted. These annual audited financial statements were approved by the Oil and Gas' Board of Directors (the Board) on February 27, 2020.

2.2 Cash and Cash Equivalents

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

2.3 Inventory

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

2.4 Property, Plant and Equipment

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

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

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

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

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

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

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

Depletion

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

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

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

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

2.5 Intangible Assets

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

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

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

Computer software	10 years
Seismic data acquisitions	6 years

2.6 Impairment of Non-Financial Assets

Property and equipment and other non-financial assets, except for exploration and evaluation assets, are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Exploration and evaluation assets are assessed for impairment when they are reclassified to property, plant and equipment and also if there are indicators that suggest that the carrying amount exceeds the recoverable amount.

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

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

2.7 Investments in Joint Arrangements

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

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

2.8 Employee Benefits Liability

(i) Pension Plan

Employees participate in the Province's Public Service Pension Plan, a multi-employer defined benefit plan. Contributions by Oil and Gas to this plan are recognized as an expense when employees have rendered service entitling them to the contributions. The assets and liabilities of this Plan are held by the Province.

(ii) Other Benefits

Oil and Gas 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 cost of providing these benefits is determined using the projected unit credit method, with actuarial valuations being carried out 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 of Oil and Gas' defined benefit obligation are recognized in reserves in the period in which they occur. Past service costs are recognized in operating costs as incurred.

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

2.9 Provisions

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

2.10 Decommissioning, Restoration and Environmental Liabilities

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

2.11 Revenue Recognition

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

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

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

2.12 Leasing

<u>Lessee Accounting</u>

Oil and Gas assesses whether a contract is or contains a lease, at inception of a contract. Oil and Gas 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, Oil and Gas 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, Oil and Gas 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 Oil and Gas changes its assessment of whether purchase, renewal or termination options will be exercised. Oil and Gas 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 accumulated impairment losses.

Whenever Oil and Gas 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 Oil and Gas expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The 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. Oil and Gas has elected to apply this practical expedient.

2.13 Foreign Currencies

Transactions in currencies other than Oil and Gas' functional currency (foreign currencies) are recognized using the exchange rate in effect at the date of transaction, approximated by the prior month end close rate. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates of exchange in effect at the period end date. Foreign exchange gains and losses are included in the Statement of Profit and Comprehensive Income as other expense (income).

2.14 Income Taxes

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

2.15 Financial Instruments

Classification and Initial Measurement

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

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

Financial Assets at Amortized Cost

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

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

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

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

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

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

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

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

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

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

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

The effective portion of the gain or loss on a cash flow hedging instrument is recognized directly in other

comprehensive (loss) income, while any ineffective portion is recognized immediately in the Statement of Profit and Comprehensive Income for the period in other expense. Amounts recognized in other comprehensive (loss) income are transferred to the 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.
Oil and Gas does not hold any fair value hedges.

2.16 Government Grants
Government grants are recognized when there is reasonable assurance that Oil and Gas 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 Oil and Gas recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that Oil and Gas should purchase, construct or otherwise acquire non-current assets are recognized as deferred revenue in the Statement of Financial Position and transferred to the 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 Oil and Gas with no future related costs are recognized in the Statement of Profit and Comprehensive Income in the period in which they become receivable.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

3.1 Use of Judgments

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

The recoverable amount of a CGU or asset is determined based on the higher of fair value less cost of disposal and its value in use. Management uses factors including expected future oil prices, proved and probable reserves evaluated by independent reserve engineers, and discount rates to determine the recoverable amount, as well as, judgments regarding the occurrence of future events. Changes in these factors will affect the recoverable amount of CGUs and assets, which may result in a material adjustment to their carrying value.

(ii) Property, Plant and Equipment
Oil and Gas' accounting policy relating to property, plant and equipment is described in Note 2.4. In applying this policy, judgment is used in determining whether certain costs are additions to the carrying amount of the property, plant and equipment as opposed to repairs and maintenance. If an asset has been developed, judgment is required to identify the point at which the asset is capable of being used as intended. Judgment is also used in determining the appropriate componentization structure for Oil and Gas' property, plant and equipment.

