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.

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

	Three months ended		
For the period ended March 31 (millions of Canadian dollars)	**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.

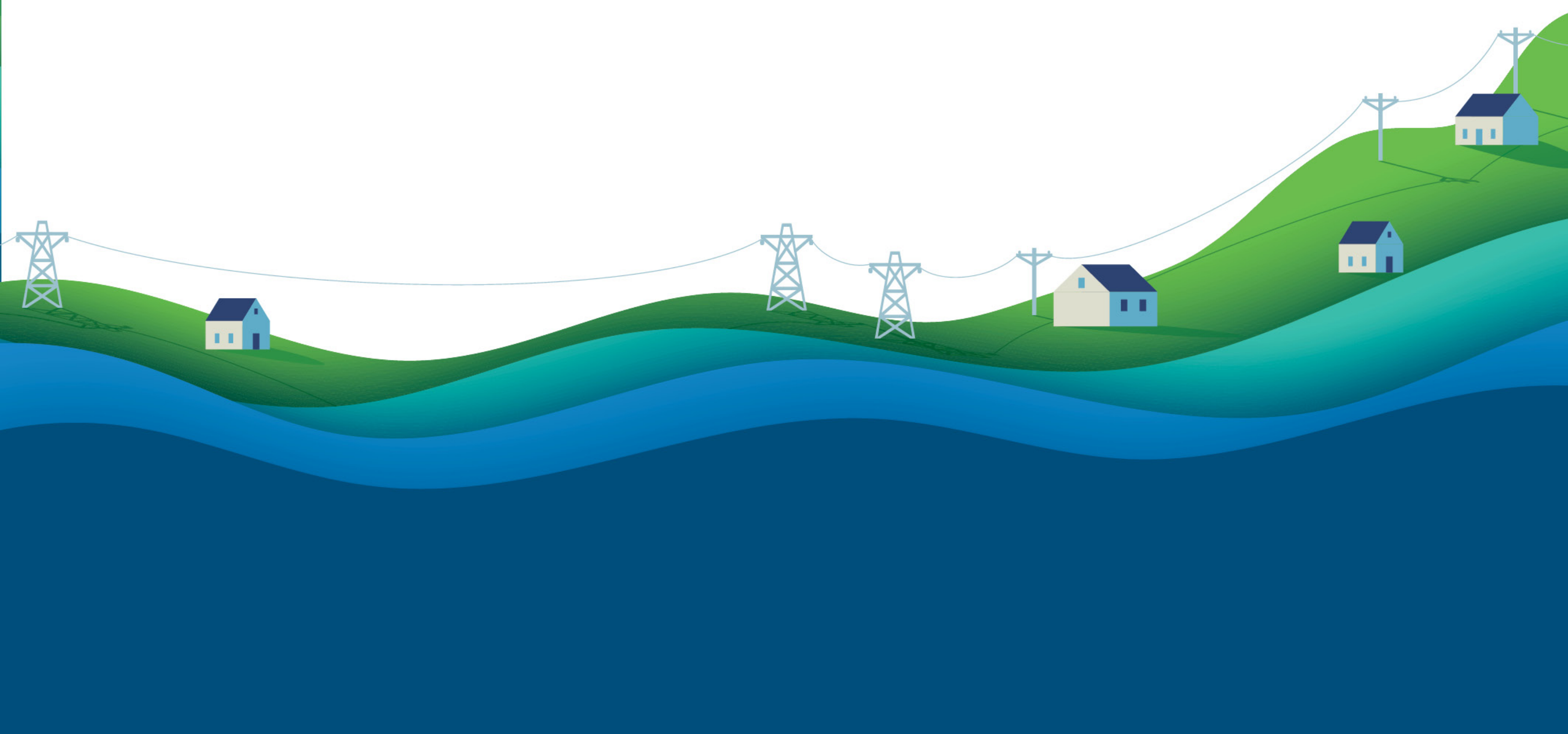
With the completion of the LIL and full commissioning of the LCP in April 2023, Hydro is now able to increase the capacity at which the LIL is able to operate and deliver additional energy to the Island, Nova Scotia and other export markets. Moving forward, Hydro will continue to take opportunities to 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.

