NEWFOUNDLAND AND LABRADOR HYDRO
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
March 31, 2023
(Unaudited)

NEWFOUNDLAND AND LABRADOR HYDRO
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(Unaudited)

As at (millions of Canadian dollars)	Notes	**March 31 2023**	December 31 2022
ASSETS			
Current assets			
Cash		**283**	97
Trade and other receivables	3	**139**	124
Inventories	4	**103**	112
Other current assets		**21**	18
Prepayments		**13**	8
Deferred asset	5	**64**	86
Related party loan receivable	17	**25**	30
Total current assets		**648**	475
Non-current assets			
Property, plant and equipment	6	**2,857**	2,857
Intangible assets		**6**	7
Other long-term assets		**238**	235
Total assets		**3,749**	3,574
Regulatory deferrals	7	**419**	540
Total assets and regulatory deferrals		**4,168**	4,114
LIABILITIES AND EQUITY			
Current liabilities			
Short-term borrowings	9	**140**	131
Trade and other payables	8	**164**	189
Contract payable	17	**216**	165
Current portion of long-term debt	9	**7**	7
Derivative liability	16	**58**	86
Other current liabilities		**9**	9
Total current liabilities		**594**	587
Non-current liabilities			
Long-term debt	9	**2,032**	2,032
Deferred contributions		**44**	41
Deferred credits		**17**	18
Decommissioning liabilities		**16**	16
Employee future benefits		**87**	86
Other long-term liabilities		**6**	4
Total liabilities		**2,796**	2,784
Shareholder’s equity			
Share capital		**23**	23
Contributed capital		**149**	149
Reserves		**31**	31
Retained earnings		**1,135**	1,094
Total equity		**1,338**	1,297
Total liabilities and equity		**4,134**	4,081
Regulatory deferrals	7	**34**	33
Total liabilities, equity and regulatory deferrals		**4,168**	4,114

Commitments and contingencies (Note 18)

See accompanying notes

NEWFOUNDLAND AND LABRADOR HYDRO
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		**294**	278
Other revenue	12	**208**	10
Revenue		**502**	288
Fuels		**99**	85
Power purchased	13	**141**	126
Operating costs	14	**48**	42
Transmission rental		**5**	5
Depreciation and amortization		**25**	27
Net finance expense		**23**	23
Other (income) expense	15	**(4)**	18
Expenses		**337**	326
Profit (loss) before regulatory adjustments		**165**	(38)
Regulatory adjustments	7	**121**	(60)
Profit for the period		**44**	22
Other comprehensive income (loss)			
Net fair value gain (loss) on reserve fund		**1**	(1)
Other comprehensive income (loss) for the period		**1**	(1)
Total comprehensive income for the period		**45**	21

See accompanying notes

NEWFOUNDLAND AND LABRADOR HYDRO
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(Unaudited)

(millions of Canadian dollars)	**Note**	**Share Capital**	**Contributed Capital**	**Reserves**	**Retained Earnings**	**Total**
Balance at January 1, 2023		**23**	**149**	**31**	**1,094**	**1,297**
Profit for the period		**-**	**-**	**-**	**44**	**44**
Other comprehensive income for the period		**-**	**-**	**1**	**-**	**1**
Total comprehensive income for the period		**-**	**-**	**1**	**44**	**45**
Regulatory adjustment		**-**	**-**	**(1)**	**-**	**(1)**
Dividends	**11**	**-**	**-**	**-**	**(3)**	**(3)**
Balance at March 31, 2023		**23**	**149**	**31**	**1,135**	**1,338**
Balance at January 1, 2022		23	150	(6)	1,015	1,182
Profit for the period		-	-	-	22	22
Other comprehensive loss for the period		-	-	(1)	-	(1)
Total comprehensive income for the period		-	-	(1)	22	21
Dividends	11	-	-	-	(5)	(5)
Balance at March 31, 2022		23	150	(7)	1,032	1,198