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

(iv) Determination of CGUs
Oil and Gas' accounting policy relating to impairment of non-financial assets is described in Note 2.6. In applying this policy, Oil and Gas groups assets into the smallest identifiable groups for which cash flows are largely independent of the cash flows from other assets or groups of assets. Judgment is used in determining the level at which cash flows are largely independent of other assets or groups of assets.

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

(vi) Leases
Definition of a lease
At inception of a contract, Oil and Gas 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, Oil and Gas assesses whether the contract involves the use of an identified asset, Oil and Gas has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use and Oil and Gas has the right to direct the use of the asset.

Lease extension and termination options
In determining the lease term, Oil and Gas 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 leasee's operations and past practice.

3.2 Use of Estimates

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

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

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

(iv) Employee Benefits
Oil and Gas 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
Oil and Gas 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. FUTURE CHANGES IN ACCOUNTING POLICIES

The following is a list of standards/interpretations that have been issued and are effective for accounting periods commencing on January 1, 2019 or January 1, 2020, as specified.

- IFRS 16 – Leases[1]
- IAS 19 – Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)[1]
- IFRS 11 – Joint Arrangements (Amendments to IFRS 11)[1]
- IAS 1 – Presentation of Financial Statements[2] and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors[2] (Amendments to IAS 1 and IAS 8)

[1] Effective for annual periods beginning on or after January 1, 2019.
[2] Effective for annual periods beginning on or after January 1, 2020.

4.1 IFRS 16 – Leases

Effective January 1, 2019 Oil and Gas adopted *IFRS 16 – Leases* which introduces significant changes to lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset and a lease liability at the lease commencement for all leases, except for short-term leases and leases of low-value assets.

Oil and Gas has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under *IAS 17 – Leases* and *IFRIC 4 – Determining Whether an Arrangement contains a Lease*.

Impact of the new definition of a lease
Oil and Gas has not elected to apply the practical expedient available on transition to IFRS 16, not to reassess whether a contract is or contains a lease at the date of initial application.

In preparation for the first-time application of IFRS 16, Oil and Gas has carried out an implementation project which has shown that the new definition in IFRS 16 will not significantly change the scope of contracts that meet the definition of a lease for Oil and Gas.

Impact on Lessee Accounting

Former operating leases
IFRS 16 changes how Oil and Gas accounts for leases previously classified as operating leases under IAS 17, which were off-balance-sheet.

Applying IFRS 16, for all leases (except as noted below), Oil and Gas:
- recognizes right-of-use assets and lease liabilities in the Statement of Financial Position, initially measured at the present value of future lease payments;

- recognizes depreciation of right-of-use assets and interest on lease liabilities in the Statement of Profit and Comprehensive Income; and
- separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the Statement of Cash Flows.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), Oil and Gas has opted to recognize a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within operating costs in the Statement of Profit and Comprehensive Income.

Former finance leases

The main difference between IFRS 16 and IAS 17 with respect to assets formerly held under a finance lease is the measurement of residual value guarantees provided by a lessee to a lessor. Oil and did not have any leases previously accounted for as finance leases under IAS 17, therefore, this change did not have an effect on its annual audited financial statements.

Impact on Lessor Accounting

IFRS 16 does not substantially change how a lessor accounts for leases. The changes to lessor accounting did not have an effect on its financial statements.

Financial impact of the application of IFRS 16

On transition to IFRS 16, Oil and Gas recognized a lease liability in relation to a lease which had previously been classified as an operating lease under IAS 17. The liability was measured at the present value of the remaining lease payments, discounted using Oil and Gas's incremental borrowing rate as of January 1, 2019. The weighted average incremental borrowing rate applied to the lease liability on January 1, 2019 was 3.4%. The associated right-of-use asset was measured at the amount equal to the corresponding lease liability totalling $2.6 million.