APPENDIX 1



NALCOR ENERGY
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
March 31, 2023
(Unaudited)

NALCOR ENERGY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(Unaudited)

As at (millions of Canadian dollars)	Notes	**March 31 2023**	December 31 2022
ASSETS			
Current assets			
Cash and cash equivalents		**825**	566
Restricted cash		**1,324**	1,307
Short-term investments		**64**	61
Trade and other receivables		**171**	187
Inventories		**127**	132
Other current assets		**31**	30
Total current assets		**2,542**	2,283
Non-current assets			
Property, plant and equipment	3	**17,953**	17,921
Intangible assets		**34**	35
Investments		**510**	507
Other long-term assets		**5**	5
Total assets		**21,044**	20,751
Regulatory deferrals	4	**419**	540
Total assets and regulatory deferrals		**21,463**	21,291
LIABILITIES AND EQUITY			
Current liabilities			
Short-term borrowings	5	**140**	131
Trade and other payables		**311**	301
Current portion of long-term debt	5	**69**	69
Current portion of deferred credits		**112**	130
Other current liabilities		**76**	88
Total current liabilities		**708**	719
Non-current liabilities			
Long-term debt	5	**10,720**	10,721
Class B limited partnership units		**754**	739
Deferred credits		**1,652**	1,654
Decommissioning liabilities		**97**	96
Employee future benefits		**99**	98
Other long-term liabilities		**85**	81
Total liabilities		**14,115**	14,108
Shareholder’s equity			
Share capital		**123**	123
Shareholder contributions		**4,859**	4,859
Reserves		**(14)**	(19)
Retained earnings		**2,346**	2,187
Total equity		**7,314**	7,150
Total liabilities and equity		**21,429**	21,258
Regulatory deferrals	4	**34**	33
Total liabilities, equity and regulatory deferrals		**21,463**	21,291

Commitments and contingencies (Note 12)

Subsequent event (Note 15)

See accompanying notes

NALCOR ENERGY
CONSOLIDATED STATEMENT OF PROFIT AND COMPREHENSIVE INCOME
(Unaudited)

For the period ended March 31 (millions of Canadian dollars)	Notes	**Three months ended** **2023**	2022
Energy sales		**387**	386
Other revenue	6	**195**	5
Revenue		**582**	391
Fuels		**99**	85
Power purchased		**23**	24
Operating costs	7	**67**	63
Production, marketing and transportation costs		**9**	7
Transmission rental		**6**	5
Depreciation, depletion and amortization		**56**	56
Net finance expense	8	**48**	57
Other (income) expense	9	**(7)**	54
Expenses		**301**	351
Profit for the period before regulatory adjustments		**281**	40
Regulatory adjustments	4	**122**	(60)
Profit for the period		**159**	100
Other comprehensive income (loss)			
Total items that may or have been reclassified to profit or loss:			
Net fair value gain (loss) on reserve fund		**1**	(1)
Net fair value gain (loss) on cash flow hedges		**8**	(52)
Reclassification adjustments related to:			
Cash flow hedges recognized in profit or loss		**(4)**	27
Other comprehensive income (loss) for the period		**5**	(26)
Total comprehensive income for the period		**164**	74

See accompanying notes

NALCOR ENERGY
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(Unaudited)

(millions of Canadian dollars)	Share Capital	Shareholder Contributions	Fair Value Reserve	Employee Benefit Reserve	Retained Earnings	Total
Balance at January 1, 2023	**123**	**4,859**	**(55)**	**36**	**2,187**	**7,150**
Profit for the period	**-**	**-**	**-**	**-**	**159**	**159**
Other comprehensive income	**-**	**-**	**5**	**-**	**-**	**5**
Total comprehensive income for the period	**-**	**-**	**5**	**-**	**159**	**164**
Balance at March 31, 2023	**123**	**4,859**	**(50)**	**36**	**2,346**	**7,314**
Balance at January 1, 2022	123	4,859	(69)	(12)	1,607	6,508
Profit for the period	-	-	-	-	100	100
Other comprehensive loss	-	-	(26)	-	-	(26)
Total comprehensive income for the period	-	-	(26)	-	100	74
Balance at March 31, 2022	123	4,859	(95)	(12)	1,707	6,582

