NALCOR ENERGY - OIL AND GAS INC.
FINANCIAL STATEMENTS
December 31, 2018

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Independent Auditor's Report

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

Opinion

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

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

Basis for Opinion

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

Emphasis of Matter – Restated Comparative Information

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

Other Matter

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Deloitte LLP

Chartered Professional Accountants
March 15, 2019

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

As at December 31 (thousands of Canadian dollars)	Notes	**2018**	2017 (Restated - Note 4)
ASSETS			
Current assets			
Cash		**10,458**	1,495
Trade and other receivables	5	**38,279**	38,795
Inventory	6	**14,459**	18,306
Prepayments		**6,361**	7,173
Derivative assets	19	**-**	2,452
Total current assets		**69,557**	68,221
Non-current assets			
Property, plant and equipment	7	**1,148,081**	1,157,733
Intangible assets	8	**1,188**	1,359
Other long-term assets		**744**	821
Total assets		**1,219,570**	1,228,134
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	9	**33,299**	24,412
Current portion of deferred revenue	10	**700**	700
Derivative liabilities	19	**775**	7,060
Total current liabilities		**34,774**	32,172
Non-current liabilities			
Deferred revenue	10	**966**	1,090
Decommissioning liabilities	11	**70,883**	71,145
Long-term payable		**750**	1,000
Employee future benefits	12	**1,106**	1,031
Total liabilities		**108,479**	106,438
Shareholder's equity			
Share capital	14	**110,000**	110,000
Shareholder contributions		**906,112**	906,112
Reserves	13	**(964)**	(4,932)
Retained earnings		**95,943**	110,516
Total equity		**1,111,091**	1,121,696
Total liabilities and equity		**1,219,570**	1,228,134

Commitments and contingencies (Note 21)

See accompanying notes

On behalf of the Board:

DIRECTOR

DIRECTOR

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

For the year ended December 31 (thousands of Canadian dollars)	Notes	**2018**	2017 (Restated - Note 4)
Petroleum and natural gas sales		**310,083**	209,119
Royalties	20	**(18,007)**	(10,266)
Other revenue		**5,791**	6,716
Revenue, net		**297,867**	205,569
Operating costs	15	**6,028**	7,384
Production, marketing and transportation costs	16	**45,151**	30,390
Depreciation, depletion, amortization and impairment	7,8	**72,461**	151,751
Exploration and evaluation expense		**28,935**	814
Net finance expense	17	**2,859**	3,046
Other expense	18	**17,006**	15,255
Expenses		**172,440**	208,640
Profit (loss) for the year		**125,427**	(3,071)
Other comprehensive income (loss)			
Total items that may or have been reclassified to profit or loss			
Net fair value losses on cash flow hedges	13	**(17,251)**	(977)
Reclassification adjustments related to:			
Cash flow hedges recognized in profit or loss	13	**21,084**	1,157
Actuarial gain on employee future benefits	13	**135**	12
Other comprehensive income for the year		**3,968**	192
Total comprehensive income (loss) for the year		**129,395**	(2,879)

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, 2018		**110,000**	**906,112**	**(4,608)**	**(324)**	**110,516**	**1,121,696**
Profit for the year		**-**	**-**	**-**	**-**	**125,427**	**125,427**
Other comprehensive income (loss)							
Net change in fair value of cash flow hedge	**13**	**-**	**-**	**(17,251)**	**-**	**-**	**(17,251)**
Net change in fair value of financial instruments reclassified to profit or loss	**13**	**-**	**-**	**21,084**	**-**	**-**	**21,084**
Actuarial gain on employee future benefits	**13**	**-**	**-**	**-**	**135**	**-**	**135**
Total comprehensive income for the year		**-**	**-**	**3,833**	**135**	**125,427**	**129,395**
Dividends	**14**	**-**	**-**	**-**	**-**	**(140,000)**	**(140,000)**
Balance at December 31, 2018		**110,000**	**906,112**	**(775)**	**(189)**	**95,943**	**1,111,091**
Balance at January 1, 2017		110,000	887,205	(4,788)	(336)	118,936	1,111,017
Adjustment for the adoption of IFRS 15	4	-	-	-	-	(5,349)	(5,349)
Revised balance at January 1, 2017		110,000	887,205	(4,788)	(336)	113,587	1,105,668
Loss for the year		-	-	-	-	(3,071)	(3,071)
Other comprehensive income (loss)							
Net change in the fair value of cash flow hedges	13	-	-	(977)	-	-	(977)
Net change in the fair value of financial instruments reclassified to profit or loss	13	-	-	1,157	-	-	1,157
Actuarial gain on employee future benefits	13	-	-	-	12	-	12
Total comprehensive income (loss) for the year		-	-	180	12	(3,071)	(2,879)
Shareholder contributions		-	18,907	-	-	-	18,907
Balance at December 31, 2017		110,000	906,112	(4,608)	(324)	110,516	1,121,696

