NEWFOUNDLAND AND LABRADOR HYDRO
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
March 31, 2024
(Unaudited)

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

As at (millions of Canadian dollars)	Notes	**March 31 2024**	December 31 2023
ASSETS			
Current assets			
Cash		**99**	115
Trade and other receivables		**128**	130
Inventories	3	**102**	115
Prepayments		**13**	7
Contract receivable	16	**14**	13
Deferred asset	4	**51**	68
Other current assets		**15**	18
Total current assets		**422**	466
Non-current assets			
Property, plant and equipment	5	**2,961**	2,958
Other long-term assets		**251**	247
Total assets		**3,634**	3,671
Regulatory deferrals	6	**1,142**	889
Total assets and regulatory deferrals		**4,776**	4,560
LIABILITIES AND EQUITY			
Current liabilities			
Short-term borrowings	8	**300**	230
Trade and other payables	7	**164**	195
Current portion of contract payable	16	**278**	274
Current portion of long-term debt	8	**7**	7
Derivative liability	15	**55**	68
Other current liabilities		**8**	8
Total current liabilities		**812**	782
Non-current liabilities			
Long-term debt	8	**2,013**	2,017
Deferred contributions		**47**	44
Deferred credits		**16**	17
Decommissioning liabilities		**27**	27
Employee future benefits		**101**	100
Contract payable	16	**338**	178
Other long-term liabilities		**3**	3
Total liabilities		**3,357**	3,168
Shareholder’s equity			
Share capital		**23**	23
Contributed capital		**148**	148
Reserves		**19**	19
Retained earnings		**1,184**	1,159
Total equity		**1,374**	1,349
Total liabilities and equity		**4,731**	4,517
Regulatory deferrals	6	**45**	43
Total liabilities, equity and regulatory deferrals		**4,776**	4,560

Commitments and contingencies (Note 17)
Subsequent event (Note 20)

See accompanying notes

NEWFOUNDLAND AND LABRADOR HYDRO
CONSOLIDATED STATEMENT OF PROFIT AND COMPREHENSIVE INCOME
(Unaudited)

		Three months ended	
For the period ended March 31 (millions of Canadian dollars)	Notes	**2024**	2023
Energy sales		**328**	294
Other revenue	10	**13**	208
Revenue		**341**	502
Fuels		**70**	99
Power purchased	11	**387**	141
Operating costs	12	**48**	48
Transmission rental		**5**	5
Depreciation and amortization	5	**26**	25
Net finance expense	13	**25**	23
Other expense (income)	14	**7**	(4)
Expenses		**568**	337
(Loss) profit for the period before regulatory adjustments		**(227)**	165
Regulatory adjustments	6	**(252)**	121
Profit for the period		**25**	44
Other comprehensive income			
Net fair value gain on reserve fund		**-**	1
Other comprehensive income for the period		**-**	1
Total comprehensive income for the period		**25**	45

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, 2024		**23**	**148**	**19**	**1,159**	**1,349**
Profit for the period		**-**	**-**	**-**	**25**	**25**
Total comprehensive income for the period		**-**	**-**	**-**	**25**	**25**
Balance at March 31, 2024		**23**	**148**	**19**	**1,184**	**1,374**
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		-	-	-	(3)	(3)
Balance at March 31, 2023		23	149	31	1,135	1,338

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** **2024**	2023
Operating activities			
Profit for the period		**25**	44
Adjustments to reconcile profit to cash (used in) provided from operating activities:			
Depreciation and amortization	5	**26**	25
Regulatory adjustments	6	**(252)**	121
Net changes in PPA fair value	14	**4**	(6)
Finance income	13	**(6)**	(6)
Finance expense	13	**31**	29
Other		**(1)**	(2)
		(173)	205
Changes in non-cash working capital balances	18	**(2)**	(20)
Increase in contract payable		**164**	53
Increase in contract receivable		**(1)**	-
Interest received		**3**	3
Interest paid		**(39)**	(37)
Net cash (used in) provided from operating activities		**(48)**	204
Investing activities			
Additions to property, plant and equipment and intangible assets		**(28)**	(23)
Contributions to sinking funds		**(2)**	(2)
Decrease in related party loan receivable		**-**	5
Changes in non-cash working capital balances	18	**(11)**	(7)
Net cash used in investing activities		**(41)**	(27)
Financing activities			
Increase in short-term borrowings		**70**	9
Other		**3**	3
Changes in non-cash working capital balances	18	**-**	(3)
Net cash provided from financing activities		**73**	9
Net (decrease) increase in cash		**(16)**	186
Cash, beginning of the period		**115**	97
Cash, end of the period		**99**	283