See accompanying notes

NALCOR ENERGY
CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

For the period ended March 31 (millions of Canadian dollars)	Notes	**Three months ended** **2023**	2022
Operating activities			
Profit for the period		**159**	100
Adjustments to reconcile profit to cash provided from operating activities:			
Depreciation, depletion and amortization		**56**	56
Amortization of deferred credits		**(25)**	(18)
Hibernia South Extension (HSE) Redetermination re-balancing	9	**(11)**	17
Maritime Link operating costs		**5**	5
Regulatory adjustments	4	**122**	(60)
Finance income	8	**(30)**	(6)
Finance expense	8	**78**	63
Other		**8**	7
		362	164
Changes in non-cash working capital balances	13	**43**	16
Interest received		**26**	2
Interest paid		**(38)**	(35)
Net cash provided from operating activities		**393**	147
Investing activities			
Additions to property, plant and equipment and intangible assets	14	**(47)**	(52)
Increase in investments		**(6)**	(329)
Other		**-**	2
Changes in non-cash working capital balances	13	**(77)**	3
Net cash used in investing activities		**(130)**	(376)
Financing activities			
Proceeds from long-term debt		**-**	1,000
Increase in restricted cash		**(17)**	(667)
Increase (decrease) in short-term borrowings		**9**	(55)
Other		**4**	3
Net cash (used in) provided from financing activities		**(4)**	281
Net increase in cash and cash equivalents		**259**	52
Cash and cash equivalents, beginning of the period		**566**	407
Cash and cash equivalents, end of the period		**825**	459

See accompanying notes

1. DESCRIPTION OF BUSINESS

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

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of Compliance and Basis of Measurement

These condensed consolidated interim financial statements (interim financial statements) have been prepared in accordance with *International Accounting Standard 34 – Interim Financial Reporting* and have been prepared using accounting policies consistent with those used in the preparation of the annual audited consolidated financial statements for the year ended December 31, 2022.

These interim financial statements do not include all of the disclosures normally found in Nalcor's annual audited consolidated financial statements and should be read in conjunction with the annual audited consolidated financial statements. Interim results will fluctuate due to the seasonal nature of electricity demand and water flows, as well as timing and recognition of regulatory items. Due to higher electricity demand during the winter months, revenue from electricity sales is higher during the first and fourth quarters.

These interim financial statements have been prepared on a historical cost basis, except for financial instruments at fair value through profit or loss (FVTPL) and fair value through other comprehensive income (FVTOCI) which have been measured at fair value. The interim financial statements are presented in Canadian Dollars (CAD) and all values rounded to the nearest million, except when otherwise noted. The interim financial statements were approved by Nalcor's Board of Directors on May 15, 2023.

2.2 Basis of Consolidation

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

3. PROPERTY, PLANT AND EQUIPMENT

(millions of Canadian dollars)	Generation Plant	Transmission and Distribution	Petroleum and Natural Gas Properties	Other	Assets Under Development	Total
Cost						
Balance as at January 1, 2022	2,135	3,266	1,607	571	12,262	19,841
Additions	-	-	31	23	400	454
Disposals	(17)	(15)	-	(3)	-	(35)
Transfers	71	42	-	13	(126)	-
Decommissioning liabilities and revisions	2	-	(36)	-	-	(34)
Balance as at December 31, 2022	2,191	3,293	1,602	604	12,536	20,226
Additions	**-**	**-**	**11**	**(5)**	**83**	**89**
Disposals	**(1)**	**-**	**-**	**-**	**-**	**(1)**
Transfers	**-**	**1**	**-**	**2**	**(3)**	**-**
Balance as at March 31, 2023	**2,190**	**3,294**	**1,613**	**601**	**12,616**	**20,314**
Depreciation, depletion and impairment						
Balance as at January 1, 2022	709	317	802	219	55	2,102
Depreciation and depletion	54	70	99	14	-	237
Disposals	(9)	(5)	-	(2)	-	(16)
Impairment reversal	-	-	(18)	-	-	(18)
Balance as at December 31, 2022	754	382	883	231	55	2,305
Depreciation and depletion	**11**	**17**	**24**	**5**	**-**	**57**
Disposals	**(1)**	**-**	**-**	**-**	**-**	**(1)**
Balance as at March 31, 2023	**764**	**399**	**907**	**236**	**55**	**2,361**
Carrying value						
Balance as at January 1, 2022	1,426	2,949	805	352	12,207	17,739
Balance as at December 31, 2022	1,437	2,911	719	373	12,481	17,921
Balance as at March 31, 2023	**1,426**	**2,895**	**706**	**365**	**12,561**	**17,953**

Capitalized interest for the period ended March 31, 2023 was $42.0 million (December 31, 2022 - $167.7 million) related to assets under development.