(thousands of Canadian dollars)	
Operating lease commitments disclosed as at December 31, 2018	1,278
Discounted using the incremental borrowing rate of 3.4%	1,019
Extension and termination options reasonably certain to be exercised	1,538
Lease liability recognized as at January 1, 2019	**2,557**

In applying IFRS 16, Oil and Gas elected to use the following practical expedients, permitted by the standard:

- accounting for operating leases with a remaining lease term of less than 12 months as at January 1, 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

4.2 IAS 19 – Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income. The application of these amendments to IAS 19 did not have a material impact on Oil and Gas's annual audited financial statements.

4.3 IFRS 11 – Joint Arrangements (Amendments to IFRS 11)

The amendment to IFRS 11 clarifies that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

The application of these amendments to IFRS 11 did not have a material impact on Oil and Gas's annual audited financial statements.

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

The IASB issued amendments to IAS 1 and IAS 8 to align the definition of 'material' across the standards and to clarify certain aspects of the definition and to include the concept of 'obscuring information'. The amendments are intended to improve the understanding of the existing requirements rather than to significantly impact Oil and Gas's materiality judgments.

5. TRADE AND OTHER RECEIVABLES

As at December 31 (thousands of Canadian dollars)	**2019**	2018
Trade receivables	**41,878**	35,262
Other receivables	**624**	1,774
Due from related parties	**2,844**	1,243
	45,346	38,279

As at December 31 (thousands of Canadian dollars)	**2019**	2018
0-60 days	**39,269**	32,998
60+ days	**6,077**	5,281
	45,346	38,279

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

6. INVENTORY

As at December 31, 2019, inventory consists entirely of crude oil and materials and supplies to be consumed during production at Oil and Gas' petroleum and natural gas properties. The cost of crude oil is based on production costs and an estimated capital component based on depletion.

As at (thousands of Canadian dollars)	**2019**	2018
Materials	**13,489**	10,434
Crude oil	**5,896**	4,025
	19,385	14,459

7. PROPERTY, PLANT AND EQUIPMENT

(thousands of Canadian dollars)	Petroleum and Natural Gas Properties	Other	Total
Cost			
Balance at January 1, 2018	1,424,894	2,141	1,427,035
Additions	65,717	192	65,909
Disposals	-	(140)	(140)
Decommissioning liability revisions	(3,213)	-	(3,213)
Balance at December 31, 2018	1,487,398	2,193	1,489,591
Additions	**73,416**	**22**	**73,438**
Disposals	**-**	**(32)**	**(32)**
Decommissioning liability revisions	**12,967**	**-**	**12,967**
Balance at December 31, 2019	**1,573,781**	**2,183**	**1,575,964**
Depreciation and depletion			
Balance at January 1, 2018	268,489	813	269,302
Depreciation and depletion	72,033	247	72,280
Disposals	-	(72)	(72)
Balance at December 31, 2018	340,522	988	341,510
Depreciation and depletion	**91,603**	**234**	**91,837**
Disposals	**-**	**(27)**	**(27)**
Balance at December 31, 2019	**432,125**	**1,195**	**433,320**
Carrying value			
Balance at January 1, 2018	1,156,405	1,328	1,157,733
Balance at December 31, 2018	1,146,876	1,205	1,148,081
Balance at December 31, 2019	**1,141,656**	**988**	**1,142,644**

8. INTANGIBLE ASSETS

(thousands of Canadian dollars)	Computer Software	Total
Cost		
Balance at January 1, 2018	3,080	3,080
Additions	10	10
Balance at December 31, 2018	3,090	3,090
Additions	**146**	**146**
Balance at December 31, 2019	**3,236**	**3,236**
Amortization		
Balance at January 1, 2018	1,721	1,721
Amortization	181	181
Balance at December 31, 2018	1,902	1,902
Amortization	**185**	**185**
Balance at December 31, 2019	**2,087**	**2,087**
Carrying value		
Balance at January 1, 2018	1,359	1,359
Balance at December 31, 2018	1,188	1,188
Balance at December 31, 2019	**1,149**	**1,149**

9. RIGHT-OF-USE ASSETS

As at December 31, 2019, the Oil and Gas property lease reflected a short term lease, due to the lease pending transfer to the Oil and Gas Corporation of Newfoundland and Labrador. The lease was transferred effective January 1, 2020.