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. MATERIAL 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, 2023.

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, 2024.

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. INVENTORIES

As at (millions of Canadian dollars)	**March 31 2024**	December 31 2023
Fuel	**44**	59
Materials and other	**58**	56
	102	115

Fuel inventory includes No. 6 fuel in the amount of $30.1 million (December 31, 2023 - $41.0 million). The cost of inventories recognized as an expense during the period is $71.0 million (March 31, 2023 - $100.2 million) and is included in operating costs and fuels.

4. 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, 2023. In December 2023, 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 $68.1 million to be amortized into income on a straight-line basis over the assumed twelve month term, commencing on January 1, 2024. The components of change are as follows:

As at (millions of Canadian dollars)	**March 31 2024**	December 31 2023
Deferred asset, beginning of the period	**68**	86
Additions	**-**	68
Amortization	**(17)**	(86)
Deferred asset, end of the period	**51**	68

5. PROPERTY, PLANT AND EQUIPMENT

(millions of Canadian dollars)	Generation Plant	Transmission and Distribution	Other	Assets Under Development	Total
Cost					
Balance at January 1, 2023	2,147	1,525	350	67	4,089
Additions	-	-	-	199	199
Disposals	(10)	(2)	(8)	-	(20)
Transfers	64	64	21	(149)	-
Other adjustments	(1)	-	-	(2)	(3)
Decommissioning liabilities and revisions	9	-	-	-	9
Balance at December 31, 2023	2,209	1,587	363	115	4,274
Additions	**1**	**-**	**-**	**28**	**29**
Disposals	**-**	**-**	**(2)**	**-**	**(2)**
Other adjustments	**(2)**	**-**	**-**	**2**	**-**
Balance at March 31, 2024	**2,208**	**1,587**	**361**	**145**	**4,301**
Depreciation					
Balance at January 1, 2023	751	332	149	-	1,232
Depreciation	45	36	16	-	97
Disposals	(5)	(1)	(7)	-	(13)
Balance at December 31, 2023	791	367	158	-	1,316
Depreciation	**12**	**9**	**5**	**-**	**26**
Disposals	**-**	**-**	**(2)**	**-**	**(2)**
Balance at March 31, 2024	**803**	**376**	**161**	**-**	**1,340**
Carrying value					
Balance at January 1, 2023	1,396	1,193	201	67	2,857
Balance at December 31, 2023	1,418	1,220	205	115	2,958
Balance at March 31, 2024	**1,405**	**1,211**	**200**	**145**	**2,961**

Capitalized interest for the period ended March 31, 2024 was $0.5 million (December 31, 2023 - $1.9 million) related to assets under development.

6. REGULATORY DEFERRALS

(millions of Canadian dollars)		January 1 2024	Reclass & Disposition	Regulatory Activity	**March 31 2024**	Remaining Recovery Settlement Period (years)
Regulatory asset deferrals						
Power purchase expense recognition	(a)	440	-	164	**604**	n/a
Supply cost variance deferral account	(b)	271	-	111	**382**	n/a
Rate stabilization plan (RSP)	(c)	47	12	(10)	**49**	n/a
Retirement asset pool		40	-	-	**40**	n/a
Foreign exchange losses		39	-	(1)	**38**	17.8
Business system transformation program		9	-	1	**10**	n/a
Deferred energy conservation costs		7	-	-	**7**	n/a
Muskrat Falls PPA sustaining capital		5	-	(1)	**4**	n/a
Supply deferral	(d)	12	(12)	2	**2**	n/a
Muskrat Falls PPA monetization		13	-	(13)	**-**	n/a
Other		6	-	-	**6**	n/a
		889	-	253	**1,142**	
Regulatory liability deferrals						
Removal provision		(23)	-	(1)	**(24)**	n/a
Holyrood thermal generating station (TGS) accelerated depreciation deferral account		(10)	-	-	**(10)**	n/a
Insurance amortization and proceeds		(4)	-	-	**(4)**	n/a
Other		(6)	-	(1)	**(7)**	n/a
		(43)	-	(2)	**(45)**	

