

ANNUAL REPORT 2022



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Consolidated Financial Statements – December 31, 2022



NLHydro annual report 2022

MESSAGE FROM CHAIR OF THE BOARDS

ALBERT WILLIAMS



In 2022, I was appointed as Chair of the Board of Directors for Newfoundland and Labrador Hydro. As a professional engineer, I appreciate the complexity of the energy industry, as well as the opportunities on the horizon, and as such welcomed this opportunity to work with the Board and the many skilled people working at Hydro.

One of the most committed individuals on the Board is outgoing Chair John Green. John served as Chair of the Board of Newfoundland and Labrador Hydro since 2016, and Acting Chair of the Nalcor Energy Board of Directors since 2020. John presided over the Board during a period of significant change as the company changed leadership in 2016 and again in 2021, when the organization was the subject of a public inquiry in to the Muskrat Falls Project, and saw the operations of Nalcor Energy move under the operations of Hydro in 2021. In his role as Chair of both Boards, John has presided over dozens of meetings, attended many more sub-committees and special committees meetings. He has given countless hours to the Board in prepping for meetings, reading thousands of pages of Board documents, and has kindly agreed to continue on as a Board member. On behalf of the Board, I thank John for his unwavering commitment to Hydro.

As I transitioned into the role of Chair, I was immediately struck by and impressed with the knowledge, expertise, and commitment from the people in the company. During various Board meetings I have received presentations and briefings from employees on technical, commercial, regulatory, financial, and legal issues. I can assure you that each and every one of them are technically savvy, smart, thorough, and bring a level of passion to their work. And I take great comfort in that as there are many challenging times ahead for Hydro, and the province.

As a country, Canada has set the goal of net-zero by 2050, and for the electricity sector net-zero by 2035. According to the Canadian Climate Institute, Canada's electricity generation capacity needs to grow by 2.2 to 3.4 times larger than today to meet that goal. Our country will need significant infrastructure, not to mention Provincial and Federal collaboration, to meet these goals.

Newfoundland and Labrador has significant existing hydroelectric facilities, and has the potential to carry out upgrades and develop additional new energy projects. With the demand for renewable energy, our province is uniquely positioned to support this growth. Our hydroelectric infrastructure not only provides renewable energy, but also provides firm capacity, which is required to support other forms of industrial developments.

We are in an enviable position in the energy market, and we must ensure that this resource is developed and handled in the best interest of the people of our province.

I am confident that with the considerable expertise and enthusiasm of the Hydro employees, supported by the Board members and Government, future generations will be able to look back with pride on decisions that will be taken as we deal with the opportunities and complexities of the rapidly changing energy world.

A handwritten signature in blue ink that reads "A Williams". The signature is fluid and cursive, written in a professional style.

ALBERT WILLIAMS
Chair of the Boards

MESSAGE FROM THE PRESIDENT AND CEO

JENNIFER WILLIAMS



For more than 60 years, Newfoundland and Labrador Hydro has delivered electricity to over 200 communities throughout our beautiful province. We know each and every one of you counts on us to deliver safe, reliable, cost-conscious electricity to your homes and businesses. And I assure you, we are honoured to take that responsibility seriously for the next 60 years. These next years are going to be full of exciting, impactful and interesting opportunities.

We're keenly aware the energy landscape is changing rapidly around us, and we all must be ready to respond to these changes. Hydro must ensure that our province has the electricity needed – such as when residents switch from oil to electric heat, to power the increasing number of electric vehicles, and for our industries to have more renewable ways to run their operations. And in readying for this changing landscape, you expect Hydro to make sound decisions, with the best interests of the people of the province in mind.

In 2022, Hydro continued to evolve as an organization to meet your expectations. For over a year now, Hydro has been transforming its operations with 2022 marking our first full year as a single organization under a unified vision, having brought the former Nalcor Energy operations under Hydro in 2021. Some major changes occurred since that time, and Hydro has delivered.

In 2022, our electricity system saw an improvement in reliability when compared to the previous 5 year average. Hydro managed operating costs and began to see the impacts of the Muskrat Falls project in operation, with a net income of \$580 million. Our employees' relentless efforts contributed to an improving safety record with a significant reduction in near-miss incidents. We advised the regulator and interveners that we must now make decisions for additional electricity supply to support an electrifying society and for reliability support reasons. And, in late winter 2023, we achieved official commissioning of the Muskrat Falls project.

