2023
Q1 Financial Update

newfoundland labrador hydro

CONTENTS

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INTERIM MANAGEMENT DISCUSSION & ANALYSIS

This Management Discussion and Analysis (MD&A) should be read in conjunction with the unaudited condensed consolidated interim financial statements (interim financial statements) of Nalcor Energy (Nalcor) for the period ended March 31, 2023, and the annual audited consolidated financial statements (annual financial statements) and MD&A (annual MD&A) for the year ended December 31, 2022. Unless otherwise noted, all financial information has been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board and reported in Canadian dollars (CAD).

The following discussion and analysis includes results as of March 31, 2023, with subsequent events and outlook information updated to May 15, 2023. The MD&A is the responsibility of Management, and the Board of Directors carries out its responsibility for review of this disclosure principally through its Audit Committee. This MD&A was reviewed by the Audit Committee and subsequently approved by the Board of Directors on May 15, 2023.

Certain statements in this MD&A contain forward-looking information and reflect Management's expectations regarding future growth, results of operations and performance. By their nature, forward-looking statements require Management to make assumptions and are subject to important unknown risks and uncertainties, which may cause actual results in future periods to differ materially from forecasted results. While Management considers these assumptions reasonable and appropriate based on information currently available, there is a risk that they may not be accurate.

OUR COMPANY

The Newfoundland and Labrador Hydro group of companies (the Company or Hydro) is comprised of corporations established in the Province of Newfoundland and Labrador (the Province). Our business includes the development, generation, transmission and sale of electricity including energy trading; and the development, production and sale of oil and gas.

Hydro consists of both regulated and unregulated operations across the Province with major power generation assets in Churchill Falls, Muskrat Falls, Bay d'Espoir and Holyrood. In addition, our transmission system spans thousands of kilometers and connects our power generation facilities in Labrador to Quebec and to the island of Newfoundland (the Island) through the Labrador-Island Link (LIL) and the Labrador Transmission Assets (LTA). Hydro's generation and transmission assets are also connected to Atlantic Canada and North American markets through the Maritime Link.

We are the people's crown utility. For more than 50 years Hydro has provided safe, cost-effective electricity to customers in over 200 communities throughout the Province. In our time serving the people of our province, we've seen a world of changes, including the focus on creating a safe and sustainable environment. We deliver more than 90 per cent renewable energy to the people of Newfoundland and Labrador. We are a proud, diverse energy company whose people are committed to continuing to harness energy opportunities to benefit the people of the Province.

Hydro's profitability can be impacted by seasonal weather patterns and events along with the timing of application and approval of regulatory deferrals and rate orders. In addition, variability in earnings is expected in the current and near-term as a result of the commissioning of the Lower Churchill Project (LCP) assets. The implementation of rate mitigation strategies could also cause fluctuations in future financial results. Profitability is also impacted by oil price and sales volumes along with electricity export price and volumes.

In 2021, the Government of Newfoundland and Labrador announced that all Nalcor operations would be moving under Newfoundland and Labrador Hydro. This decision would not only result in a change in reporting throughout the organization but also new leadership and focus. The Company is reviewing the existing corporate and governance structure and contractual arrangements and working with the Province on any policy or legislative changes required. Transition is ongoing and impacts on the Company's operating structure will continue to be reflected as further details of the future structure of the organization are finalized. Throughout this MD&A, "Company" and "Hydro" refer to the Newfoundland and Labrador Hydro group of companies (formerly Nalcor), references to "Nalcor" refer to the Nalcor legal entity and references to "NL Hydro" refer to the Newfoundland and Labrador Hydro legal entity.

INTERIM MANAGEMENT DISCUSSION & ANALYSIS

The operating segments are based on a combination of regulatory status and management accountability. The following summary provides a brief overview of the nature of operations included in each of Hydro's operating segments as at March 31, 2023.

Hydro Regulated activities encompass sales of electricity to customers within the Province that are regulated by the Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB).

Muskrat Falls includes the operation of the 824 MW hydroelectric generating facility in Labrador on the Lower Churchill River.

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

Churchill Falls owns and operates a 5,428 MW hydroelectric generating facility, which sells electricity to Hydro-Québec and NL Hydro.

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

Other Electric includes revenues and expenditures associated with the delivery of the Nova Scotia Block (NS Block) of energy to Emera Inc. (Emera), expenditures associated with the Maritime Link (which is owned and managed by Emera, but consolidated by Nalcor), NL Hydro's sales of electricity to mining operations in Labrador West, and revenues and costs recovered from Hydro-Québec associated with the operation of the Menihek Generating Station.

Oil and Gas includes the Company's share in the development, production, transportation and processing of oil and gas from the Hebron, White Rose and Hibernia South Extension (HSE) fields.

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

INTERIM MANAGEMENT DISCUSSION & ANALYSIS

AT A GLANCE

For the period ended March 31 (millions of Canadian dollars)	**Three months ended** **2023**	2022
Profit	**159**	100
Operating profit[1]	**159**	100
Revenue	**582**	391
Operating costs	**67**	63
Cash provided from operations	**393**	147
Capital expenditures	**89**	89
Electricity sales (GWh)	**13,717**	13,469
Oil sales (thousands of bbls)	**607**	684
Realized oil price (CAD/bbl)	**109**	91

[1]Operating profit is a non-GAAP financial measure that encompasses profit excluding extraordinary items that are not indicative of Hydro's future financial performance.