See accompanying notes

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

For the year ended December 31 (thousands of Canadian dollars)	Note	**2018**	2017 (Restated - Note 4)
Operating activities			
Profit (loss) for the year		**125,427**	(3,071)
Adjustments to reconcile profit to cash provided from operating activities:			
Depreciation, depletion, amortization and impairment	7,8	**72,461**	151,751
Finance income	17	**(278)**	(15)
Finance expense	17	**187**	216
Accretion	11	**2,950**	2,845
Settlement of decommissioning liabilities	11	**1**	(995)
(Gain) loss on disposal of property, plant and equipment	18	**(122)**	11,578
Other		**287**	85
Changes in non-cash working capital balances	23	**14,585**	(31,828)
		215,498	130,566
Interest received		**278**	15
Interest paid		**(187)**	(216)
Net cash provided from operating activities		**215,589**	130,365
Investing activities			
Additions to property, plant and equipment	7	**(65,909)**	(123,310)
Additions to intangible assets	8	**(10)**	(37,476)
Proceeds on disposal of property, plant and equipment		**190**	1,132
Change in non-cash working capital balances	23	**(647)**	(18,850)
Net cash used in investing activities		**(66,376)**	(178,504)
Financing activities			
(Decrease) increase in long-term payables		**(250)**	1,000
Increase in shareholder contributions		**-**	18,907
Dividends declared to Nalcor Energy	14	**(140,000)**	-
Net cash (used in) provided from financing activities		**(140,250)**	19,907
Net increase (decrease) in cash		**8,963**	(28,232)
Cash, beginning of year		**1,495**	29,727
Cash, end of year		**10,458**	1,495

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 the IFRS applicable as at December 31, 2018, and includes individual IFRS, International Accounting Standards (IAS), and interpretations made by the IFRS Interpretations Committee and the Standing Interpretations Committee.

These annual audited financial statements have been prepared on a historical cost basis. 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, 2019.

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

Inventory is carried at the lower of cost and net realizable value. Inventory costs include expenditures directly and indirectly incurred in bringing the inventory to its existing condition and location.

2.4 Property, Plant and Equipment

(i) Development and Production Costs

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

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

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

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

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

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

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

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

Such reserves 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.

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

2.5 Exploration and Evaluation Assets

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

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

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

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

2.6 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

2.7 Impairment of Non-Financial Assets

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

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

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

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

2.8 Investments in Joint Arrangements

A joint arrangement is an arrangement of which two or more parties involved 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.

2.9 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.

2.10 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.

2.11 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.

2.12 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.

2.13 Net Finance (Income) Expense

For all financial instruments measured at amortized cost, interest income or expense is recorded using the effective interest method.

2.14 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).

2.15 Income Taxes

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

2.16 Financial Instruments

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. 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 fair value through profit or loss) 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 fair value through profit or loss are recognized immediately in profit or loss. All recognized financial assets and financial liabilities are subsequently measured in their entirety at either amortized cost or fair value, depending on the classification of the financial assets and financial liabilities.

Classification of Financial Instruments

Oil and Gas has classified each of its financial instruments into the following categories: amortized cost and derivatives designated as hedging instruments.

Financial instrument	Category
Cash and cash equivalents	Amortized cost
Trade and other receivables	Amortized cost
Trade and other payables	Amortized cost
Long-term payable	Amortized cost
Derivative instruments	Derivatives designated as hedging instruments

(i) Effective Interest Method

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

Income or expense is recognized on an effective interest basis for debt instruments other than those financial assets and liabilities classified as fair value through profit or loss (FVTPL).

Financial Assets

(ii) Financial Assets at Amortized Cost

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

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

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

Financial Liabilities

(iii) Financial Liabilities at FVTPL

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

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

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

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

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

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

(iv) Financial Liabilities at Amortized Cost

Financial liabilities that do not meet the criteria of FVTPL or are not designated as such, are subsequently measured at amortized cost using the effective interest method.

(v) Derivative Instruments and Financial Instruments used for Hedging

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

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. Oil and Gas does not hold any fair value hedges.

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

Cash Flow Hedges

The effective portion of the gain or loss on the hedging instrument is recognized directly in other comprehensive loss, while any ineffective portion is recognized immediately in the Statement of Profit and Comprehensive Income for the year in other expense.

Amounts recognized in other comprehensive loss 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.