4. REGULATORY DEFERRALS

(millions of Canadian dollars)		January 1 2023	Regulatory Activity	**March 31 2023**	Remaining Recovery Settlement Period (years)
Regulatory asset deferrals					
Power purchase expense recognition	(a)	166	53	**219**	n/a
Rate stabilization plan (RSP)	(b)	52	-	**52**	n/a
Foreign exchange losses		42	(1)	**41**	18.8
Retirement asset pool		35	-	**35**	n/a
Muskrat Falls PPA monetization		26	-	**26**	n/a
Supply deferrals		9	5	**14**	n/a
Supply cost variance deferral account	(c)	190	(178)	**12**	n/a
Business system transformation program		8	-	**8**	n/a
Deferred energy conservation costs		7	-	**7**	n/a
Other		5	-	**5**	n/a
		540	(121)	**419**	
Regulatory liability deferrals					
Removal provision		(22)	(1)	**(23)**	n/a
Insurance amortization and proceeds		(4)	-	**(4)**	n/a
Other		(7)	-	**(7)**	n/a
		(33)	(1)	**(34)**	

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

For the period ended March 31 (millions of Canadian dollars)		**Three months ended 2023**	2022
RSP amortization		**1**	11
RSP interest		**(1)**	(1)
Total RSP activity	(b)	**-**	10
Supply cost variance deferrals	(c)	**178**	(60)
Power purchase expense recognition	(a)	**(53)**	(13)
Supply deferrals		**(5)**	(1)
Other		**2**	4
		122	(60)

Nalcor's regulatory deferrals which will be, or are expected to be, reflected in customer rates in future periods, have been established through the rate setting process. In the absence of rate regulation, these amounts would be reflected in operating results in the period and profit for the period ended March 31, 2023 would have increased $121.8 million (March 31, 2022 - $60.4 million decrease).

(a) Power Purchase Expense Recognition

In Board Order No's. P.U. 9 (2021) and P.U. 33 (2021), the Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB) approved Newfoundland and Labrador Hydro (Hydro)'s proposal to deviate from IFRS to allow recognition of expenses related to the purchase of energy in accordance with the commercial terms of the Muskrat Falls Power Purchase Agreement. For the period ended March 31, 2023, IFRS power purchase expenses were $53.2 million (March 31, 2022 - $13.7 million) higher than commercial payments which resulted in a total regulatory asset of $219.0 million (December 31, 2022 - $165.8 million).

(b) RSP

In 1986, the PUB ordered Hydro to implement the RSP which primarily provides for the deferral of fuel expense variances resulting from changes in fuel prices, hydrology, load and associated interest. Adjustments required in utility rates to cover the amortization of the balance are implemented on July 1 of each year. Similar adjustments required in industrial rates are implemented on January 1 of each year.

Per Board Order No. P.U. 33 (2021) and Hydro's compliance filing, the RSP was discontinued for purposes of deferring variations in hydraulic production, No. 6 fuel and load as at October 31, 2021. The Board ordered that the RSP should be maintained to provide timely recovery of the remaining balance which results in the continuation of recovery and interest charges and, in 2023, Hydro recovered $0.3 million (March 31, 2022 - $10.8 million) from customers. This activity and associated interest in 2023 resulted in a remaining balance for future recovery from customers of $52.0 million (December 31, 2022 - $52.3 million).

(c) Supply Cost Variance Deferral Account

In Board Order No's. P.U. 33 (2021) and P.U. 4 (2022), the PUB approved Hydro's proposal to establish an account to defer payments under the Muskrat Falls Project agreements, rate mitigation funding, project cost recovery from customers and supply cost variances. The deferral commenced activity on November 1, 2021. During 2023, the Province provided a grant of $190.4 million (March 31, 2022 - $nil) for the purpose of mitigating projected future customer rate increases that would be required to recover net supply costs; this combined with normal activity of the supply cost variance deferral account of $12.5 million (March 31, 2022 - $59.5 million), resulted in a net decrease in the account of $177.9 million (March 31, 2022 - $59.5 million increase). The total balance owing from customers as at March 31, 2023 is $12.5 million (December 31, 2022 - $190.4 million).

5. DEBT

5.1 Short-term Borrowings

Nalcor maintains a $250.0 million CAD or USD equivalent committed revolving term credit facility with its banker with a maturity date of July 31, 2023. There were no amounts drawn on this facility as at March 31, 2023 (December 31, 2022 - $nil), however $6.1 million CAD equivalent of the borrowing limit has been used to issue eight irrevocable letters of credit (December 31, 2022 - $6.2 million CAD equivalent to issue eight letters of credit) which relate to power purchases and sale contracts with various independent system operators, transmission providers and bilateral counterparties.

Hydro utilized its $300.0 million government guaranteed promissory note program to fulfil its short-term funding requirements. As at March 31, 2023, there was $140.0 million in promissory notes outstanding with maturity dates of April 3, 2023 and April 20, 2023 bearing interest at a rate of 4.53% and 4.54% (December 31, 2022 - $131.0 million bearing interest at 4.27%). Upon maturity, the promissory notes were not reissued.