See accompanying notes

NEWFOUNDLAND AND LABRADOR HYDRO
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		**44**	22
Adjustments to reconcile profit to cash provided from operating activities:			
Depreciation and amortization		**25**	27
Regulatory adjustments	7	**121**	(60)
Net changes in PPA fair value	15	**(6)**	18
Finance income		**(6)**	(3)
Finance expense		**29**	26
Other		**(2)**	4
		205	34
Changes in non-cash working capital balances	19	**33**	35
Interest received		**3**	1
Interest paid		**(37)**	(35)
Net cash provided from operating activities		**204**	35
Investing activities			
Additions to property, plant and equipment and intangibles		**(23)**	(16)
Contributions to sinking funds		**(2)**	(2)
Decrease in related party loan receivable	17	**5**	51
Changes in non-cash working capital balances	19	**(7)**	(10)
Net cash (used in) provided from investing activities		**(27)**	23
Financing activities			
Dividends paid		**-**	(1)
Increase (decrease) in short-term borrowings		**9**	(55)
Other		**3**	-
Changes in non-cash working capital balances	19	**(3)**	(4)
Net cash provided from (used in) financing activities		**9**	(60)
Net increase (decrease) in cash		**186**	(2)
Cash, beginning of the period		**97**	107
Cash, end of the period		**283**	105

See accompanying notes

1. DESCRIPTION OF BUSINESS

Newfoundland and Labrador Hydro (Hydro or the Company) is incorporated under a special act of the Legislature of the Province of Newfoundland and Labrador (the Province). The principal activity of Hydro is the generation, transmission and sale of electricity. Hydro's operations include both regulated and non-regulated activities. Hydro is a 100% owned subsidiary of Nalcor Energy (Nalcor). Hydro's head office is located at 500 Columbus Drive in St. John's, Newfoundland and Labrador, A1B 0C9, Canada.

Hydro holds interests in the following entities:

A 65.8% interest in Churchill Falls (Labrador) Corporation Limited (Churchill Falls). Churchill Falls is incorporated under the laws of Canada and owns and operates a hydroelectric generating plant and related transmission facilities situated in Labrador which has a rated capacity of 5,428 megawatts (MW).

A 51.0% interest in Lower Churchill Development Corporation (LCDC), an inactive subsidiary. LCDC is incorporated under the laws of Newfoundland and Labrador and was established with the objective of developing all or part of the hydroelectric potential of the Lower Churchill River.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of Compliance and Basis of Measurement

These condensed consolidated interim financial statements (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 financial statements do not include all of the disclosures normally found in Hydro'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 financial statements have been prepared on a historical cost basis, except for financial instruments at fair value through profit or loss which have been measured at fair value. These financial statements are presented in Canadian dollars (CAD) and all values are rounded to the nearest million, except when otherwise noted. These financial statements were approved by Hydro's Board of Directors (the Board) on May 15, 2023.

2.2 Basis of Consolidation

The financial statements include the financial statements of Hydro, its subsidiary companies, its proportionate share of investments in joint arrangements and its share of investments over which Hydro exercises significant influence using the equity method of accounting. In addition, the financial statements of all structured entities, for which Hydro has been determined the primary beneficiary, are included in these financial statements. Intercompany transactions and balances have been eliminated upon consolidation.

3. TRADE AND OTHER RECEIVABLES

As at (millions of Canadian dollars)	**March 31 2023**	December 31 2022
Trade receivables	**131**	116
Due from related parties	**18**	15
Other receivables	**10**	12
Loss allowance	**(20)**	(19)
	139	124

As at (millions of Canadian dollars)	**March 31 2023**	December 31 2022
0-60 days	**138**	124
60+ days	**1**	-
	139	124

As at (millions of Canadian dollars)	**March 31 2023**	December 31 2022
Loss allowance, beginning of the period	**(19)**	(17)
Change in balance during the period	**(1)**	(2)
Loss allowance, end of the period	**(20)**	(19)

4. INVENTORIES

As at (millions of Canadian dollars)	**March 31 2023**	December 31 2022
Fuel	**49**	59
Materials and other	**54**	53
	103	112

Fuel inventory includes No. 6 fuel in the amount of \$33.7 million (December 31, 2022 - \$42.1 million). The cost of inventories recognized as an expense during the period is \$100.2 million (March 31, 2022 - \$86.1 million) and is included in operating costs and fuels.