2.17 Derecognition of Financial Instruments

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

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

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

2.18 Impairment of Financial Assets

Oil and Gas recognizes a loss allowance for expected credit losses on investments in debt instruments that are measured at amortized cost or at FVTOCI. The amount of expected credit losses 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 expected credit losses (ECL) for trade and other receivables. The expected credit losses on these financial assets are estimated based on Oil and Gas' 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 have been identified to have low credit risk is cash and cash equivalents and short-term investments.

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

Significant increase in Credit Risk

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

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

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

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

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

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

Definition of Default

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

Credit-impaired Financial Assets

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

Write-off Policy

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

Measurement and Recognition of Expected Credit Losses

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

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

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

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

Oil and Gas recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the statement of financial position.

2.19 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) 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.

(ii) Determination of CGUs

Oil and Gas' accounting policy relating to impairment of non-financial assets is described in Note 2.7. 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.

(iii) 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.

(iv) 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, operating and financing activities and determined the functional currency to be Canadian Dollars.

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

3.2 Use of Estimates

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

(ii) Intangible Assets
Amounts recorded for amortization are based on the useful lives of Oil and Gas’ assets. These useful lives are Management’s best estimate of the service lives of these assets. Changes to these lives could materially affect the amount of amortization recorded.

(iii) 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.

(iv) 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.

(v) 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.

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 January 1, 2018, January 1, 2019 or January 1, 2020, as specified.

- *IFRS 9 – Financial Instruments*[1]
- *IFRS 15 – Revenue from Contracts with Customers*[1]
- *IFRIC 22 – Foreign Currency Transactions and Advance Consideration*[1]
- *IFRS 16 – Leases*[2]
- *IAS 19 – Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)* [2]
- *IAS 1 – Presentation of Financial Statements*[3] *and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors*[3] *(Amendments to IAS 1 and IAS 8)*

[1] Effective for annual periods beginning on or after January 1, 2018.
[2] Effective for annual periods beginning on or after January 1, 2019, with earlier application permitted.
[3] Effective for annual periods beginning on or after January 1, 2020, with earlier application permitted.

4.1 IFRS 9 – Financial Instruments

IFRS 9 – Financial Instruments (as revised in July 2014) became effective for accounting periods commencing on January 1, 2018. IFRS 9 introduces new requirements for the classification and measurement of financial assets and financial liabilities, impairment for financial assets and general hedge accounting. Details of these new requirements as well as their impact on Oil and Gas' financial statements are described below.

Oil and Gas has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9.

4.1.1 Classification and measurement of financial assets

The date of initial application of IFRS 9 is January 1, 2018. Oil and Gas has applied the requirements of IFRS 9 to instruments that have not been derecognized as at January 1, 2018 and has not applied the requirements to instruments that have already been derecognized as at January 1, 2018. Comparative amounts in relation to instruments that have not been derecognized as at January 1, 2018 have been restated where appropriate.

All recognized financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Management reviewed and assessed Oil and Gas' existing financial assets as at January 1, 2018 based on the facts and circumstances that existed at that date, and concluded that the initial application of IFRS 9 has had the following impact on Oil and Gas' financial assets with regards to classification and measurement:

- financial assets classified as held-to-maturity and loans and receivables under IAS 39 that were measured at amortized cost continue to be measured at amortized cost under IFRS 9 as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

Note 4.1.5 illustrates the change in classification of Oil and Gas' financial assets upon application of IFRS 9.

4.1.2 Impairment of financial assets

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires Oil and Gas to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets.

As at January 1, 2018, Management reviewed and assessed Oil and Gas' existing financial assets and amounts due from customers for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of IFRS 9 to determine the credit risk of the respective items at the date they were initially recognized, and compared that to the credit risk as at January 1, 2017 and January 1, 2018. The comparison made as at January 1, 2017, January 1, 2018 and December 31, 2018 determines whether 12 month expected credit losses should be recognized or a lifetime expected credit loss should be recognized where credit risk has increased significantly for the respective financial instruments at that date. The change resulting from the application of the impairment model under IFRS 9 has not resulted in a material adjustment from what was previously recorded under IAS 39.

4.1.3 Classification and measurement of financial liabilities

The application of IFRS 9 has had no impact on the classification and measurement of Oil and Gas' financial liabilities.

4.1.4 General hedge accounting

The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about Oil and Gas' risk management activities have also been introduced.

In accordance with IFRS 9's transition provisions for hedge accounting, Oil and Gas has applied IFRS 9 hedge accounting requirements prospectively from the date of initial application on January 1, 2018. Oil and Gas' qualifying hedging relationships in place as at January 1, 2018 qualified for hedge accounting in accordance with IFRS 9 and were therefore regarded as continuing hedging relationships. No rebalancing of any of the hedging relationships was necessary on January 1, 2018. As the critical terms of the hedging instruments match those of their corresponding hedged items, all hedging relationships continue to be effective under IFRS 9's effectiveness assessment requirements. Oil and Gas has not designated any hedging relationships under IFRS 9 that would not have met the qualifying hedge accounting criteria under IAS 39. Consistent with prior periods, Oil and Gas has continued to designate the change in fair value of the entire forward contract, i.e. including the forward element, as the hedging instrument in Oil and Gas' cash flow hedge relationships.