Hydro maintains a $500.0 million CAD or USD equivalent committed revolving term credit facility with a maturity date of July 31, 2023. As at March 31, 2023, there were no amounts drawn on the facility (December 31, 2022 - $nil).

On April 7, 2022, the Lieutenant-Governor in Council issued Order in Council OC2022-090 to maintain the level of short-term borrowings permitted by Hydro at $500.0 million, effective until March 31, 2023. On April 1, 2023 Hydro's level of short-term borrowings permitted returned to $300.0 million.

5.2 Long-term Debt

As at (millions of Canadian dollars)	Face Value	Coupon Rate %	Year of Issue	Year of Maturity	**March 31 2023**	December 31 2022
Hydro						
Y*	300	8.40	1996	2026	**298**	298
AB*	300	6.65	2001	2031	**304**	304
AD*	125	5.70	2003	2033	**124**	124
AF	500	3.60	2014/2017	2045	**482**	482
1A	600	3.70	2017/2018	2048	**637**	637
2A	300	1.75	2021	2030	**289**	288
LIL LP						
Tranche A*	725	3.76	2013	2033	**725**	725
Tranche B*	600	3.86	2013	2045	**600**	600
Tranche C*	1,075	3.85	2013	2053	**1,075**	1,075
Tranche 6-10	53	1.52-1.75	2017	2023-2025	**53**	53
Tranche 11-20	105	1.84-2.37	2017	2025-2030	**105**	105
Tranche 21-30	105	2.41-2.64	2017	2030-2035	**105**	105
Tranche 31-40	105	2.66-2.80	2017	2035-2040	**105**	105
Tranche 41-50	105	2.81-2.86	2017	2040-2045	**105**	105
Tranche 51-60	105	2.84-2.86	2017	2045-2050	**105**	105
Tranche 61-70	105	2.85	2017	2050-2055	**105**	105
Tranche 71-74	315	2.85	2017	2055-2057	**316**	316
Labrador Transco/Muskrat Falls						
Tranche A	650	3.63	2013	2029	**650**	650
Tranche B*	675	3.83	2013	2037	**675**	675
Tranche C*	1,275	3.86	2013	2048	**1,275**	1,275
Tranche 6-10	104	1.52-1.75	2017	2023-2025	**104**	105
Tranche 11-20	224	1.84-2.37	2017	2025-2030	**224**	224
Tranche 21-30	253	2.41-2.64	2017	2030-2035	**253**	253
Tranche 31-40	288	2.66-2.80	2017	2035-2040	**289**	289
Tranche 41-50	331	2.81-2.86	2017	2040-2045	**331**	331
Tranche 51-60	381	2.84-2.86	2017	2045-2050	**382**	382
Tranche 61-64	168	2.85	2017	2050-2052	**168**	168
Tranche A-T	500	3.35-3.38	2022	2037-2047	**500**	500
Tranche U*	500	3.38	2022	2057	**500**	500
Total	10,872				**10,884**	10,884
Less: sinking fund investments in own debentures					**(95)**	(94)
					10,789	10,790
Less: repayment of debt due within one year					**(69)**	(69)
					10,720	10,721

*Sinking funds are required to be established for these issues.

6. OTHER REVENUE

For the period ended March 31 (millions of Canadian dollars)		**Three months ended** **2023**	2022
Government grant	(a)	**190**	-
Lease revenue		**3**	2
Other		**2**	3
Total other revenue		**195**	**5**

(a) The Province provided a grant of $190.4 million for the purpose of mitigating projected future customer rate increases to recover net supply costs incurred to the end of 2022. For the period ended March 31, 2023, Nalcor recognized other revenue relating to the grant of $190.4 million (March 31, 2022 - $nil). This grant is deferred in the Supply Cost Variance Deferral account as described in Note 4.

7. OPERATING COSTS

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

8. NET FINANCE EXPENSE

For the period ended March 31 (millions of Canadian dollars)	**Three months ended** **2023**	2022
Finance income		
Interest on restricted cash	**15**	1
Interest on investments	**7**	4
Other interest income	**8**	1
	30	6
Finance expense		
Interest on long-term debt	**99**	90
Interest on Class B limited partnership units	**15**	14
Debt guarantee fee	**2**	(6)
Other	**4**	2
	120	100
Interest capitalized during construction	**(42)**	(37)
	78	63
Net finance expense	**48**	57

9. OTHER (INCOME) EXPENSE

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

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

10.1 Fair Value

The estimated fair values of financial instruments as at March 31, 2023 and December 31, 2022 are based on relevant market prices and information available at the time. Fair value estimates are based on valuation techniques which are significantly affected by the assumptions used including the amount and timing of future cash flows and discount rates reflecting various degrees of risk. As such, the fair value estimates below are not necessarily indicative of the amounts that Nalcor might receive or incur in actual market transactions.