5. DEFERRED ASSET

The deferred asset related to Hydro's Power Purchase Agreement (PPA) with Energy Marketing is amortized into income on a straight-line basis over the assumed twelve month term of the contract, which commenced on January 1, 2022. In December 2022, Management assessed the anticipated contract term and determined that a new deferred asset and derivative liability was required. This resulted in a deferred asset addition of $85.7 million to be amortized into income on a straight-line basis over the assumed twelve month term, commencing on January 1, 2023. The components of change are as follows:

As at (millions of Canadian dollars)	**March 31 2023**	December 31 2022
Deferred asset, beginning of the period	**86**	56
Additions	**-**	86
Amortization	**(22)**	(56)
Deferred asset, end of the period	**64**	86

6. PROPERTY, PLANT AND EQUIPMENT

(millions of Canadian dollars)	Generation Plant	Transmission and Distribution	Other	Assets Under Development	Total
Cost					
Balance at January 1, 2021	2,108	1,481	324	38	3,951
Additions	-	-	19	153	172
Disposals	(17)	(15)	(3)	-	(35)
Transfers	55	59	29	(143)	-
Other adjustments	1	-	-	-	1
Balance at December 31, 2021	2,147	1,525	369	48	4,089
Additions	**-**	**-**	**-**	**23**	**23**
Disposals	**(1)**	**-**	**-**	**-**	**(1)**
Transfers	**(3)**	**1**	**2**	**-**	**-**
Other	**-**	**-**	**-**	**1**	**1**
Balance at March 31, 2023	**2,143**	**1,526**	**371**	**72**	**4,112**
Depreciation					
Balance at January 1, 2021	707	302	136	-	1,145
Depreciation	53	35	15	-	103
Disposals	(9)	(5)	(2)	-	(16)
Balance at December 31, 2022	751	332	149	-	1,232
Depreciation	**11**	**9**	**4**	**-**	**24**
Disposals	**(1)**	**-**	**-**	**-**	**(1)**
Balance at March 31, 2023	**761**	**341**	**153**	**-**	**1,255**
Carrying value					
Balance at January 1, 2022	1,401	1,179	188	38	2,806
Balance at December 31, 2022	1,396	1,193	220	48	2,857
Balance at March 31, 2023	**1,382**	**1,185**	**218**	**72**	**2,857**

Capitalized interest for the period ended March 31, 2023 was $0.2 million (December 31, 2022 - $0.9 million) related to assets under development.

7. 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)**	

7.1 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		**1**	4
		121	(60)

Hydro'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 by $121.5 million (March 31, 2022 – $60.4 million decrease).

7.(a) Power Purchase Expense Recognition

In Board Order No's. P.U. 9 (2021) and P.U. 33 (2021), the PUB approved Hydro's proposal to deviate from IFRS to allow recognition of expenses related to the purchase of energy in accordance with the commercial terms of the Muskrat Falls PPA. 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).

7.(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).

7.(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).

8. TRADE AND OTHER PAYABLES

As at (millions of Canadian dollars)	**March 31 2023**	December 31 2022
Trade payables	**70**	103
Due to related parties	**56**	41
Accrued interest payable	**8**	17
Other payables	**30**	28
	164	189

9. DEBT

9.1 Short-term Borrowings

Hydro has a $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 promissory note outstanding bearing an interest rate of 4.27%). Upon maturity, the promissory notes were not reissued.

Hydro maintains a $500.0 million CAD or USD equivalent committed revolving term 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.

9.2 Long-term Debt

The following table represents the value of long-term debt measured at amortized cost:

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
Total	2,125				**2,134**	2,133
Less: Sinking fund investments in own debentures					**95**	94
					2,039	2,039
Less: Sinking fund payments due within one year					**7**	7
					2,032	2,032

*Sinking funds have been established for these issues.

10. LEASES

Amounts Recognized in the Consolidated Statement of Profit and Comprehensive Income

For the period ended March 31 (millions of Canadian dollars)		**Three months ended 2023**	2022
Variable lease payments not included in the measurement of leases	(a)	**8**	8

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

The total cash outflow for leases for the period ended March 31, 2023 amount to $7.8 million (March 31, 2022 - $7.8 million).

11. SHAREHOLDER'S EQUITY

Dividends

For the period ended March 31 (millions of Canadian dollars)	**Three months ended 2023**	2022
Declared during the period		
Dividend for current period: $0.15 per share (2022 - $0.23)	**3**	5
	3	5

12. OTHER REVENUE

For the period ended March 31 (millions of Canadian dollars)		Three months ended **2023**	2022
Government grant	(a)	**190**	-
Recovery of supply power		**7**	4
Transmission tariff revenue		**3**	2
Other		**8**	4
		208	10

(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, Hydro 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 7.