The application of the IFRS 9 hedge accounting requirements has had no impact on the results and financial position of Oil and Gas for the current and/or prior years. Refer to Note 19 for detailed disclosures regarding Oil and Gas' risk management activities.

4.1.5 Disclosures in relation to the initial application of IFRS 9

The table below illustrates the classification and measurement of financial assets and financial liabilities under IFRS 9 and IAS 39 at January 1, 2018.

Financial instrument	Category under IAS 39	Category under IFRS 9
Cash	Loans and receivables	Amortized cost
Trade and other receivables	Loans and receivables	Amortized cost
Trade and other payables	Other financial liabilities	Amortized cost
Derivative instruments	FVTPL and financial instruments used for hedging	FVTPL and derivatives designated as hedging instruments
Long-term payable	Other financial liabilities	Amortized cost

4.2 IFRS 15 – Revenue from Contracts with Customers

IFRS 15 – Revenue from Contracts with Customers (as amended in April 2016) became effective for accounting periods commencing on January 1, 2018. Oil and Gas has applied IFRS 15 in accordance with the fully retrospective transitional approach using practical expedients for completed contracts (IFRS 15.C5(a)), modified contracts (IFRS 15.C5(c)) and allowing both non-disclosure of the amount of the transaction price allocated to the remaining performance obligations, and an explanation of when it expects to recognize that amount as revenue for all reporting periods presented before the date of initial application (IFRS 15.C5(d)). Subsequent to adopting IFRS 15 the cumulative effect of applying IFRS 15 has been recognized by restating comparative information.

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 covers only revenue arising from contracts with customers. Under IFRS 15, a customer of Oil and Gas is a party that has contracted with Oil and Gas to obtain goods or services that are an output of Oil and Gas's ordinary activities in exchange for consideration. Unlike the scope of IAS 18, the recognition and measurement of interest income and dividend income from debt and equity investments are no longer within the scope of IFRS 15. Instead, they are within the scope of IFRS 9.

As mentioned above, IFRS 15 establishes a single model to deal with revenue from contracts with customers. Its core principle is that Oil and Gas should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which Oil and Gas expects to be entitled, in exchange for those goods or services.

Oil and Gas's accounting policies for its revenue streams are disclosed in detail in Note 2.12.

The details and quantitative impact of the changes in accounting policies are disclosed below.

Prior to the application of IFRS 15, revenue from properties in which Oil and Gas has an interest with other producers was recognized on the basis of Oil and Gas' net working interest of petroleum and natural gas produced (the entitlement method). Under this method, crude oil produced below or above Oil and Gas' net working interest resulted in an under-lift or over-lift position. Under-lift or over-lift positions are measured at market value and recorded as an asset or liability, respectively.

Subsequent to the application of IFRS 15, Oil and Gas recognizes revenue that depicts the transfer of crude oil to its customers in each reporting period by applying IFRS 15. Accordingly, when Oil and Gas has received 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 expense 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.

The table below addresses the changes resulting from the change in classification and measurement category of the under-lift and over-lift on the audited statement of financial position at January 1, 2018.

(thousands of Canadian dollars)	Carrying Amounts previously reported at December 31, 2017	Reclassification	Remeasurement	Amounts under IFRS 15 at January 1, 2018
Current assets				
Trade and other receivables	64,717	(25,922)	-	38,795
Inventory	10,082	25,922	(17,698)	18,306
Retained earnings	(128,214)	-	17,698	(110,516)
Total	(53,415)	-	-	(53,415)

The tables below show the amount of adjustment for each financial statement line item affected by the application of IFRS 15 for the current year.

Statement of profit and other comprehensive income (loss)

(thousands of Canadian dollars)	December 31, 2018	December 31, 2017
Petroleum and natural gas sales	17,170	(18,601)
Production, marketing and transportation costs	4,440	(6,252)
Total	12,730	(12,349)

Statement of financial position

(thousands of Canadian dollars)	As previously reported	IFRS 15 Adjustment	As restated
Impact on assets, liabilities and equity as at January 1, 2017			
Trade and other receivables	46,982	(7,321)	39,661
Inventory	4,213	1,972	6,185
Retained earnings	(118,936)	5,349	(113,587)
Total	(67,741)	-	(67,741)