Profit

The Company's profit for the three months ended March 31, 2023 was $159 million, an increase of $59 million compared to the same period in 2022. The key drivers of the profit for the quarter relate to higher realized oil price and non-cash impacts of bringing the LCP assets online; partially offset by lower electricity export price and oil sales volume.

RECENT DEVELOPMENTS

REGULATORY HIGHLIGHTS

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

In Order No. P.U. 15(2020), the PUB approved a delay in filing Hydro Regulated's next General Rate Application (GRA). In the latest update provided to the PUB on March 31, 2023, Hydro Regulated indicated that the timing of filing its next GRA remains uncertain and estimated that it would require approximately nine months to prepare an informed GRA. Certainty related to the commissioning of the LIL and the finalization of the details of the Province's rate mitigation plan is required in order to proceed with the planning of the next GRA. The LIL was successfully commissioned in April 2023 and Hydro Regulated is continuing to work with the Province to finalize the remaining details of its rate mitigation plan. Hydro Regulated expects its next GRA filing to be in 2024.

Cost increases associated with the contractual requirements related to the LCP have been addressed through Hydro Regulated's regulatory deferral accounts that defer LCP payments, rate mitigation funding, LCP cost recovery from customers, other supply cost variances, as well as variances in depreciation expenses related to the Holyrood Thermal Generating Station (HTGS). The deferral of these amounts results in no material impact on net income and recovery from customers will be addressed through a separate application at the conclusion of the next GRA.

On March 31, 2023, as one of the initial steps to implement rate mitigation, the Province announced the provision of $190 million of rate mitigation funding to offset increases in supply costs primarily associated with the LCP. The provision of this funding reduced the balance due from customers in the Supply Cost Variance Deferral Account.

Customer Rate Changes

With the purchases of clean energy produced by Muskrat Falls into the supply of the Island interconnected System (IIS), Hydro Regulated is decreasing dependence on the HTGS. As part of that transition, Hydro Regulated is incorporating the supply costs of Muskrat Falls energy into the IIS customer rates for the first time. As Hydro Regulated pivots its largest IIS supply source from fossil fuels to renewable energy, it is designing rates and regulatory mechanisms to ensure a smooth transition from current rates to incorporating recovery of Muskrat Falls costs, while avoiding rate shock to its customers. In July 2022, the PUB approved Hydro Regulated's application to implement a Project Cost Recovery Rider to commence partial recovery of Muskrat Falls costs.

In Order No. P.U. 3(2023), the PUB approved an update to the Island Industrial Customer Rate Stabilization Plan (RSP) Current Plan Adjustment providing for a rate increase of 15.4% effective January 1, 2023, including recovery of the remaining fuel cost balance from 2022. Given the billing impact for 2023, Hydro has not proposed the implementation of a Project Cost Recovery Rider for Island Industrial Customers at this time.

Effective January 1, 2023, rates to recover the generation costs from Labrador Industrial customers were updated using a formula-based methodology that has been in effect since 2015. The rates to recover generation costs are non-regulated and include a market based component. It is the policy of the Government that rates charged for the supply of power should promote the development of industrial activity in Labrador by ensuring that industrial rates remain competitive with other jurisdictions. The estimated customer rate impact was approximately 9.4%; even with this increase, rates charged to Labrador Industrial customers remain the lowest in the country.[1]

On April 17, 2023, Hydro Regulated filed its annual RSP application for PUB approval of Utility Rates effective July 1, 2023, requesting a 5.5% wholesale rate increase to Newfoundland Power (approximately 3.9% increase to end-consumers). When combined with Newfoundland Power's anticipated updates to its Rate Stabilization Clause and Municipal Tax Adjustment Factor, the overall customer rate would increase approximately 6.9%. As a result, Hydro Regulated proposed the Project Cost Recovery Rider remain unchanged. Further LCP related rate increases are more appropriately addressed upon implementation of the rate mitigation plan.

In September 2022, Hydro Regulated filed an application for approval of a non-firm rate in Labrador to facilitate the sale of surplus energy on the Labrador Interconnected system and for approval of an update to the non-firm rates available to Island Industrial customers. The review and consultation process is currently ongoing.

2023 Capital Budget and Capital Projects

The application by Hydro Regulated for approval of $90.8 million in capital expenditures for 2023 was approved in full in January 2023 through Board Order No. P.U. 2(2023). The application reflected Hydro's ongoing objective and responsibility as the Province's Crown Utility to minimize costs while maintaining safe and reliable operations.

On March 31, 2023, Hydro Regulated submitted its external consultant report on the application for the construction of Phase 1 of the long-term supply plan for Southern Labrador at an estimated cost of $49.9 million. Hydro Regulated expects to proceed with an amended application, in May 2023, addressing recommendations made in the consultant's report, along with updated cost and schedule information once Hydro Regulated conducts further stakeholders engagement.

Hydro Regulated received full approval for the $50.6 million supplemental capital budget application related to the refurbishment of Penstock 1 in Bay D'Espoir on April 12, 2023. This project will be completed over a three year period with expenditures of $2.1 million expected in 2023, $13.2 million in 2024 and $35.3 million in 2025.