(thousands of Canadian dollars)	Property
Cost	
Balance at January 1, 2019	2,557
Disposals	(2,557)
Balance at December 31, 2019	**-**
Depreciation	
Balance at January 1, 2019	-
Depreciation	289
Disposals	(289)
Balance at December 31, 2019	**-**
Carrying value	
Balance at January 1, 2019	2,557
Balance at December 31, 2019	**-**

10. TRADE AND OTHER PAYABLES

As at December 31 (thousands of Canadian dollars)	**2019**	2018
Trade payables and accruals	**24,692**	19,884
Due to related parties	**7,581**	11,447
Other payables	**2,419**	1,968
	34,692	33,299

11. DEFERRED REVENUE

Oil and Gas has received funding from the Province towards two initiatives. The first is the Petroleum Exploration Enhancement Program (PEEP) which is designed to boost new petroleum exploration in Western Newfoundland through acquisition and assessment of seismic data. The second is the Offshore Geoscience Data Project (OGDP) which is designed to encourage new offshore petroleum exploration in Newfoundland and Labrador through the acquisition and assessment of seismic data. The funding is recognized as other revenue when the related expenditures are incurred.

As at December 31, 2019 (thousands of Canadian dollars)	OGDP	PEEP	Other	Total
Balance beginning of the year	178	743	745	1,666
Adjustments	**-**	**-**	**(745)**	**(745)**
Recognized in profit or loss	**(88)**	**(17)**	**-**	**(105)**
Balance end of the year	**90**	**726**	**-**	**816**
Less: current portion	**(90)**	**(8)**	**-**	**(98)**
	-	**718**	**-**	**718**

12. DECOMMISSIONING LIABILITIES

Oil and Gas' decommissioning liabilities result from net ownership interests in petroleum and natural gas properties and related well sites. The total undiscounted estimated cash flows required to settle the obligations, including a rate of inflation of 2%, at December 31, 2019 are $162.5 million (2018 - $143.6 million). Payments to settle the liabilities are expected to occur between 2032 and 2038. The fair value of the decommissioning liabilities was determined using the present value of future cash flows discounted at rates ranging from 3.5% to 3.9% (2018 – 4.0% to 4.3%). The reconciliation of the beginning and ending amounts of decommissioning liabilities is as follows:

As at (thousands of Canadian dollars)	**2019**	2018
Decommissioning liabilities, beginning of the year	**70,883**	71,145
Accretion	**2,988**	2,950
Liabilities settled	**-**	1
Revisions	**12,967**	(3,213)
Decommissioning liabilities, end of the year	**86,838**	70,883

13. LEASE LIABILITIES

Amounts recognized in the Statement of Profit and Comprehensive Income

For the year ended December 31 (thousands of Canadian dollars)	**2019**
Interest on lease liabilities	**80**
Variable lease payments not included in the measurement of leases	**175**

The total cash outflow for leases amount to $508,455.

14. EMPLOYEE FUTURE BENEFITS

14.1 Pension Plan

Employees participate in the Province's Public Service Pension Plan, a multi-employer defined benefit plan. The employer's contributions of $348,381 (2018 - $339,904) were expensed as incurred.

14.2 Other Benefits

Oil and Gas 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 severance payment upon retirement. In 2019, cash payments to beneficiaries for its unfunded other employee future benefits were $3,400 (2018 - $3,400). An actuarial valuation was performed as at December 31, 2019.