(thousands of Canadian dollars)	As previously reported	IFRS 15 Adjustment	As restated
Impact on assets, liabilities and equity as at December 31, 2017			
Trade and other receivables	64,717	(25,922)	38,795
Inventory	10,082	8,224	18,306
Retained earnings	(128,214)	17,698	(110,516)
Total	(53,415)	-	(53,415)

Statement of cash flows

(thousands of Canadian dollars)	As previously reported	IFRS 15 Adjustment	As restated
Impact on cash flows as of December 31, 2017			
Operating activities			
Profit (loss) for the year	9,278	(12,349)	(3,071)
Changes in non-cash working capital balances	(63,027)	12,349	(50,678)
Total	(53,749)	-	(53,749)

4.3 IFRIC 22 – Foreign Currency Transactions and Advance Consideration

IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (for example, a non-refundable deposit or deferred revenue).

The application of these amendments to IFRIC 22 had no impact on Oil and Gas' annual audited financial statements.

4.4 IFRS 16 – Leases

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. It will supersede the following lease standard and interpretations upon its effective date:

- IAS 17 – Leases;
- IFRIC 4 – Determining Whether an Arrangement contains a Lease;
- SIC-15 – Operating Leases – Incentives; and
- SIC-27 – Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

IFRS 16 applies a control model to the identification of leases, distinguishing between leases and service contracts on the basis of whether there is an identified asset controlled by the customer.

The standard introduces significant changes to lessee accounting: it removes the distinction between operating and finance leases under IAS 17 and requires a lessee to recognize a right-of-use asset and a lease liability at lease commencement for all leases, except for short-term leases and leases of low value assets.

In contrast to lessee accounting, the IFRS 16 lessor accounting requirements remain largely unchanged from IAS 17, which continue to require a lessor to classify a lease as either an operating lease or a finance lease.

IFRS 16 is effective for reporting periods beginning on or after January 1, 2019 with early application permitted (as long as IFRS 15 is also applied). Management has elected to adopt the standard as of the effective date.

A lessee can apply IFRS 16 either by a full retrospective approach or a modified retrospective approach. Management intends to apply the modified approach, as a result there is no requirement to restate comparative information, the cumulative effect of initially applying IFRS 16 will be presented as an adjustment to opening retained earnings. Management anticipates the application of IFRS 16 may have a material impact on the amounts reported and disclosures made in Oil and Gas' annual audited financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 16 until Management concludes its detailed review.

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

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of Oil and Gas.

4.6 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 International Accounting Standards Board issued amendments to IAS 1 and IAS 8 to align the definition of 'material' across the standards and to clarify certain aspects of the definition and to include the concept of 'obscuring information'.

The new definition states that "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity".

The amendments are effective for annual periods beginning on or after January 1, 2020 with earlier application permitted. The amendments are intended to improve the understanding of the existing requirements rather than to significantly impact Oil and Gas' materiality judgments.

5. TRADE AND OTHER RECEIVABLES

As at December 31 (thousands of Canadian dollars)	**2018**	2017 (Restated - Note 4)
Trade receivables	**35,262**	15,576
Other receivables	**1,774**	1,479
Due from related parties	**1,243**	21,740
	38,279	38,795

As at December 31 (thousands of Canadian dollars)	**2018**	2017
0-60 days	**32,998**	33,743
60+ days	**5,281**	5,052
	38,279	38,795

As at December 31, 2018, trade and other receivables included balances of $29.5 million (2017 – $11.1 million) denominated in USD. In addition, at December 31, 2018, Oil and Gas had $5.3 million (2017 - $5.1 million) in accounts receivable as past due but not impaired.

6. INVENTORY

As at December 31, 2018, 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 including the appropriate proportion of depreciation, depletion and amortization.

7. PROPERTY, PLANT AND EQUIPMENT

(thousands of Canadian dollars)	Petroleum and Natural Gas Assets	Other	Total
Cost			
Balance at January 1, 2017	1,312,469	1,984	1,314,453
Additions	122,706	604	123,310
Transfers	-	(258)	(258)
Disposals	(12,585)	(189)	(12,774)
Decommissioning liability additions and revisions	2,304	-	2,304
Balance at December 31, 2017	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**
Depreciation, depletion and impairment			
Balance at January 1, 2017	211,741	670	212,411
Depreciation and depletion	56,748	207	56,955
Disposals	-	(64)	(64)
Balance at December 31, 2017	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**
Carrying value			
Balance at January 1, 2017	1,100,728	1,314	1,102,042
Balance at December 31, 2017	1,156,405	1,328	1,157,733
Balance at December 31, 2018	**1,146,876**	**1,205**	**1,148,081**