Resource Adequacy

The Reliability and Resource Adequacy (RRA) Study outlines Hydro's long-term approach to providing cost-conscious, reliable service.

Societal shifts towards net-zero energy sources are dramatic and are expected to have major impacts on electricity grids. All Canadian utilities, including Hydro, are working to navigate the uncertainty and plan system additions to respond to the massive increase in decarbonization efforts given our country's goal of net-zero by 2050. In Hydro's case, our province's electricity grid has recently undergone significant transformation as we recently integrated the LCP assets in to our existing grid. With this step, our province's electricity grid is now fully interconnected via the Labrador-Island Link and the

[1] The rates to recover transmission costs were not revised at this time as these costs are regulated and approved by the PUB through Hydro Regulated's GRA process.

Maritime Link. Hydro is faced with a great deal of uncertainty as it plans to service its customers with reliable, cost-conscious electricity, now and into the future.

Hydro is already seeing the impacts of electrification on its planning, and is expected to see a conservative increase of 10% demand on the system by 2032 due to electric vehicle adoption and the conversion of oil-to-electric heat in homes. There is currently no zero-emission supply available to meet this significant growth. Therefore, Hydro has recommended an incremental approach to required generation expansion and will continue to progress the required studies this year. Hydro Regulated plans to file an application(s) for approval to construct generation addition(s) in 2024.

The RRA Study 2022 Update, filed in October 2022, included a recommendation to proceed with the development of an application for new supply, with primary consideration given to an expansion at the Bay d'Espoir Hydroelectric Generation Station; specifically, the addition of Unit 8 with a capacity of 154 MW.

Hydro Regulated is also recommending that the HTGS, as well as Hardwoods Gas Turbine, remain available for reliable operation until any additional long-term generating sources have been reviewed, approved and constructed. During this period, Hydro will make every effort to minimize the operation of these units; however, continued capital and operating investments are still required to ensure unit availability.

The regulatory process on the RRA Study 2022 Update is ongoing.

LOWER CHURCHILL PROJECT

On April 8, 2023, high-power testing of the LIL was successfully completed. On April 14, 2023, commissioning of the LIL was approved by all required stakeholders and, together with the previously commissioned Muskrat Falls Generating Station and the LTA, marks the successful commissioning of the Lower Churchill Project.

Upon commissioning of the LIL, total project costs are now known. Final costs increased by $133 million bringing the total cost of the project from $13.37 billion (released in June 2022) to $13.50 billion. The increase in cost will not require any additional equity funding from the Province and will be covered through internal sources of funding and considered as part of the overall rate mitigation plan.

Rate Mitigation and Financial Restructuring of the LCP

In 2022, as part of the Province's rate mitigation plan, Hydro, the Province and the Government of Canada signed term sheets for a $1 billion federal loan guarantee, capital restructuring of Muskrat Falls and Labrador Transmission Corporation (Labrador Transco), and a $1 billion investment by the Government of Canada in the LIL. The debt proceeds of $1 billion and the capital restructuring of Muskrat Falls and Labrador Transco occurred in 2022 and the first installment of the $1 billion investment by the Government of Canada in the LIL is expected to be received in the coming weeks. These arrangements will provide rate relief to Island customers, lower financing costs and maintain ownership of the Muskrat Falls and LTA as well as control of the LIL, all of which generate long-term benefits.

OTHER RECENT EVENTS

On February 28, 2023 the Province announced the assembly of an expert team to lead high-level preliminary discussions with Hydro-Québec to assess whether there are meaningful opportunities for future negotiations that will ensure the best value from the Churchill Falls plant and the Churchill River for the people of the Province.

In April 2023, Energy Trading purchased 146 MW of firm Phase I/II transmission for the period of June 1, 2023 to May 31, 2024, providing access to sell more energy in the New England markets where prices tend to be higher than other markets to which Energy Trading has access.

CONSOLIDATED FINANCIAL RESULTS

Consolidated financial results of the Company are outlined below along with explanations for significant variances in categories of revenue and expenditures.

CONSOLIDATED STATEMENT OF PROFIT HIGHLIGHTS

	Three months ended		
For the period ended March 31 (millions of Canadian dollars)	**2023**	2022	Variance
Revenue	**582**	391	191
Fuels	**99**	85	14
Power purchased	**23**	24	(1)
Operating costs	**67**	63	4
Production, marketing and transportation costs	**9**	7	2
Transmission rental	**6**	5	1
Depreciation, depletion and amortization	**56**	56	-
Net finance expense	**48**	57	(9)
Other (income) expense	**(7)**	54	(61)
Profit for the period before regulatory adjustments	**281**	40	241
Regulatory adjustments	**122**	(60)	182
Profit for the period	**159**	100	59

Revenue

	Three months ended		
For the period ended March 31 (millions of Canadian dollars)	**2023**	2022	Variance
Electricity sales	**331**	306	25
Petroleum and natural gas sales, net of royalties	**56**	80	(24)
Other revenue	**195**	5	190
Total revenue	**582**	391	191

Electricity sales

Electricity sales for the three months ended March 31, 2023 were $331 million, an increase of $25 million compared to the same period in 2022. The increase for the quarter was due to higher Regulated energy sales volumes, increased NS Block deliveries to Emera, higher export electricity sales volumes and favourable impacts of regulatory mechanisms, partially offset by a decrease in export electricity prices. The impacts of regulatory mechanisms are offset in the regulatory adjustments line.