As at December 31 (thousands of Canadian dollars)	**2019**	2018
Accrued benefit obligation, beginning of the year	**1,106**	1,031
Current service cost	**131**	140
Past service cost including curtailment	**14**	-
Interest cost	**49**	42
Liabilities extinguished on settlement	**(1,145)**	-
Benefits paid	**(3)**	(3)
Transfers	**(287)**	28
Actuarial loss (gain)	**135**	(132)
Accrued benefit obligation, end of the year	**-**	1,106

For the year ended December 31 (thousands of Canadian dollars)	**2019**	2018
Components of benefit cost		
Current service cost	**131**	140
Past service cost including curtailment	**14**	-
Interest cost	**49**	42
Total benefit expense for the year	**194**	182

Oil and Gas employees were terminated on December 31, 2019 and hired by the Oil and Gas Corporation of Newfoundland and Labrador. As at December 31, 2019 the employee future benefit liability ceased to exist.

15. SHAREHOLDER'S EQUITY

15.1 Share Capital

As at December 31 (thousands of Canadian dollars)	**2019**	2018
Common shares without nominal or par value		
Authorized - unlimited		
Issued, fully paid and outstanding - 100	**110,000**	110,000

15.1 Dividends

For the year ended December 31 (thousands of Canadian dollars)	**2019**	2018
Declared and paid during the year	**100,000**	140,000

16. OPERATING COSTS

For the year ended December 31 (thousands of Canadian dollars)	**2019**	2018
Salaries and benefits	**2,360**	2,785
Professional services	**2,629**	1,648
Travel	**321**	326
Other operating costs	**312**	345
Cost recoveries	**280**	291
Building rental and maintenance	**181**	503
Insurance cost	**47**	36
Advertising, donations and community involvement	**29**	94
	6,159	6,028

17. PRODUCTION, MARKETING AND TRANSPORTATION COSTS

For the year ended December 31 (thousands of Canadian dollars)	**2019**	2018
Project operating costs	**24,229**	28,346
Transportation and transshipment	**6,206**	6,515
Processing and marketing	**4,304**	5,653
Insurance	**1,272**	1,400
	36,011	41,914

18. NET FINANCE EXPENSE

For the year ended December 31 (thousands of Canadian dollars)	**2019**	2018
Finance income		
Other interest income	**(890)**	(278)
	(890)	(278)
Finance expense		
Accretion expense	**2,988**	2,950
Other finance expense	**207**	187
	3,195	3,137
Net finance expense	**2,305**	2,859

19. OTHER (INCOME) EXPENSE

For the year ended December 31 (thousands of Canadian dollars)	**2019**	2018
Settlement of commodity swap contracts	**2,304**	19,660
Settlement of foreign exchange forward contracts	**729**	1,423
Realized foreign exchange loss (gain)	**495**	(2,099)
Unrealized foreign exchange loss (gain)	**1,526**	(1,443)
Gain on disposal of property, plant and equipment	**(32)**	(535)
Other expense	**5,022**	17,006

20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

20.1 Fair Value

The estimated fair values of financial instruments as at December 31, 2019 and December 31, 2018 are based on relevant market prices and information available at the time. Fair value estimates are based on valuation techniques which are significantly affected by the assumptions used including the amount and timing of future cash flows and discount rates reflecting various degrees of risk. As such, the fair value estimates below are not necessarily indicative of the amounts that Oil and Gas might receive or incur in actual market transactions.

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

Establishing Fair Value

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

Level 1 - valuation based on quoted 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, the Company determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting

period. There were no transfers between Level 1, 2 and 3 fair value measurements for the year ended December 31, 2019 and December 31, 2018.

As at December 31, 2019 and December 31, 2018, the Company did not have any Level 3 instruments.

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
(thousands of Canadian dollars)		**December 31, 2019**		December 31, 2018	
Financial assets					
Derivative assets	**2**	**3,616**	**3,616**	-	-
Financial liabilities					
Derivative liabilities	**2**	**8,822**	**8,822**	775	775

The fair values of cash, trade and other receivables, and trade and other payables approximate their carrying values due to their short-term maturity.

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

20.2 Risk Management

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

Credit Risk
Oil and Gas' expected future cash flows are exposed to credit risk through its operating activities, primarily through the potential for non-performance by its customers. The degree of exposure to credit risk on cash and the sale of crude oil, including the associated accounts receivable, is determined by the financial capacity and stability of those customers and counterparties. The maximum exposure to credit risk on these financial instruments is represented by their carrying values on the Statement of Financial Position at the reporting date.