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

Establishing Fair Value

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

Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value. For assets and liabilities that are recognized at fair value on a recurring basis, Nalcor determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. There were no transfers between Level 1, 2 and 3 during the period ended March 31, 2023 and the year ended December 31, 2022.

	Level	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
As at (millions of Canadian dollars)		**March 31, 2023**		December 31, 2022	
Financial assets					
Derivative assets	**2**	**7**	**7**	8	8
Sinking funds - investments in Hydro debt issue	**2**	**95**	**96**	94	93
Sinking funds - other investments	**2**	**242**	**253**	237	243
Investments, including short-term	**2**	**282**	**269**	282	264
Reserve fund	**2**	**50**	**50**	49	49
Financial liabilities					
Derivative liabilities	**2**	**23**	**23**	30	30
Long-term debt including amount due within one year (before sinking funds)	**2**	**10,884**	**10,225**	10,884	9,910
Class B limited partnership units	**3**	**754**	**754**	739	739
Long-term payables including amount due within one year	**2**	**85**	**80**	89	96

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

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

Level 3 financial instruments include Class B limited partnership units.

The Class B limited partnership units are carried at amortized cost, calculated using the effective interest method, which approximates fair value. The effective interest rate of 8.5% (December 31, 2022 - 8.5%) is defined in the Newfoundland and Labrador Development Agreement as Emera Newfoundland and Labrador Island Link Inc. (Emera NL)'s rate of return on equity, and is equal to the rate approved by the PUB for privately-owned regulated electrical utilities. Due to the unobservable nature of the effective interest rate and resulting discounted cash flows associated with the units, the instruments have been classified as Level 3.

The table below sets forth a summary of changes in fair value of the Class B limited partnership units given a one percent change in the discount rate while holding other variables constant:

(millions of Canadian dollars)	1% increase in discount rate	1% decrease in discount rate
Class B limited partnership units	(54.1)	50.8

10.2 Risk Management

Nalcor is exposed to certain credit, 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 Nalcor's expected future cash flows.

Credit Risk

Nalcor's expected future cash flows are exposed to credit risk through its operating activities, primarily due to the potential for non-performance by its customers, and through its financing and investing activities, based on the risk of non-performance by counterparties to its financial instruments. The degree of exposure to credit risk on cash and cash equivalents, restricted cash, short-term investments, long-term investments and derivative assets as well as from the sale of electricity to customers, including the associated accounts receivable, is determined by the financial capacity and stability of those customers and counterparties. The maximum exposure to credit risk on these financial instruments is represented by their carrying values on the Consolidated Statement of Financial Position at the reporting date.

Nalcor does not have any significant amounts that are past due and uncollectable, for which a provision has not been recognized as at March 31, 2023.

Liquidity Risk

Nalcor is exposed to liquidity risk with respect to its contractual obligations and financial liabilities, including any derivative liabilities related to hedging activities. Liquidity risk management is aimed at ensuring cash is available to meet those obligations as they become due.

Short-term liquidity for Nalcor and its subsidiaries is mainly provided through cash and cash equivalents on hand, funds from operations, an operating credit facility which Nalcor maintains with its banker, and shareholder contributions.

Long-term liquidity is provided through prefunded equity reserves as well as equity support guarantees with the Province for Muskrat Falls Corporation (Muskrat Falls), Labrador Transmission Corporation (Labrador Transco), and Labrador-Island Link Limited Partnership (LIL LP), the issuance of a portfolio of debentures for Hydro and the maintenance of the reserve fund in Churchill Falls (Labrador) Corporation Limited (Churchill Falls).

Market Risk

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

Interest Rates

The impact of interest rates on the expected future cash outflows related to short-term borrowings (which includes promissory notes and BAs issued under credit lines) and long-term debt are managed within the corporate financing strategy whereby floating rate debt exposures and interest rate scenarios are forecasted and evaluated.

Foreign Exchange and Commodity Exposure

Nalcor's primary exposure to both foreign exchange and commodity price risk arises from its purchases of No. 6 fuel for consumption at the HTGS, USD denominated electricity sales, capital purchases, and the sale of crude oil. For the purchase of No. 6 fuel, these risks are mitigated through the operation of regulatory mechanisms.