Electricity sales volume is summarized in the table below:

	Three months ended	
For the period ended March 31 (GWh)	**2023**	2022
Regulated	**2,513**	2,433
Hydro-Québec	**9,893**	9,870
Emera - NS Block	**331**	243
Other export markets	**457**	380
Other domestic	**523**	537
	13,717	13,463

Prices for sales in other export markets are summarized in the table below:

For the period ended March 31	Three months ended 2023	2022
Average Export Electricity Price (USD/MWh)[1]	**31**	58
Realized Export Electricity Price (USD/MWh)[2]	**31**	57
Realized Export Electricity Price (CAD/MWh)[3]	**41**	73

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

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

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

Average and realized USD export electricity prices for the three months ended March 31, 2023 were lower compared to the same period in 2022 due to the impacts of lower natural gas prices on electricity markets as a result of natural gas storage levels in Eastern United States increasing above five year historic average in Q1 2023.

Petroleum and natural gas sales, net of royalty expense

Petroleum and natural gas sales, net of royalty expense for the three months ended March 31, 2023 was $56 million, a decrease of $24 million compared to the same period in 2022. The decrease for the quarter was due to lower average dated Brent price per barrel and a decrease in oil sales volume.

Oil prices and sales volumes are summarized in the table below:

For the period ended March 31	Three months ended 2023	2022
Average Dated Brent Price (USD/bbl)[1]	**76**	102
Realized Price (USD/bbl) [2]	**85**	71
Realized Price (CAD/bbl)[3]	**109**	91
Oil Sales Volumes (thousands of bbls)	**607**	684

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

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

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

Other revenue

Other revenue for the three months ended March 31, 2023 was $195 million, an increase of $190 million compared to the same period in 2022. The increase for the quarter was due to rate mitigation funding received from the Province.

Fuels

For the period ended March 31 (millions of Canadian dollars)	Three months ended 2023	2022	Variance
No. 6 fuel and other	**83**	79	4
Gas Turbine fuel	**6**	-	6
Diesel	**10**	6	4
	99	85	14

Fuel costs for the three months ended March 31, 2023 were $99 million, an increase of $14 million compared to the same period in 2022. The increase for the quarter is due to increased price of all types of fuel and higher consumption of gas turbine fuel, partially offset by reduced consumption of No. 6 fuel at the HTGS.

Power purchased

Power purchased for the three months ended March 31, 2023 was comparable to the same period in 2022.

Operating costs

For the period ended March 31 (millions of dollars)	Three months ended **2023**	2022	Variance
Salaries and benefits	**38**	37	1
Maintenance and materials	**14**	12	2
Professional services	**8**	8	-
Insurance	**3**	3	-
Travel and transportation	**1**	2	(1)
Other operating costs	**3**	1	2
	67	63	4

Operating costs for the three months ended March 31, 2023 were comparable to the same period in 2022.

Production, marketing and transportation costs

Production, marketing and transportation costs for the three months ended March 31, 2023 were comparable to the same period in 2022.

Transmission rental

Transmission rental for the three months ended March 31, 2023 was comparable to the same period in 2022.

Depreciation, depletion and amortization

Depreciation, depletion and amortization for the three months ended March 31, 2023 was comparable to the same period in 2022.

Net finance expense

Net finance expense for the three months ended March 31, 2023 was $48 million, a decrease of $9 million compared to the same period in 2022. The decrease for the quarter was due to higher interest earned in 2023 due to higher cash balances and interest rates during the period, therefore reducing the net expense.

Other (income) expense

For the period ended March 31 (millions of dollars)	Three months ended **2023**	2022	Variance
HSE Redetermination re-balancing adjustment	**(11)**	17	(28)
Settlement of commodity price swap contracts	**(7)**	26	(33)
Rental and royalty	**6**	6	-
Other	**5**	5	-
Total other (income) expense	**(7)**	54	(61)

Other income for the three months ended March 31, 2023 was $7 million compared to expense of $54 million for the same period in 2022, an increase of $61 million. The increase for the quarter was primarily due to a lower oil price, which had a favourable impact on commodity hedge settlements as well as the fair value of the HSE redetermination liability.

Regulatory adjustments

Regulatory expenses for the three months ended March 31, 2023 were $122 million, an increase of $182 million compared to recoveries of $60 million for the same period in 2022. The increase for the quarter was primarily due to net variations in regulatory mechanisms largely driven by the provision of $190 million of rate mitigation funding by the Province.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION HIGHLIGHTS

Significant changes in the Consolidated Statement of Financial Position between March 31, 2023 and December 31, 2022 include:

ASSETS *(millions of Canadian dollars)*	Increase (Decrease)	**Explanation**
Cash and cash equivalents	259	See Liquidity and Capital Resources for additional details on movement in cash during the period ended March 31, 2023.
Property, plant and equipment	32	Increase driven by capital expenditure programs in Hydro and borrowing costs associated with the LIL that were capitalized until commissioning; partially offset by normal depreciation and depletion.
Regulatory assets, net of regulatory liabilities	(122)	Decrease due to the provision of $190 million of rate mitigation funding received from the Province in Q1 2023; partially offset by variations in supply costs and related regulatory mechanisms largely driven by power purchased from Muskrat Falls.
LIABILITIES AND EQUITY *(millions of Canadian dollars)*		
Retained earnings	159	Increase due to the profit recorded for the year. See At A Glance for additional details.