6.1 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 2024**	2023
Power purchase expense recognition	(a)	**(164)**	(53)
Supply cost variance deferral account	(b)	**(111)**	178
Muskrat Falls PPA monetization		**13**	-
RSP	(c)	**10**	-
Supply deferral	(d)	**(2)**	(5)
Other		**2**	1
		(252)	121

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, 2024 would have decreased by $252.0 million (March 31, 2023 – $121.5 million increase).

6.(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 and Labrador-Island Link Transmission Funding Agreement (TFA). For the period ended March 31, 2024, IFRS power purchase expenses were $164.1 million (March 31, 2023 - $53.2 million) higher than commercial payments which resulted in a total regulatory asset of $604.4 million (December 31, 2023 - $440.3 million).

6.(b) 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. During 2024, Hydro deferred $111.3 million for future recovery from customers resulting in a total balance owing from customers of $382.6 million (December 31, 2023 - $271.3 million).

6.(c) 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 2024, Hydro recovered $10.6 million (March 31, 2023 - $0.3 million) from customers. As well, Board Order No. P.U. 10 (2024) approved the recovery of the 2023 Isolated Systems Supply Cost Variance Deferral from the RSP Current Plan resulting in an increase to the RSP of $11.6 million. This activity and associated interest in 2024 resulted in a remaining balance for future recovery from customers of $49.0 million (December 31, 2023 - $47.4 million).

6.(d) Supply Deferral

Pursuant to Board Order No. P.U. 22 (2017), the Board approved supply cost deferrals using three specific deferral accounts: the Energy Supply, Holyrood Conversion and Isolated Systems Supply cost deferrals. As per Board Order No. P.U. 33 (2021) and Hydro's compliance application, the Energy Supply and Holyrood Conversion deferrals were discontinued with no change to the Isolated Systems Supply Cost Variance Deferral. During 2024, Hydro recorded a net decrease in the supply deferral asset of $10.0 million (March 31, 2023 - $5.4 million increase) resulting in a balance from customers of $2.3 million (December 31, 2023 - $12.3 million). The decrease in the supply deferral asset is primarily due to the recovery of the 2023 supply deferral of $12.1 million as per Board Order No. P.U. 10 (2024) with $11.6 million recovered from the current RSP Plan, partially offset by the normal operation of the deferral of $2.1 million (March 31, 2023 - $5.4 million).

7. TRADE AND OTHER PAYABLES

As at (millions of Canadian dollars)	Note	**March 31 2024**	December 31 2023
Trade payables		**83**	117
Due to related parties	16	**40**	32
Accrued interest payable		**8**	17
Other payables		**33**	29
		164	195

8. DEBT

8.1 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, 2024, there was a $300.0 million promissory note outstanding with a maturity date of April 1, 2024 bearing interest at a rate of 5.08% (December 31, 2023 – two promissory notes for a total of $230.0 million maturing January 2, 2024 bearing interest rates ranging from 5.15% to 5.17%). Upon maturity, the promissory note was issued.

Hydro maintains a $500.0 million CAD or USD equivalent committed revolving term facility. As at March 31, 2024, there were no amounts drawn on the facility (December 31, 2023 - $nil).

8.2 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 2024**	December 31 2023
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	**483**	483
1A	600	3.70	2017/2018	2048	**636**	636
2A	300	1.75	2021	2030	**290**	290
Total	2,125				**2,135**	2,135
Less: Sinking fund investments in own debentures					**115**	111
					2,020	2,024
Less: Sinking fund payments due within one year					**7**	7
					2,013	2,017

*Sinking funds have been established for these issues.