Historically, commodity price exposure on USD denominated oil sales was mitigated through the use of fixed price commodity swaps and foreign exchange exposure on sales was partially offset by USD denominated capital expenditures and foreign exchange forward contracts. The 2023 Risk Management Plan does not include hedging and, as a result, the Company has not entered into any new commodity price swaps or foreign exchange forward contracts. Remaining contracts were entered into prior to December 31, 2022 and are set to mature throughout 2023.

For the period ended March 31, 2023, total oil sales denominated in USD were $46.2 million (March 31, 2022 - $69.6 million).

As at March 31, 2023 Oil and Gas has 36 commodity price swaps remaining, hedging 48% of anticipated April 2023 to December 2023 production. The remaining contracts have a notional value of $76.1 million USD, and an average fixed price of $83.30 USD per barrel. As the contracts have been designated as hedging instruments, changes in fair value have been recorded in other comprehensive income (loss). During 2023, $6.9 million in realized gains (March 31, 2022 - $26.1 million in realized losses) have been recorded in other (income) expense and $5.4 million in unrealized losses (March 31, 2022 - $39.8 million in unrealized losses) remain in other comprehensive income (loss).

As at March 31, 2023, Oil and Gas has 22 foreign exchange forward contracts remaining hedging foreign exchange risk on 55% of anticipated USD cash flows from oil sales from April 2023 to January 2024. The remaining contracts have a notional value of $92.0 million USD, and an average fixed exchange rate of $1.33 CAD per USD. As the contracts have been designated as hedging instruments, change in fair value has been recorded in other comprehensive income (loss). During 2023, $2.9 million in realized losses (March 31, 2022 - $nil) have been recorded in other (income) expense and $2.0 million in unrealized loss (March 31, 2022 - $1.2 million in unrealized gains) remain in other comprehensive income (loss).

11. RELATED PARTY TRANSACTIONS

Nalcor enters into various transactions with its shareholder and other related parties. Unless otherwise noted, these transactions occur within the normal course of operations and are measured at the exchange amount, which is the amount of consideration agreed to by the related parties. Outstanding balances due to or from related parties are non-interest bearing with settlement within 30 days, unless otherwise stated.

Related parties with which Nalcor transacts are as follows:

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

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

As at (millions of Canadian dollars)		**March 31 2023**	December 31 2022
Trade and other receivables:			
Other related parties	(a)	**19**	15
Trade and other payables:			
The Province	(b, c)	**23**	33
Long-term debt:			
The Province		**926**	925

For the period ended March 31 (millions of Canadian dollars)		**Three months ended 2023**	2022
Energy sales:			
Other related parties		**28**	27
The Province	(d)	**(6)**	(8)
Other revenue:			
The Province		**190**	-
Operating costs:			
Other related parties		**1**	1
Net finance expense:			
The Province		**9**	9
Other expense:			
The Province	(b, c)	**6**	6

(a) Included in trade and other receivables as at March 31, 2023 and December 31, 2022 is $5.7 million owing from Bull Arm Fabrication and Oil and Gas Corporation of Newfoundland and Labrador. The balance was allowed for in its entirety during 2021.

(b) Churchill Falls is required to pay the Province an annual rental of 8% of the consolidated net profits before income taxes and an annual royalty of $0.50 per horsepower year generated, which is payable on an annual basis before March 31 of the following fiscal year.

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

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

12. COMMITMENTS AND CONTINGENCIES

(a) Nalcor and its subsidiaries are subject to legal claims with respect to impact on land use, energy and capacity delivery, construction and other various matters. For some legal claims, it is not possible at this time to predict with any certainty the outcome of such litigation. Should these claims result in an unfavourable outcome for the Company, they may have a significant adverse effect on the Company's financial position.

(b) Outstanding commitments for capital projects, excluding those related to Oil and Gas, total approximately $83.0 million as at March 31, 2023 (December 31, 2022 - $94.9 million).

13. SUPPLEMENTARY CASH FLOW INFORMATION

	Three months ended	
For the period ended March 31 (millions of Canadian dollars)	**2023**	2022
Trade and other receivables	**16**	(9)
Prepayments	**5**	4
Inventories	**7**	(7)
Trade and other payables	**(62)**	31
Changes in non-cash working capital balances	**(34)**	19
Related to:		
Operating activities	**43**	16
Investing activities	**(77)**	3
	(34)	19

14. SEGMENT INFORMATION

The following summary provides a brief overview of the nature of operations included in each of the Company'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 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 Labrador-Island Link (LIL) and Labrador Transmission Assets (LTA), which consist of transmission lines connecting the Muskrat Falls Generating Station, the Churchill Falls Generating Station, and certain portions of the transmission system in Labrador to the island of Newfoundland.