SEGMENTED RESULTS

The following presents an overview of the Company's profit for the three months ended March 31, 2023, by operating segment, in comparison to the three months ended March 31, 2022. This discussion should be read in conjunction with Note 14 of the interim financial statements for the three months ended March 31, 2023.

	Three months ended		
For the period ended March 31 (millions of Canadian dollars)	**2023**	2022	Variance
Hydro Regulated	**15**	16	(1)
Muskrat Falls	**55**	33	22
LCP Transmission	**22**	20	2
Churchill Falls	**20**	19	1
Energy Trading	**2**	8	(6)
Other Electric	**10**	2	8
Oil and Gas	**38**	6	32
Corporate	**(1)**	(4)	3
Inter-segment	**(2)**	-	(2)
Profit for the period	**159**	100	59

HYDRO REGULATED

Hydro Regulated activities encompass sales of electricity to customers within the Province and other activities that are regulated by the PUB. The operations of Hydro Regulated are influenced by many external factors including regulation, performance of the domestic economy and weather patterns. The demand for electricity is met through a combination of hydroelectric generation, thermal generation and power purchases, including wind generation and off-island purchases. Hydro Regulated is entitled to the opportunity to recover, through customer rates, all reasonable and prudent costs incurred in providing electricity service to its customers, in addition to a just and reasonable return on rate base, in accordance with Section 80 of the Public Utilities Act. Hydro Regulated uses regulatory mechanisms, as directed by the PUB, to annually adjust customer rates, both to smooth rate impacts for island electricity customers and to protect Hydro Regulated's profit from the majority of variations in certain supply costs, including HTGS fuel costs, power purchase costs from Muskrat Falls and LCP Transmission, with recovery subject to applications to and approval by the PUB. Adjustments related to these regulatory mechanisms flow through the regulatory adjustments line in the financial results.

Financial Highlights

	Three months ended		
For the period ended March 31 (millions of Canadian dollars)	**2023**	2022	Variance
Revenue	**451**	242	209
Expenses	**315**	286	29
Profit (loss) before regulatory adjustments	**136**	(44)	180
Regulatory adjustments	**121**	(60)	181
Profit for the period	**15**	16	(1)

Revenue

Revenue for the three months ended March 31, 2023 was $451 million, an increase of $209 compared to the same period in 2022. The increase for the quarter was due to rate mitigation funding received from the Province, the impact of which is offset in the regulatory adjustments line.

Regulated energy sales and supply are summarized below:

For the period ended March 31 (GWh)	Three months ended 2023	2022
Customer:		
Utility	**1,998**	1,901
Rural	**415**	422
Industrial	**100**	110
	2,513	2,433
Generation:		
Hydraulic generation[1]	**1,473**	1,463
Holyrood generation	**352**	418
Standby generation[2]	**13**	-
Thermal diesel generation	**15**	15
Purchases:		
Domestic[3]	**566**	579
Off-Island[4]	**199**	66
Gross generation	**2,618**	2,541
Losses	**105**	108
Net generation	**2,513**	2,433

[1] Includes Hydro owned generation only.

[2] Includes gas turbine and diesel generation.

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

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

Expenses

Expenses for the three months ended March 31, 2023 were $315 million, an increase of $29 million compared to the same period in 2022. The increase for the quarter was primarily related to higher volume of power purchased from Muskrat Falls, and an increase in fuel costs due to higher price of all types of fuel and higher volume of gas turbine fuel partially offset by a decrease in volume of No. 6 fuel used at HTGS. Certain variances in power purchased and fuel are offset through regulatory mechanisms in the regulatory adjustments line.

Regulatory adjustments

Regulatory expenses for the three months ended March 31, 2023 were $121 million, an increase of $181 million compared to recoveries of $60 million for the same period in 2022. The increase for the quarter was primarily due to net variations in regulatory mechanisms largely driven by the provision of $190 million of rate mitigation funding by the Province.

MUSKRAT FALLS

Muskrat Falls includes the operation of the 824 MW hydroelectric generating facility in Labrador on the Lower Churchill River. Muskrat Falls sells the majority of its energy under the Muskrat Falls Power Purchase Agreement (MF PPA) to Hydro Regulated.

Profit for Muskrat Falls is largely driven by revenue earned from Hydro Regulated for the delivery of energy and provision of capacity under the MF PPA. This revenue fluctuates based on the amount of energy delivered in a given period.

Financial Highlights

For the period ended March 31 (millions of dollars)	Three months ended **2023**	2022	Variance
Revenue	**117**	104	13
Expenses	**62**	71	(9)
Profit for the period	**55**	33	22

Revenue
Revenue for the three months ended March 31, 2023 was $117 million, an increase of $13 million compared to the same period in 2022. The increase for the quarter relates to an increase in energy sales volume to Hydro Regulated.

Expenses
Expenses for the three months ended March 31, 2023 were $62 million, a decrease of $9 million compared to the same period in 2022. The decrease for the quarter relates to lower transmission expense and lower net finance expense and consulting fees associated with the Federal Loan Agreements.