13. POWER PURCHASED

The supply period under the PPA with Muskrat Falls and the contractual payments commenced in November 2021. For the period ended March 31, 2023, Hydro recognized power purchase expense of $118.1 million (March 31, 2022 - $103.9 million) associated with energy and capacity delivered from the Muskrat Falls Plant. These Muskrat Falls power purchase expenses are deferred in either the Supply Cost Variance Deferral account or the Power Purchase Expense Recognition account as described in Note 7.

14. OPERATING COSTS

For the period ended March 31 (millions of Canadian dollars)	Three months ended **2023**	2022
Salaries and benefits	**31**	29
Maintenance and materials	**7**	5
Professional services	**2**	2
Insurance	**2**	2
Travel and transportation	**1**	1
Other operating costs	**5**	3
	48	42

15. OTHER (INCOME) EXPENSE

For the period ended March 31 (millions of Canadian dollars)		**Three months ended** **2023**	2022
Rent and royalties		**2**	2
Net change in Energy Marketing PPA fair value	(a)	**(6)**	18
Other		**-**	(2)
		(4)	18

(a) Net change in Energy Marketing PPA fair value:

For the period ended March 31 (millions of Canadian dollars)	**Three months ended** **2023**	2022
PPA gains		
Settlement of realized profit	**(12)**	(9)
	(12)	(9)
PPA losses		
Amortization of deferral	**22**	19
Mark-to-market of derivative	**(16)**	8
	6	27
Net change in Energy Marketing PPA fair value	**(6)**	18

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

16.1 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 Hydro might receive or incur in actual market transactions.

As a significant number of Hydro'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 Hydro 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, Hydro determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. There were no transfers between Level 1, 2 and 3 fair value measurement for the period ended March 31, 2023 and year ended December 31, 2022.

As at (millions of Canadian dollars)	**Level**	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
		March 31, 2023		December 31, 2022	
Financial assets					
Sinking funds - investments in Hydro debt issue	**2**	**95**	**96**	94	93
Sinking funds - other investments	**2**	**207**	**218**	202	209
Reserve fund	**2**	**50**	**50**	49	49
Financial liabilities					
Derivative liability	**3**	**58**	**58**	86	86
Long-term debt (including amount due within one year before sinking funds)	**2**	**2,134**	**2,073**	2,133	2,017

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

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

Level 3 financial instruments include the derivative liability relating to the PPA with Energy Marketing and represents the future value provided to Energy Marketing through the contract.

The following table summarizes quantitative information about the valuation techniques and unobservable inputs used in the fair value measurement of Level 3 financial instruments as at March 31, 2023:

(millions of Canadian dollars)	Carrying Value	Valuation Techniques	Significant Unobservable Input(s)	Range
Derivative liability (PPA)	58	Modelled pricing	Volumes (MWh)	40%-45% of available generation

The derivative liability arising under the PPA with Energy Marketing is designated as a Level 3 instrument as certain forward market prices and related volumes are not readily determinable to estimate a portion of the fair value of the derivative liability. Hence, fair value measurement of this instrument is based upon a combination of internal and external pricing and volume estimates. As at March 31, 2023, the effect of using reasonably possible alternative assumptions for volume inputs to valuation techniques may have resulted in a +$1.2 million to +$3.9 million change in the carrying value of the derivative liability.

The components of the change impacting the carrying value of the derivative liability for the period ended March 31 are as follows:

(millions of Canadian dollars)	**Level 3**
Balance at January 1, 2023	**(86)**
Changes in profit or loss	
Mark-to-market	**16**
Settlements	**12**
Total	**28**
Balance at March 31, 2023	**(58)**

(millions of Canadian dollars)	Level 3
Balance at January 1, 2022	(56)
Changes in profit or loss	
Mark-to-market	(8)
Settlements	9
Total	1
Balance at March 31, 2022	(55)

16.2 Risk Management

Hydro is exposed to certain credit, liquidity and market risks through its operating, investing and financing activities. Financial risk is managed in accordance with Hydro's Board approved Financial Risk Management 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 Hydro's expected future cash flows.

Credit Risk

Hydro'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 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.

Hydro 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

Hydro is exposed to liquidity risk with respect to its contractual obligations and financial liabilities. Liquidity risk management is aimed at ensuring cash is available to meet those obligations as they become due.