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

Liquidity Risk
Oil and Gas is exposed to liquidity risk with respect to its contractual obligations and financial liabilities, including any derivative liabilities related to hedging activities. Liquidity risk management activities are directed to ensuring cash is available to meet those obligations as they become due. Short-term liquidity is mainly provided through cash and cash equivalents on hand, funds from operations, and a $30.0 million (2018 - $30.0 million) unsecured demand operating facility with the Company's bank. As at December 31, 2019 Oil and Gas had no borrowings outstanding on the credit facility (2018 - $nil), and $22.2 million of the borrowing limit had been used to issue two irrevocable letters of credit (December 31, 2018 - $23.3 million). During the year one of the existing letters of credit was reduced by $1.1 million to reflect the amended amount.

The following are contractual maturities of Oil and Gas' financial liabilities, including principal and interest as at December 31, 2019:

(millions of Canadian dollars)	< 1 Year	1-3 Years	3-5 Years	> 5 Years	Total
Trade and other payables	34,692	-	-	-	34,692
Long-term payable	-	500	-	-	500
	34,692	500	-	-	35,192

Market Risk
In the course of carrying out its operating, financing and investing activities, Oil and Gas is exposed to possible market price movements that could impact expected future cash flow and the carrying value of certain financial assets and liabilities. Market price movements to which Oil and Gas has significant exposure include those relating to prevailing interest rates, foreign exchange rates, most notably USD/CAD, and current commodity prices, most notably the spot prices for oil.

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

During 2019, total oil sales denominated in USD were $232.7 million (2018 - $234.8 million). To mitigate foreign exchange risk and commodity price risk on a portion of sales, Oil and Gas have used foreign currency forward contracts and fixed price commodity swaps, respectively.

The table below shows the impact of a 5% change in foreign exchange rates on trade and other receivables and trade and other payables as at December 31, 2019.

(thousands of Canadian dollars)	5% Decrease	5% Increase
Trade and other receivables	(1,789)	1,789
Trade and other payables	(302)	302

On April 26, 2019, Oil and Gas entered into a commodity price swap contract to hedge commodity price risk on approximately 50% of anticipated production for May 2019. This contract had a notional value of $10.2 million USD and a price of $71.60 USD per barrel. On June 7, 2019 Oil and Gas entered into a series of commodity price swap contracts to hedge commodity price risk on approximately 50% of anticipated June to December 2019 production. These contracts had a notional value of $54.0 million USD and an average price of $60.75 USD per barrel. On November 27, 2019 Oil and Gas entered into a series of commodity price swap contracts to hedge commodity price risk on approximately 50% of anticipated 2020 production. These contracts have a notional value of $119.0 million USD and an average price of $59.50 USD per barrel.

As at December 31, 2019, Oil and Gas has 48 commodity price swaps remaining with a notional value of $119.0 million USD, and an average fixed price of $59.50 USD per barrel. As the contracts have been designated as hedging instruments, changes in fair value have been recorded in other comprehensive loss. During 2019, $2.3 million in realized losses (2018 - $19.7 million in realized losses) have been recorded in other expense and $8.8 million in unrealized losses (2018 - $nil) remain in other comprehensive (loss) income.

On April 29, 2019 Oil and Gas entered into a foreign exchange forward contract to hedge foreign exchange risk on approximately 50% of May USD cash receipts. This contract had a notional value of $13.2 million USD and a fixed rate of $1.34 CAD per USD. On June 7, 2019 Oil and Gas entered into a series of foreign exchange forward contracts to hedge foreign exchange risk on 50% of anticipated June to December 2019 USD oil sales. These contracts had a notional value of $60.5 million USD and an average fixed rate of $1.32 CAD per USD. On November 27, 2019 Oil and Gas entered into a series of foreign exchange forward contracts to hedge foreign exchange risk on 50% of anticipated 2020 USD oil sales. These contracts have a notional value of $119.0 million USD and an average fixed rate of $1.33 CAD per USD.