LCP TRANSMISSION

LCP Transmission includes the construction of the LIL and operation of the LTA, which connects the Muskrat Falls Generating Station, the Churchill Falls Generating Station, and portions of the transmission system in Labrador to the Island. Profit for LCP Transmission is largely driven by revenue earned from Hydro Regulated associated with the LIL under the Transmission Funding Agreement (TFA) and from Muskrat Falls for interconnection services provided by the LTA under the Generator Interconnection Agreement (GIA).

As the LIL assets remained under construction for the period ended March 31, 2023, transactions between LCP Transmission and Hydro Regulated under the TFA have not yet begun. Profit to date in LCP Transmission is largely driven by revenue earned from Muskrat Falls for interconnection services. On April 14, 2023, commissioning of the LIL was approved by all required stakeholders.

Financial Highlights

For the period ended March 31 (millions of Canadian dollars)	Three months ended **2023**	2022	Variance
Revenue	**27**	27	-
Expenses	**5**	7	(2)
Profit for the period	**22**	20	2

Results of LCP Transmission for the three months ended March 31, 2023 were comparable to the same period in 2022.

CHURCHILL FALLS

Churchill Falls is the majority owner (65.8%) and operator of the Churchill Falls Generating Station, with a rated capacity of 5,428 MW. Various power sales contracts are in place with Hydro-Québec for the majority of the energy and capacity from this facility. In addition, two power purchase agreements provide for the sale of electricity to NL Hydro for use domestically and for resale in export markets.

The profit of Churchill Falls is largely driven by the volume of energy and capacity delivered to Hydro-Québec and NL Hydro. Seasonal weather patterns and equipment failures can affect results of operations.

Financial Highlights

For the period ended March 31 (millions of Canadian dollars)	Three months ended 2023	2022	Variance
Revenue	**37**	35	2
Expenses	**17**	16	1
Profit for the period	**20**	19	1

Results of Churchill Falls for the three months ended March 31, 2023 were comparable to the same period in 2022.

ENERGY TRADING

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

The revenue in this segment is generated from export energy sales and fees charged for providing management and energy scheduling services on behalf of Muskrat Falls. Energy sales are primarily derived from the sale of available Recapture, the block of 300 MW of capacity and related firm energy, which Churchill Falls has agreed to sell and deliver to NL Hydro. It is exported by Energy Trading in accordance with the power purchase agreement between Energy Marketing and NL Hydro, which was established in 2015.

Energy Trading's profitability is driven by the availability of export volumes for sale to external parties along with export market prices. Nearly all revenue generated by Energy Trading is denominated in USD and therefore Energy Trading's profitability is impacted by exchange rate fluctuations.

Financial Highlights

For the period ended March 31 (millions of Canadian dollars)	Three months ended 2023	2022	Variance
Revenue	**19**	15	4
Expenses	**17**	7	10
Profit for the period	**2**	8	(6)

Revenue
Revenue for the three months ended March 31, 2023 was $19 million, an increase of $4 million compared to the same period in 2022. The increase for the quarter was due to higher energy sales as a result of an increase in export electricity volumes, partially offset by lower electricity prices and a decrease in other revenue associated with scheduling services.

Expenses
Expenses for the three months ended March 31, 2023 were $17 million, an increase of $10 million compared to the same period in 2022. The increase for the quarter was due to lower recoveries of transmission fees and higher price and volume of power purchases.

OTHER ELECTRIC

Other Electric includes non-cash revenues and expenditures associated with the delivery of the NS Block of energy to Emera, expenditures associated with the Maritime Link (which is owned and managed by Emera, but consolidated by Nalcor), NL Hydro's unregulated sales of electricity to mining operations in Labrador West, and revenues and costs recovered from Hydro-Québec associated with the operation of the Menihek Generating Station.

Since August 2021, the Company has been delivering the NS Block to Emera, subject to the availability of LIL during commissioning activities. The profit of this segment is primarily driven by the volume of energy deliveries to Emera and sales to unregulated mining operations in Labrador West.

Financial Highlights

	Three months ended		
For the period ended March 31 (millions of Canadian dollars)	**2023**	2022	Variance
Revenue	**44**	35	9
Expenses	**34**	33	1
Profit for the period	**10**	2	8

Revenue

Revenue for the three months ended March 31, 2023 was $44 million, an increase of $9 million compared to the same period in 2022. The increase for the quarter was due to an increase in the volume of NS Block energy delivered to Emera.

Expenses

Expenses for the three months ended March 31, 2023 were comparable to the same period in 2022.

OIL AND GAS

Oil and Gas includes the Company's share of development, production, transportation and processing of its oil and gas investments. Oil and Gas is a joint venture working interest partner in three developments in the Newfoundland and Labrador offshore. It owns a 4.9% working interest in the Hebron oil field, a 5.0% working interest in White Rose and an 8.7% working interest in HSE. On March 1, 2021, First Redetermination under the HSE Operating Agreement became effective and Oil and Gas' ownership interest in HSE decreased from 10% to 8.7%.

The decrease in working interest resulted in an amount owing related to historical barrels of oil received in excess of the working interest, which is being settled by a reduction in Oil and Gas' share of future production over approximately two and a half years which commenced May 1, 2021.