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

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

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

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

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

(millions of Canadian dollars)	Hydro Regulated	Muskrat Falls	LCP Transmission	Churchill Falls	Energy Trading	Other Electric	Oil and Gas	Corporate	Inter-Segment	Total
				For the three months March 31, 2023						
Energy sales	249	117	27	37	19	41	56	-	(159)	387
Other revenue	202	-	-	-	-	3	-	-	(10)	195
Revenue	451	117	27	37	19	44	56	-	(169)	582
Fuels	99	-	-	-	-	-	-	-	-	99
Power purchased	136	-	-	-	6	20	-	-	(139)	23
Operating costs	38	5	1	10	1	6	1	5	-	67
Production, marketing and transportation costs	-	-	-	-	-	-	9	-	-	9
Transmission rental	-	27	-	-	9	-	-	-	(30)	6
Depreciation, depletion and amortization	18	-	-	7	-	8	22	1	-	56
Net finance expense (income)	24	26	4	(1)	-	-	1	(5)	(1)	48
Other expense (income)	-	4	-	2	1	-	(15)	-	1	(7)
Preferred dividends	-	-	-	(1)	-	-	-	-	1	-
Expenses	315	62	5	17	17	34	18	1	(168)	301
Profit (loss) for the period before regulatory adjustments	136	55	22	20	2	10	38	(1)	(1)	281
Regulatory adjustments	121	-	-	-	-	-	-	-	1	122
Profit (loss) for the period	15	55	22	20	2	10	38	(1)	(2)	159
Capital expenditures*	20	1	53	3	-	-	11	1	-	89
Total assets	3,301	7,723	6,920	787	95	1,926	784	593	(666)	21,463
Total debt**	1,975	4,464	5,042	-	-	-	-	-	-	11,481

***Capital expenditures (inclusive of property, plant and equipment and intangible assets) include non-cash additions of $15.0 million related to Class B Limited Partnership Unit accrued interest, and $27.0 million of interest capitalized during construction.**
****Total debt includes short-term borrowings, long-term debt including current portion less Hydro's sinking funds of $206.7 million, Class B Limited Partnership Units, and lease liabilities.**

(millions of Canadian dollars)	Hydro Regulated	Muskrat Falls	LCP Transmission	Churchill Falls	Energy Trading	Other Electric	Oil and Gas	Corporate	Inter-Segment	Total
					For the three months March 31, 2022					
Energy sales	235	104	27	35	11	33	79	-	(138)	386
Other revenue	7	-	-	-	4	2	-	-	(8)	5
Revenue	242	104	27	35	15	35	79	-	(146)	391
Fuels	85	-	-	-	-	-	-	-	-	85
Power purchased	121	-	-	-	1	16	-	-	(114)	24
Operating costs	33	7	2	9	1	7	1	3	-	63
Production, marketing and transportation costs	-	-	-	-	-	-	7	-	-	7
Transmission rental	3	31	-	-	3	2	-	-	(34)	5
Depreciation, depletion and amortization	21	-	-	6	-	8	20	1	-	56
Net finance expense (income)	23	29	5	-	-	-	1	-	(1)	57
Other expense	-	4	-	2	2	-	44	-	2	54
Preferred dividends	-	-	-	(1)	-	-	-	-	1	-
Expenses	286	71	7	16	7	33	73	4	(146)	351
(Loss) profit for the period before regulatory adjustments	(44)	33	20	19	8	2	6	(4)	-	40
Regulatory adjustments	(60)	-	-	-	-	-	-	-	-	(60)
Profit (loss) for the period	16	33	20	19	8	2	6	(4)	-	100
Capital expenditures*	11	16	50	5	-	-	7	-	-	89
Total assets	2,923	7,721	6,669	724	90	1,966	879	386	(427)	20,931
Total debt**	1,854	4,498	5,010	-	-	-	-	-	-	11,362

*Capital expenditures (inclusive of property, plant and equipment and intangible assets) include non-cash additions of $13.8 million related to Class B Limited Partnership Unit accrued interest, and $23.1 million of interest capitalized during construction.

**Total debt includes short-term borrowings, long-term debt including current portion less Hydro's sinking funds of $196.8 million, Class B Limited Partnership Units, and lease liabilities.

15. SUBSEQUENT EVENT

(a) On April 14, 2023, commissioning of the LIL was approved by all required stakeholders. All components of the Lower Churchill Project, the Muskrat Falls hydroelectric generating facility, LTA and LIL are now commissioned.