9. 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 2024**	2023
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, 2024 amount to $7.7 million (March 31, 2023 - $7.8 million).

10. OTHER REVENUE

For the period ended March 31 (millions of Canadian dollars)	**Three months ended 2024**	2023
Transmission tariff revenue	**9**	3
Recovery of supply power	**1**	7
Government grant	**-**	190
Other	**3**	8
Total other revenue	**13**	208

11. POWER PURCHASED

The supply period and contractual payments of the PPA with Muskrat Falls, the PPA for Labrador Residual Block Use and the Labrador-Island Link TFA commenced in November 2021, February 2022 and April 2023, respectively. For the period ended March 31, 2024, Hydro recognized power purchase expense of $355.9 million (March 31, 2023 - $118.1 million) associated with these agreements. These power purchase expenses are deferred in either the Supply Cost Variance Deferral account or the Power Purchase Expense Recognition account as described in Note 6.

12. OPERATING COSTS

	Three months ended	
For the period ended March 31 (millions of Canadian dollars)	**2024**	2023
Salaries and benefits	**32**	31
Maintenance and materials	**6**	7
Professional services	**2**	2
Insurance	**2**	2
Travel and transportation	**2**	1
Other operating costs	**4**	5
Total operating costs	**48**	48

13. NET FINANCE EXPENSE

	Three months ended	
For the period ended March 31 (millions of Canadian dollars)	**2024**	2023
Finance income		
Sinking fund	**4**	4
Other	**2**	2
	6	6
Finance expense		
Long-term debt	**24**	24
Debt guarantee fee	**2**	2
Other	**6**	3
	32	29
Interest capitalized during construction	**(1)**	-
	31	29
Net finance expense	**25**	23

14. OTHER EXPENSE (INCOME)

		Three months ended	
For the period ended March 31 (millions of Canadian dollars)		**2024**	2023
Rent and royalties		**2**	2
Net change in Energy Marketing PPA fair value	(a)	**4**	(6)
Other		**1**	-
Total other expense (income)		**7**	(4)

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

	Three months ended	
For the period ended March 31 (millions of Canadian dollars)	**2024**	2023
PPA gains		
Settlement of realized profit	**(16)**	(12)
Mark-to-market of derivative	**-**	(16)
	(16)	(28)
PPA losses		
Amortization of deferral	**17**	22
Mark-to-market of derivative	**3**	-
	20	22
Net change in Energy Marketing PPA fair value	**4**	(6)

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

15.1 Fair Value

The estimated fair values of financial instruments as at March 31, 2024 and December 31, 2023 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, 2024 and year ended December 31, 2023.

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
As at (millions of Canadian dollars)		**March 31, 2024**		December 31, 2023	
Financial assets					
Sinking funds - investments in Hydro debt issue	**2**	**115**	**114**	111	111
Sinking funds - other investments	**2**	**208**	**213**	206	214
Reserve fund	**2**	**50**	**50**	50	50
Financial liabilities					
Derivative liability	**3**	**55**	**55**	68	68
Long-term debt (including amount due within one year before sinking funds)	**2**	**2,135**	**1,998**	2,135	2,066

The fair value of 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 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, 2024:

(millions of Canadian dollars)	Carrying Value	Valuation Techniques	Significant Unobservable Input(s)	Range
Derivative liability (PPA)	55	Modelled pricing	Volumes (MWh)	40%-47% 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, 2024, the effect of using reasonably possible alternative assumptions for volume inputs to valuation techniques may have resulted in a +$0.9 million to +$4.4 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, 2024	**(68)**
Changes in profit or loss	
Mark-to-market	**(3)**
Settlements	**16**
Total	**13**
Balance at March 31, 2024	**(55)**

(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)

15.2 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 cash equivalents 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, 2024.

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 2024 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 2024.