Profit of Oil and Gas is primarily driven by global market oil prices and the volume of entitled production. Nearly all revenue generated by Oil and Gas is denominated in USD and therefore profitability is impacted by exchange rate fluctuations. Short-term volatility in cash flow associated with global market oil price and exchange rate fluctuations have been partially mitigated through hedging.

Due to the nature of the industry, Oil and Gas may incur impairment expenses and reversal of such expenses as a result of changes in discounted projected future cash flows when compared to the carrying values of related assets. Any expense or reversal of such expense is not uncommon and can lead to large fluctuations in profit or loss between financial reporting periods.

Financial Highlights

	Three months ended		
For the period ended March 31 (millions of Canadian dollars)	**2023**	2022	Variance
Revenue	**56**	79	(23)
Expenses	**18**	73	(55)
Profit for the period	**38**	6	32

Revenue

Revenue for the three months ended March 31, 2023 was $56 million, a decrease of $23 million compared to the same period in 2022. The decrease for the quarter was due to lower average Dated Brent price per barrel and lower oil sales volumes.

Expenses

Expenses for the three months ended March 31, 2023 were $18 million, a decrease of $55 million compared to the same period in 2022. The decrease for the quarter was primarily due to a lower oil price, which had a favourable impact on commodity hedge settlements as well as the fair value of the HSE redetermination liability.

CORPORATE

Corporate includes costs associated with shared services functions, and community and business development that are not allocated to the Company's other operating segments. Financial results of Corporate are primarily driven by operating costs associated with these functions, interest and depreciation and amortization of assets.

Financial Highlights

	Three months ended		
For the period ended March 31 (millions of Canadian dollars)	**2023**	2022	Variance
Expenses	**1**	4	(3)
Loss for the period	**(1)**	(4)	3

Results of Corporate for the three months and year ended March 31, 2023 were comparable to the same period in 2022.

LIQUIDITY AND CAPITAL RESOURCES

CASH FLOW HIGHLIGHTS

	Three months ended		
For the period ended March 31 (millions of Canadian dollars)	**2023**	2022	Variance
Cash and cash equivalents, beginning of the period	**566**	407	159
Net cash provided from operating activities	**393**	147	246
Net cash used in investing activities	**(130)**	(376)	246
Net cash (used in) provided from financing activities	**(4)**	281	(285)
Cash and cash equivalents, end of the period	**825**	459	366

Operating Activities

Net cash provided from operating activities during the three months ended March 31, 2023 was $393 million, an increase of $246 million compared to the same period in 2022. The increase in cash was primarily due to receipt of rate mitigation funding from the Province and higher oil price; partially offset by lower export electricity price and oil sales volume. Also contributing to the increase is favourable changes from non-cash working capital balances.

Investing Activities

Net cash used in investing activities during the three months ended March 31, 2023 was $130 million, a decrease of $246 million compared to the same period in 2022. The decrease was driven by reduction in investment of debt proceeds associated with the third federal loan guarantee, which was received in Q1 2022; partially offset by unfavourable changes in non-cash working capital.

Financing Activities

Net cash used in financing activities during the three months ended March 31, 2023 was $4 million compared to cash provided from financing activities of $281 million for the same period in 2022, a decrease of $285 million. The decrease was due to lower proceeds from long-term debt issuances and variations in short-term promissory note balances.

CAPITAL RESOURCES

Hydro's capital resources consist primarily of cash, restricted cash, investments, proceeds from debt issuances and equity from the Province. These capital resources are used to fund the Company's consolidated capital resource requirements, which include working capital needs, capital expenditures, and the servicing and repayment of debt.

Cash from operations is a primary source of funding and depends on a number of factors including electricity demand, regulatory process and commodity price and volume. The company monitors cash from operations, and where necessary, additional sources of liquidity are put in place. Hydro also has access to long-term debt financing and equity from the Province. Short-term and long-term borrowings are restricted by legislation that currently limits Hydro Regulated's short-term borrowings to $300 million and total borrowings to $2.6 billion.

On April 14, 2023, commissioning of the LIL was approved by all required stakeholders and total project costs are now known. Final costs of the project increased by $133 million bringing the total cost of the project from $13.37 billion (released in June 2022) to $13.50 billion. The increase in cost will not require any additional equity funding from the Province and will be covered through internal sources of funding and considered as part of the overall rate mitigation plan. The commissioning of the LIL provides Hydro with access to $1 billion of rate mitigation funding provided by the third federal loan guarantee and the ability to commence drawing on the $1 billion Government of Canada investment in the LIL, which is in the form of a convertible debenture.

Outstanding commitments for capital projects, excluding those related to Oil and Gas, total approximately $83 million as at March 31, 2023 (December 31, 2022 - $95 million). The Company has the available capital resources to sufficiently fund these requirements.