8. INTANGIBLE ASSETS

(thousands of Canadian dollars)	Exploration Assets	Computer Software	Total
Cost			
Balance at January 1, 2017	68,651	2,555	71,206
Additions	37,209	267	37,476
Transfers	-	258	258
Balance at December 31, 2017	105,860	3,080	108,940
Additions	**-**	**10**	**10**
Balance at December 31, 2018	**105,860**	**3,090**	**108,950**
Amortization and impairment			
Balance at January 1, 2017	11,325	1,460	12,785
Amortization	13,554	261	13,815
Impairment	80,981	-	80,981
Balance at December 31, 2017	105,860	1,721	107,581
Amortization	**-**	**181**	**181**
Balance at December 31, 2018	**105,860**	**1,902**	**107,762**
Carrying value			
Balance at January 1, 2017	57,326	1,095	58,421
Balance at December 31, 2017	-	1,359	1,359
Balance at December 31, 2018	**-**	**1,188**	**1,188**

As at December 31, 2017 intangible assets included an impairment expense of $81 million related to seismic and geoscientific data acquisition costs previously capitalized.

9. TRADE AND OTHER PAYABLES

As at December 31 (thousands of Canadian dollars)	**2018**	2017
Trade payables and accruals	**19,884**	23,668
Due to related parties	**11,447**	744
Other payables	**1,968**	-
	33,299	24,412

As at December 31, 2018, trade and other payables included balances of $1.6 million (2017 - $3.7 million) denominated in USD and $nil (2017 - $0.9 million) denominated in Euros.

10. 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. Deferred revenue also includes the value of oil inventory held at the Newfoundland Transshipment site.

As at December 31, 2018 (thousands of Canadian dollars)	OGDP	PEEP	Other	Total
Balance beginning of year	218	751	821	1,790
Adjustments	**-**	**-**	**(76)**	**(76)**
Recognized in profit or loss	**(40)**	**(8)**	**-**	**(48)**
Balance end of year	**178**	**743**	**745**	**1,666**
Less: current portion	**-**	**(700)**	**-**	**(700)**
	178	**43**	**745**	**966**

11. 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, 2018 are $143.6 million (2017 - $131.3 million). Payments to settle the liabilities are expected to occur between 2032 and 2036. The fair value of the decommissioning liabilities was determined using the present value of future cash flows discounted at rates ranging from 4.0% to 4.3% (2017 – 3.9% to 4.2%). The reconciliation of the beginning and ending amounts of decommissioning liabilities is as follows:

As at December 31 (thousands of Canadian dollars)	**2018**	2017
Decommissioning liabilities, beginning of year	**71,145**	66,991
Accretion	**2,950**	2,845
Liabilities settled	**1**	(995)
Revisions	**(3,213)**	2,304
Decommissioning liabilities, end of year	**70,883**	71,145

12. EMPLOYEE FUTURE BENEFITS

12.1 Pension Plan

Employees participate in the Province's Public Service Pension Plan, a multi-employer defined benefit plan. The employer's contributions of $339,904 (2017 - $365,100) were expensed as incurred.

12.2 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 2018, cash payments to beneficiaries for its unfunded other employee future benefits were $3,400 (2017 - $nil). An actuarial valuation was performed as at December 31, 2018.

As at December 31 (thousands of Canadian dollars)	**2018**	2017
Accrued benefit obligation, beginning of year	**1,031**	893
Current service cost	**140**	135
Interest cost	**42**	40
Benefits paid	**(3)**	-
Transfers	**28**	(25)
Actuarial gain	**(132)**	(12)
Accrued benefit obligation, end of year	**1,106**	1,031

For the year ended December 31 (thousands of Canadian dollars)	**2018**	2017
Components of benefit cost		
Current service cost	**140**	135
Interest cost	**42**	40
Total benefit expense for the year	**182**	175

The significant actuarial assumptions used in measuring the accrued benefit obligation and benefit expense are as follows:

	2018	2017
Discount rate - benefit cost	**3.55%**	3.90%
Discount rate - accrued benefit obligation	**3.90%**	3.55%
Rate of compensation increase	**3.50%**	3.50%

Assumed healthcare trend rates:

	2018	2017
Initial healthcare expense trend rate	**5.85%**	6.00%
Cost trend decline to	**4.50%**	4.50%
Year that rate reaches that rate it is assumed to remain at	**2028**	2028

A 1% change in assumed healthcare trend rates would have had the following effects:

Increase (thousands of Canadian dollars)	**2018**	2017
Current service and interest cost	**46**	46
Accrued benefit obligation	**233**	217

Decrease (thousands of Canadian dollars)	**2018**	2017
Current service and interest cost	**(31)**	(31)
Accrued benefit obligation	**(166)**	(154)

13. ACCUMULATED OTHER COMPREHENSIVE LOSS

The components of, and changes in, accumulated other comprehensive loss are as follows:

Items that will not be reclassified to profit or loss:

(thousands of Canadian dollars)	**2018**	2017
Employee benefit reserve		
Balance at January 1	**(324)**	(336)
Net actuarial gains on defined benefit plans	**135**	12
Balance at December 31	**(189)**	(324)

Items that have been reclassified to profit or loss:

(thousands of Canadian dollars)	**2018**	2017
Fair value reserve		
Balance at January 1	**(4,608)**	(4,788)
Fair value losses during the period	**(17,251)**	(977)
Amounts reclassified to profit or loss	**21,084**	1,157
Balance at December 31	**(775)**	(4,608)

14. SHAREHOLDER'S EQUITY

14.1 Share Capital

As at December 31 (thousands of Canadian dollars)	**2018**	2017
Common shares without nominal or par value		
Authorized - unlimited		
Issued, fully paid and outstanding - 100	**110,000**	110,000

14.2 Dividends

For the year ended December 31 (thousands of Canadian dollars)	**2018**	2017
Declared during the year	**140,000**	-

15. OPERATING COSTS

For the year ended December 31 (thousands of Canadian dollars)	**2018**	2017
Salaries and benefits	**2,785**	2,929
Professional services	**1,648**	1,270
Building rental and maintenance	**503**	112
Other	**345**	416
Travel	**326**	409
Recoveries	**291**	605
Advertising, donations and community involvement	**94**	1,576
Insurance	**36**	67
	6,028	7,384

16. PRODUCTION, MARKETING AND TRANSPORTATION COSTS

For the year ended December 31 (thousands of Canadian dollars)	**2018**	2017
Project operating costs	**31,583**	15,566
Transportation and transshipment	**6,515**	4,845
Processing and marketing	**5,653**	8,770
Insurance	**1,400**	1,209
	45,151	30,390

17. NET FINANCE EXPENSE

For the year ended December 31 (thousands of Canadian dollars)	**2018**	2017
Finance income		
Other interest income	**(278)**	(15)
Finance costs		
Accretion	**2,950**	2,845
Other finance costs	**187**	216
	3,137	3,061
Net finance expense	**2,859**	3,046

18. OTHER EXPENSE

For the year ended December 31 (thousands of Canadian dollars)	**2018**	2017
Settlement of commodity swap contracts	**19,660**	1,885
Settlement of foreign exchange forward contracts	**1,423**	(728)
Hedge ineffectiveness	**-**	(2)
(Gain) loss on disposal of property, plant and equipment	**(535)**	11,578
Realized foreign exchange (gain) loss	**(2,099)**	2,427
Unrealized foreign exchange (gain) loss	**(1,443)**	95
Other expense	**17,006**	15,255

19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

19.1 Fair Value

The estimated fair values of financial instruments as at December 31, 2018 and December 31, 2017 are based on relevant market prices and information available at the time. Fair value estimates are based on valuation techniques which are significantly affected by the assumptions used including the amount and timing of future cash flows and discount rates reflecting various degrees of risk. As such, the fair value estimates below are not necessarily indicative of the amounts that 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 years ended December 31, 2018 and December 31, 2017.

As at December 31, 2018 and December 31, 2017, the Company did not have any Level 3 instruments.

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
(thousands of Canadian dollars)		**December 31, 2018**		December 31, 2017	
Financial assets					
Derivative assets	**2**	**-**	**-**	2,452	2,452
Financial liabilities					
Derivative liabilities	**2**	**775**	**775**	7,060	7,060

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.

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

Liquidity Risk

Oil and Gas is exposed to liquidity risk with respect to its contractual obligations and financial liabilities, including any derivative liabilities related to hedging activities. Liquidity risk management activities are directed to ensuring cash is available to meet those obligations as they become due. Short-term liquidity is mainly provided through cash on

hand, funds from operations, and a $30.0 million (December 31, 2017 - $30.0 million) unsecured demand operating facility with the Company's bank. As at December 31, 2018 Oil and Gas had no borrowings outstanding on the credit facility (December 31, 2017 - $nil), and $23.3 million of the borrowing limit had been used to issue two irrevocable letters of credit (December 31, 2017 - $5.4 million).

As at December 31, 2018, Nalcor, on behalf of Oil and Gas, had no amounts (December 31, 2017 - $25.7 million) in outstanding letters of credit as they matured and are no longer required or cancelled and reissued under Oil and Gas.

On August 1, 2018, Oil and Gas issued an irrevocable letter of credit in the amount of $18.4 million to a counterparty to ensure compliance with regulations relating to petroleum and natural gas exploration and production activities. Previously, this irrevocable letter of credit in the amount of $15.6 million, was issued by Nalcor on behalf of Oil and Gas, and was subsequently cancelled on August 13, 2018. On November 30, 2018 a letter of credit in the amount of $10.0 million issued by Nalcor on behalf of Oil and Gas expired and was not renewed as it was no longer required. On August 25, 2018 an irrevocable letter of credit in the amount of $0.5 million issued by Oil and Gas was not renewed as it was no longer required.