Short-term liquidity is mainly provided through cash on hand, funds from operations, a promissory note program and a committed revolving term credit facility with its banker. Long-term liquidity risk for Hydro is managed by the issuance of a portfolio of debentures and the maintenance of the reserve fund in Churchill Falls.

Market Risk

In the course of carrying out its operating, financing and investing activities, Hydro 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 Hydro has significant exposure include those relating to prevailing interest rates, foreign exchange rates, most notably the USD/CAD, and current commodity prices, most notably the spot prices for fuel and electricity.

Interest Rates
Changes in prevailing interest rates will impact the fair value of financial assets and liabilities which includes Hydro's cash and sinking funds. Expected future cash flows associated with those financial instruments can also be impacted. The impact of a 0.5% change in interest rates on net income and other comprehensive income associated with cash and short-term debt was negligible throughout the period in 2023 due to the short time period to maturity. Hydro is not exposed to interest rate risk on its long-term debt as all of Hydro's long-term debt has fixed interest rates.

Changes in prevailing interest rates will impact the fair value of financial assets classified as FVTOCI, which includes Churchill Falls' reserve fund. Expected cash flows from these assets are also impacted in certain circumstances, such as when reserve fund securities are sold prior to maturity. The impact to other comprehensive income for a 0.5% change in interest rate would be negligible through the period in 2023.

Foreign Currency and Commodity Exposure
Hydro is exposed to USD foreign exchange and commodity price risk arising from its purchases of No. 6 fuel for consumption at the Holyrood Thermal Generating Station. Hydro is also exposed to commodity price risk associated with electricity prices. These risks are mitigated through the operation of the regulatory mechanisms.

17. RELATED PARTY TRANSACTIONS

Hydro enters into various transactions with its parent 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 Hydro transacts are as follows:

Related Party	Relationship
Nalcor	100% shareholder of Hydro
Churchill Falls	Joint arrangement of Hydro
The Province	100% shareholder of Nalcor
Twin Falls	Wholly-owned subsidiary of Churchill Falls as of November 1, 2022
Energy Marketing	Wholly-owned subsidiary of Nalcor
Hydro-Québec	34.2% shareholder of Churchill Falls
Labrador-Island Link Operating Corporation (LIL Opco)	Wholly-owned subsidiary of Nalcor
Lower Churchill Management Corporation	Wholly-owned subsidiary of Nalcor
Muskrat Falls Corporation (Muskrat Falls)	Wholly-owned subsidiary of Nalcor
Nalcor Energy – Oil and Gas Inc.	Wholly-owned subsidiary of Nalcor
Labrador Transmission Corporation	Wholly-owned subsidiary of Nalcor
Board of Commissioners of Public Utilities (PUB)	Agency of the Province
Labrador-Island Link Limited Partnership	Limited partnership between a wholly-owned subsidiary of Nalcor and Emera Newfoundland and Labrador Island Link Inc.

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

As at (millions of Canadian dollars)		**March 31 2023**	December 31 2022
Trade and other receivables:			
Other related parties		**18**	15
Related party loan receivable:			
Other related parties	(a)	**25**	30
Trade and other payables:			
Parent		**9**	5
Joint operation		**1**	1
The Province		**15**	9
Other related parties		**31**	26
Contract payable:			
Other related parties	(b)	**218**	165
Other current liabilities:			
The Province	(c)	**2**	6
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	(d)	**35**	29
Other revenue:			
The Province		**190**	-
Parent		**7**	3
Other related parties		**3**	2
Power purchased:			
Joint operation		**5**	4
Parent		**8**	8
Other related parties		**118**	107
Net operating recoveries:			
Other related parties		**6**	6
Net finance expense:			
The Province		**9**	9
Other expense:			
The Province	(c)	**2**	2

(a) Hydro has a related party loan receivable from Muskrat Falls which includes interest charged at 5.43% and is repayable by Muskrat Falls as cash becomes available.

(b) Hydro entered into a PPA with Muskrat Falls for the purchase of energy and capacity from the Muskrat Falls Plant. The contract payable balance represents the timing difference between the value of the energy and capacity delivered to Hydro and the contractual payments made under the PPA.

(c) 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.

(d) In April 2022, Energy Marketing and Hydro amended the Energy Marketing PPA to allow Energy Marketing to purchase incremental Recapture energy.