As at March 31, 2023, the Company's short-term credit facilities are as follows:

(millions of Canadian dollars)	**Limit**	**Drawn**	**Letters of Credit**	**Available Limit**
Revolving Term Facilities:				
Nalcor Energy	**250**	**-**	**6**	**244**
Hydro Regulated	**500**	**-**	**-**	**500**
Demand Operating Facilities:				
Churchill Falls	**10**	**-**	**1**	**9**
Energy Trading	**20**	**-**	**5**	**15**
Oil and Gas	**30**	**-**	**21**	**9**
Promissory Notes:				
Hydro Regulated	**300**	**140**	**-**	**160**
Total credit facilities	**1,110**	**140**	**33**	**937**

CAPITAL STRUCTURE

The Company’s consolidated capital structure and debt to capital ratio are shown in the table below:

As at (millions of Canadian dollars)	**March 31 2023**	December 31 2022
Short-term borrowings	**140**	131
Long-term debt (net of sinking funds)[1]	**10,582**	10,588
Class B limited partnership units[2]	**754**	739
Lease liabilities[1]	**5**	5
Total debt	**11,481**	11,463
Total shareholder's equity	**7,314**	7,150
Debt to capital	**61%**	62%

[1]Includes current portion.

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

CAPITAL EXPENDITURES

For the period ended March 31 (millions of Canadian dollars)	**Three months ended**		
	2023	2022	Variance
Regulated Hydro	**20**	11	9
Muskrat Falls	**1**	16	(15)
LCP Transmission	**53**	50	3
Churchill Falls	**3**	5	(2)
Oil and Gas	**11**	7	4
Corporate	**1**	-	1
Total capital expenditures	**89**	89	-

KEY BUSINESS RISKS

Hydro operates in various industry segments that have a variety of risk factors and uncertainties. The risks and uncertainties that could materially affect the business, financial condition and results of operations are described in Hydro's annual MD&A for the year ended December 31, 2022.

Hydro's key business risks remain substantially unchanged from those disclosed in the annual MD&A.

SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING JUDGMENTS AND ESTIMATES

SIGNIFICANT ACCOUNTING POLICIES

The Company's significant accounting policies are described in Note 2 of the annual financial statements for the year ended December 31, 2022. There have been no material changes to the significant accounting policies for the three month period ended March 31, 2023.

SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the interim financial statements in conformity with IFRS requires Management to make judgments and estimates that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results could differ materially from estimates.

A description of significant accounting judgments and estimates is provided in Note 3 of the annual financial statements for the year ended December 31, 2022. There were no material changes to the nature of significant accounting judgments and estimates for the three month period ended March 31, 2023.

RELATED PARTY TRANSACTIONS

The Company enters into various transactions with its shareholder and other related parties. Refer to Note 11 in the interim financial statements for further information regarding transactions with related parties. Unless otherwise noted, these transactions occur within the normal course of operations and are measured at the exchange amount, which is the amount of consideration agreed to by the related parties. Outstanding balances due to or from related parties are non-interest bearing with settlement within 30 days, unless otherwise stated.

OUTLOOK

With the global energy sector transitioning from fossil fuels to renewable energy sources, the energy landscape in Newfoundland and Labrador is shifting. Hydro is committed to serving our province and supporting sustainable growth that will benefit the people of the province now, and into the future. Hydro's provincial electrical grid is greener and more interconnected than ever before. In 2023, Hydro will work to progress the initiatives identified in the first year of its new three-year strategic plan in order to best serve the needs of our employees, customers, partners and stakeholders. Hydro's strategy includes supporting Provincial efforts in switching from oil to electric usage in our homes and businesses, supporting efforts to increase use of electric vehicles, and initiatives to capture the wind-hydrogen opportunities available in our Province. While continuing to provide safe, cost-conscious and reliable electricity, Hydro will work closely with the PUB and the Government of Newfoundland and Labrador to ensure we are well positioned to step up and harness sustainable energy opportunities to benefit the people of Newfoundland and Labrador and meet the needs of our Province responsibly.

Societal shifts towards net-zero energy sources are expected to continue to have major impacts on electricity grids. All Canadian utilities, including Hydro, are working to navigate the uncertainty and plan system additions to respond to government policy requirements and expectations on climate change. Hydro is already seeing the impacts of electrification on its planning, and is expecting to see a conservative increase of 10% demand on the system by 2032 as a result of electric vehicle adoption and the conversion of oil-to-electric heat in homes. Hydro has recommended an incremental approach to required generation expansion and will continue to progress the necessary regulatory processes this year. Hydro Regulated's RRA will continue into 2023.

With the completion of the LIL and full commissioning of the LCP in April 2023, Hydro is now able to increase the capacity at which the LIL is able to operate and deliver additional energy to the Island, Nova Scotia and other export markets. Moving forward, Hydro will continue to take opportunities to optimize the Company's available generation and transmission assets and transmission rights, such as its decision to use Muskrat Falls energy to service Labrador, thereby increasing the amount of Recapture energy available for export.

With the term sheets, underlying agreements, Federal Loan Guarantee issuance, capital restructuring for LCP refinancing and commissioning of the LIL complete, Hydro is working closely with the Province on the remaining decisions and analysis required to finalize the implementation of the Province's rate mitigation plan, which will inform Hydro's next GRA filing, anticipated in 2024. Hydro Regulated will continue to provide quarterly updates to the PUB and will confirm a more definitive timeline for filing its next GRA when further information becomes available.

Hydro is continuing to work with and support the Province to ensure Newfoundland and Labrador is best positioned to maximize long-term benefits from the Churchill Falls assets for the people of the province.

In 2023, Management will continue to progress the Province's directive to reduce duplication, find cost savings and move Nalcor operations under Hydro, completing the necessary due diligence and review of governance structure and existing contractual arrangements.