The following are contractual maturities of Oil and Gas' financial liabilities, including principal and interest as at December 31, 2018:

(millions of Canadian dollars)	< 1 Year	1-3 Years	3-5 Years	> 5 Years	Total
Trade and other payables	33,299	-	-	-	33,299
Long term payable	-	500	250	-	750
	33,299	500	250	-	34,049

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 2018, total oil sales denominated in USD were $234.8 million (2017 - $168.6 million). To mitigate foreign exchange risk and commodity price risk on these sales, Oil and Gas used foreign currency forward contracts and fixed price commodity swaps, respectively.

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, 2018.

(thousands of Canadian dollars)	5% Decrease	5% Increase
Trade and other receivables	(1,477)	1,477
Trade and other payables	(82)	82

As at December 31, 2018, Oil and Gas had no commodity price swaps, as they matured during the final quarter. As the contracts have been designated as hedging instruments, changes in fair value have been recorded in other comprehensive income. During 2018, $19.7 million in realized losses (2017 - $1.9 million in realized losses) have been included in other expense and $nil in unrealized losses (2017 - $7.1 million in unrealized losses) remain in other comprehensive income.

As at December 31, 2018, Oil and Gas had one foreign exchange forward contract remaining with a notional value of $8.6 million USD, and an average fixed price of $1.27 CAD per USD. As the contract is designated as a hedging instrument, changes in fair value have been recorded in other comprehensive income. During 2018, $1.4 million in realized losses (2017 - $0.7 million in realized gains) have been included in other expense and $0.8 million in unrealized losses (2017 - $2.5 million in unrealized gains) remain in other comprehensive income.

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

	Commodity and Forward Contracts
(thousands of Canadian dollars)	**Level 2**
Balance at January 1, 2018	**(4,608)**
Purchases	**-**
Transfers	**-**
	(4,608)
Changes in other comprehensive income	
Mark-to-market	**(17,251)**
Settlements realized in profit (loss)	**21,084**
Total	**3,833**
Balance at December 31, 2018	**(775)**
Balance at January 1, 2017	(4,790)
Purchases	-
Transfers	-
	(4,790)
Changes to profit (loss)	
Hedge ineffectiveness	2
Total	2
Changes in other comprehensive loss	
Mark-to-market	(977)
Settlements realized in profit (loss)	1,157
Total	180
Balance at December 31, 2017	(4,608)

20. RELATED PARTY TRANSACTIONS

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

Related Party	Relationship
Nalcor	100% shareholder of Oil and Gas
Newfoundland and Labrador Hydro (Hydro)	Wholly-owned subsidiary of Nalcor
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, 2018, Oil and Gas was charged $746,300 (2017- $841,500) by Nalcor for intercompany sales.

(b) For the year ended December 31, 2018, Oil and Gas was charged $13,000 (2017 - $380,000) by Hydro for management and administrative services received.

(c) As at December 31, 2018, Oil and Gas had a net payable to Nalcor of $11.2 million (2017 - $20.4 million net receivable).

(d) For the year ended December 31, 2108, Oil and Gas expensed $18.0 million (2017 - $10.3 million) to the Province for royalties on its oil and gas operations.

(e) As at December 31, 2018, Oil and Gas had a net receivable from Bull Arm Fabrication of $1.2 million (2017 - $nil).

20.1 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)	**2018**	2017
Salaries and employee benefits	**269**	350
Post-employment benefits	**28**	31
	297	381

21. 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	Total Commitments
2019	22.9	22.9
2020	9.9	9.9
2021	10.0	10.0
2022	8.7	8.7
2023	5.9	5.9

22. 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. Unless Oil and Gas enters into new development projects, future requirements for capital are expected to decline as construction on existing joint venture projects decreases. During this time, it is expected that Oil and Gas' cash flow from operations will be sufficient to fund its capital needs. Additional requirements will be funded through Oil and Gas' credit facility.

23. SUPPLEMENTARY CASH FLOW INFORMATION

For the year ended December 31 (thousands of Canadian dollars)	**2018**	2017 (Restated - Note 4)
Trade and other receivables	**516**	866
Inventory	**3,847**	(12,121)
Prepayments	**812**	(5,947)
Trade and other payables	**8,887**	(32,830)
Deferred revenue	**(124)**	(646)
Changes in non-cash working capital balances	**13,938**	(50,678)
Related to:		
Operating activities	**14,585**	(31,828)
Investing activities	**(647)**	(18,850)
	13,938	(50,678)