Foreign Currency and Commodity Exposure
Hydro is exposed to USD foreign exchange and commodity price risk arising from its purchases of fuel used in electricity generation. Hydro is also exposed to commodity price risk associated with electricity prices. These risks are mitigated through the operation of the regulatory mechanisms.

16. 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 normally within 30 days.

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
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)	Notes	**March 31 2024**	December 31 2023
Trade and other receivables:			
The Province		**1**	-
Other related parties		**19**	15
Contract receivable:			
Other related parties	(a)	**14**	13
Trade and other payables:	7		
Parent		**16**	7
Joint operation		**2**	1
The Province		**15**	9
Other related parties		**7**	15
Contract payable (including current portion):			
Other related parties	(b)	**616**	452
Other current liabilities:			
The Province	(c)	**2**	4
Other related parties		**2**	3
Long-term debt (including current portion):			
The Province		**926**	926

For the period ended March 31 (millions of Canadian dollars)		**Three months ended 2024**	2023
Energy sales:			
Other related parties		**55**	35
Other revenue:			
The Province		**-**	190
Parent		**1**	7
Other related parties		**10**	8
Power purchased:			
Joint operation		**5**	5
Parent		**8**	8
Other related parties		**356**	118
Net finance expense:			
The Province		**9**	9
Other expense (income):			
The Province	(c)	**2**	2

(a) Payments under the Labrador-Island Link TFA commenced in April 2023. The contract receivable balance represents the timing difference between the expense recognition of the value of the service delivered to Hydro and the contractual payments made under the agreement.

(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.

17. COMMITMENTS AND CONTINGENCIES

(a) Hydro is 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 unfavorable outcome for Hydro, they may have a significant adverse impact on Hydro's financial position.

(b) Outstanding commitments for capital projects total approximately $82.8 million as at March 31, 2024 (December 31, 2023 - $67.3 million).

18. SUPPLEMENTARY CASH FLOW INFORMATION

	Three months ended	
For the period ended March 31 (millions of Canadian dollars)	**2024**	2023
Trade and other receivables	**2**	(15)
Inventories	**13**	9
Prepayments	**1**	2
Trade and other payables	**(29)**	(26)
Changes in non-cash working capital balances	**(13)**	(30)
Related to:		
Operating activities	**(2)**	(20)
Investing activities	**(11)**	(7)
Financing activities	**-**	(3)
	(13)	(30)

19. 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.

	Hydro Regulated	Churchill Falls	Energy Marketing	Non-Regulated Activities	Inter-Segment	Total
(millions of Canadian dollars)	For the period ended March 31, 2024					
Energy sales	281	37	-	18	(8)	328
Other revenue	7	1	5	-	-	13
Revenue	288	38	5	18	(8)	341
Fuels	70	-	-	-	-	70
Power purchased	372	-	-	24	(9)	387
Operating costs	38	10	-	-	-	48
Transmission rental	-	-	5	-	-	5
Depreciation and amortization	19	7	-	-	-	26
Net finance expense (income)	26	(1)	-	-	-	25
Other expense	1	2	4	-	-	7
Expenses	526	18	9	24	(9)	568
Preferred dividends	-	(1)	-	-	1	-
(Loss) profit for the period before regulatory adjustments	(238)	21	(4)	(6)	-	(227)
Regulatory adjustments	(252)	-	-	-	-	(252)
Profit (loss) for the period	14	21	(4)	(6)	-	25
Capital expenditures*	24	5	-	-	-	29
Total assets	3,893	818	55	10	-	4,776

***Capital expenditures include $0.5 million of interest capitalized during construction.**

(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.

20. SUBSEQUENT EVENT

On May 7, 2024, the Province issued two Orders in Council related to the finalization of its Rate Mitigation Plan associated with recovering a portion of costs related to the Muskrat Falls Project. Hydro shall structure any application for utility rate increases such that the retail rates it charges to its domestic rate class customers will target 2.25% per year up to and including 2030. The total projected investment required to be funded from Hydro for rate mitigation is over $2 billion, which includes retiring the 2023 Supply Cost Variance Deferral Account balance over three years.