18. COMMITMENTS AND CONTINGENCIES

(a) Hydro is subject to legal claims with respect to 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 unfavorable outcome for Hydro, they may have a significant adverse impact on Hydro's financial position.

(b) Outstanding commitments for capital projects total approximately $67.2 million as at March 31, 2023 (December 31, 2022 - $53.9 million).

19. SUPPLEMENTARY CASH FLOW INFORMATION

	Three months ended	
For the period ended March 31 (millions of Canadian dollars)	**2023**	2022
Trade and other receivables	**(15)**	(7)
Inventories	**9**	(5)
Prepayments	**2**	2
Trade and other payables	**(26)**	18
Contract payable	**53**	13
Changes in non-cash working capital balances	**23**	21
Related to:		
Operating activities	**33**	35
Investing activities	**(7)**	(10)
Financing activities	**(3)**	(4)
	23	21

20. SEGMENT INFORMATION

Hydro operates in four business segments. The designation of segments is based on a combination of regulatory status and management accountability.

Hydro Regulated activities encompass sales of electricity to customers within the Province that are regulated by the PUB and for export markets. Hydro Non-Regulated activities include the sale of energy to mining operations in Labrador West and for export markets as well as Hydro's costs that are excluded from the determination of customer rates. Energy Marketing activities includes the sale of electricity and transmission to Hydro's affiliate, Energy Marketing.

(millions of Canadian dollars)	Hydro Regulated	Churchill Falls	Energy Marketing	Non-Regulated Activities	Inter-Segment	Total
	For the period ended March 31, 2023					
Energy sales	**249**	**37**	**1**	**16**	**(9)**	**294**
Other revenue	**202**	**-**	**5**	**-**	**1**	**208**
Revenue	**451**	**37**	**6**	**16**	**(8)**	**502**
Fuels	**99**	**-**	**-**	**-**	**-**	**99**
Power purchased	**136**	**-**	**1**	**13**	**(9)**	**141**
Operating costs	**38**	**10**	**-**	**-**	**-**	**48**
Transmission rental	**-**	**-**	**5**	**-**	**-**	**5**
Depreciation and amortization	**18**	**7**	**-**	**-**	**-**	**25**
Net finance expense (income)	**24**	**(1)**	**-**	**-**	**-**	**23**
Other expense (income)	**-**	**2**	**(6)**	**-**	**-**	**(4)**
Expenses	**315**	**18**	**-**	**13**	**(9)**	**337**
Preferred dividends	**-**	**(1)**	**-**	**-**	**1**	**-**
Profit for the period before regulatory adjustments	**136**	**20**	**6**	**3**	**-**	**165**
Regulatory adjustments	**121**	**-**	**-**	**-**	**-**	**121**
Profit for the period	**15**	**20**	**6**	**3**	**-**	**44**
Capital expenditures*	**20**	**3**	**-**	**-**	**-**	**23**
Total assets	**3,301**	**787**	**69**	**11**	**-**	**4,168**

***Capital expenditures include non-cash additions of $0.1 million contributed by Lower Churchill Management Corporation and $0.2 million of interest capitalized during construction.**

	Hydro Regulated	Churchill Falls	Energy Marketing	Non-Regulated Activities	Inter-Segment	Total
(millions of Canadian dollars)	For the period ended March 31, 2022					
Energy sales	235	35	-	16	(8)	278
Other revenue	7	-	2	-	1	10
Revenue	242	35	2	16	(7)	288
Fuels	85	-	-	-	-	85
Power purchased	121	-	-	13	(8)	126
Operating costs	33	9	-	-	-	42
Transmission rental	3	-	2	-	-	5
Depreciation and amortization	21	6	-	-	-	27
Net finance expense	23	-	-	-	-	23
Other expense (income)	-	2	18	(2)	-	18
Expenses	286	17	20	11	(8)	326
Preferred dividends	-	(1)	-	-	1	-
(Loss) profit for the period before regulatory adjustments	(44)	19	(18)	5	-	(38)
Regulatory adjustments	(60)	-	-	-	-	(60)
Profit (loss) for the period	16	19	(18)	5	-	22
Capital expenditures*	11	5	-	-	-	16
Total assets	2,923	724	40	6	-	3,693

*Capital expenditures include $0.1 million of interest capitalized during construction.