As at December 31, 2019, Oil and Gas has 13 foreign exchange forward contracts remaining with a notional value of $126.8 million USD, and an average fixed rate of $1.33 CAD per USD. As the contracts have been designated as hedging instruments, changes in fair value have been recorded in other comprehensive (loss) income. During 2019, $0.7 million in realized losses (2018 - $1.4 million in realized losses) have been recorded in other expense and $3.6 million in unrealized gains (2018 - $0.8 million in unrealized losses) remain in other comprehensive income.

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

(thousands of Canadian dollars)	**Commodity and Forward Contracts Level 2**
Balance at January 1, 2019	**(775)**
Purchases	**-**
Transfers	**-**
	(775)
Changes in other comprehensive income	
Mark-to-market	**(7,463)**
Settlements realized in profit (loss)	**3,033**
Total	**(4,430)**
Balance at December 31, 2019	**(5,205)**
Balance at January 1, 2018	(4,608)
Purchases	-
Transfers	-
	(4,608)
Changes in other comprehensive loss	
Mark-to-market	(17,251)
Settlements realized in profit (loss)	21,084
Total	3,833
Balance at December 31, 2018	(775)

21. RELATED PARTY TRANSACTIONS

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

Related Party	Relationship
Nalcor	100% shareholder of Oil and Gas
Newfoundland and Labrador Hydro	Wholly-owned subsidiary of Nalcor
Nalcor Energy – Bull Arm Fabrication	Wholly-owned subsidiary of Nalcor
The Province	100% shareholder of Nalcor

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

Significant related party transactions and balances are as follows:

(a) For the year ended December 31, 2019, Oil and Gas was charged $497,559 (2018- $746,300) by Nalcor for intercompany salaries.

(b) As at December 31, 2019, Oil and Gas had a net payable to Nalcor of $1.3 million (2018 - $11.2 million net payable).

(c) For the year ended December 31, 2019, Oil and Gas expensed $39.3 million (2018 - $18.0 million) to the Province for royalties on its oil and gas operations.

(d) As at December 31, 2019, Oil and Gas had a net receivable from Bull Arm Fabrication of $2.8 million (2018 - $1.2 million).

21.1 Key Management Personnel Compensation

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

For the year ended December 31 (thousands of Canadian dollars)	**2019**	2018
Salaries and employee benefits	**394**	269
Post-employment benefits	**40**	28
	434	297

22. COMMITMENTS AND CONTINGENCIES

(a) Oil and Gas has received claims with respect to miscellaneous matters. Although the outcome of such actions cannot be predicted with certainty, Management currently believes Oil and Gas' exposure to such claims and litigation, to the extent not covered by insurance policies or otherwise provided for, is not expected to materially affect the financial position of Oil and Gas.

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

(millions of Canadian dollars)	Operating
2020	14.1
2021	9.6
2022	8.4
2023	5.7
2024	5.2

23. CAPITAL MANAGEMENT

Oil and Gas' objective when managing capital is to maintain the ability to fund operating costs and expenditures related to development and production assets, on a timely basis. Oil and Gas maintains an unsecured demand credit facility, which is 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. SUPPLEMENTARY CASH FLOW INFORMATION

For the year ended December 31 (thousands of Canadian dollars)	**2019**	2018
Trade and other receivables	**(7,067)**	516
Prepayments	**(1,576)**	811
Inventory	**(2,327)**	610
Trade and other payables	**1,339**	8,888
Deferred revenue	**(850)**	(124)
Changes in non-cash working capital balances	**(10,481)**	10,701
Related to:		
Operating activities	**(6,443)**	11,348
Investing activities	**(4,038)**	(647)
	(10,481)	10,701

25. SUBSEQUENT EVENT

On January 1, 2020, personnel from Oil and Gas transitioned to the Oil and Gas Corporation of Newfoundland and Labrador (Oil and Gas Corp). Exploration activities, along with future investment in offshore developments, will be solely held within Oil and Gas Corp.