As our region and country advance plans to decarbonize and achieve net-zero targets, Hydro is well-positioned to take a lead role in supporting the energy transition.

We cannot underestimate the impact our province will see as a result of the demand for renewable sources of electricity. The dramatic societal shift is having major impacts on electricity grids and utilities planning for the future, and utilities like Hydro have to balance substantial growth at significant speed. As a result, we need to make decisions today in order to respond to the increasing demand. Hydro continues to plan ahead responsibly for Newfoundland and Labrador's electricity needs over the longer-term, and we've worked openly with the Board of Commissioners of Public Utilities (PUB) and intervening parties in proposing and assessing a blueprint for future supply. Hydro is committed to transparency and accountability in our decision-making. We welcome this scrutiny as we know we are stewards of our province's energy resources. Our approach to fiscal responsibility, transparency and accountability is carried throughout every part of our organization.

While our assets are critical to our system, it's our dedicated and skilled people that are the heart of our operations. The expertise, and character, of our employees shone through in 2022 in a number of instances, in particular as several parts of the province battled significant and devastating weather events.

Whether it was working in severe weather conditions to restore power to customers on the Connaigre Peninsula and in Red Bay, Labrador after extended ice storms, preparing for the spread of wildfires and possible shutdown and evacuation in central Newfoundland or responding to the devastation of Hurricane Fiona at home and then travelling to Nova Scotia to help their hardest hit areas, our teams never backed down from a challenge and never hesitated to do what was needed to serve our communities and friends.

I am so proud of the work we do every day, and of the people who make this company an amazing place to work, and who care so deeply about this province. In these, and so many other ways, we're making a tangible difference in our communities each and every day.

As we look to 2023 and beyond, we'll continue to focus on the future needs of our system while recognizing our responsibility to our environment, our customers and the people of Newfoundland and Labrador.

Thank you for the honour of serving you.

A blue ink handwritten signature of Jennifer Williams, written in a cursive style.

JENNIFER WILLIAMS
President and CEO
Newfoundland and Labrador Hydro

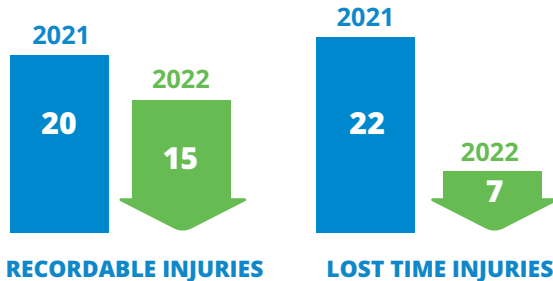
YEAR IN REVIEW



SAFETY

Lowest number of high-potential incidents since 2017 (3 in 2022 vs 12 in 2021)

IMPROVED SAFETY PERFORMANCE



DIVERSITY, EQUITY & INCLUSION

OCCUPATIONAL GROUP	2022 ACTUAL % FEMALE	TARGETS
Executive	33%	30%
Management	33%	35%
Engineers (Including Engineers in Training)	25%	30%
Technicians & Technologist	9%	10%
Field Supervisors	5%	6%
Skilled Trades (Including Apprentices)	6%	10%
Manual workers	19%	20%

COMMUNITY

We proudly supported **more than 50 groups** and organizations throughout the province

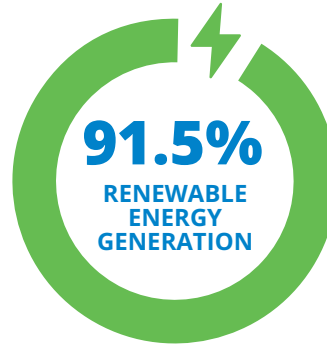
\$48,000
EMPLOYEE AND CORPORATE CONTRIBUTION to Kids Eat Smart was enough to feed all students for a day



54

SCHOLARSHIPS AND AWARDS presented to students throughout NL

ELECTRIFICATION/RENEWABLE ENERGY



Energy Canada Sustainable Electricity Award for our energy efficiency programs

9 NEW EV CHARGERS installed in partnership with TakeCharge



Existing fast charging stations used 3X MORE IN 2022 than in 2021

RELIABILITY



Increased reliability over 2021 in both frequency and duration of power interruptions

212,000 hours of customer outages avoided by use of live line work

SALES

Electricity export sales of **\$111.8 MILLION**

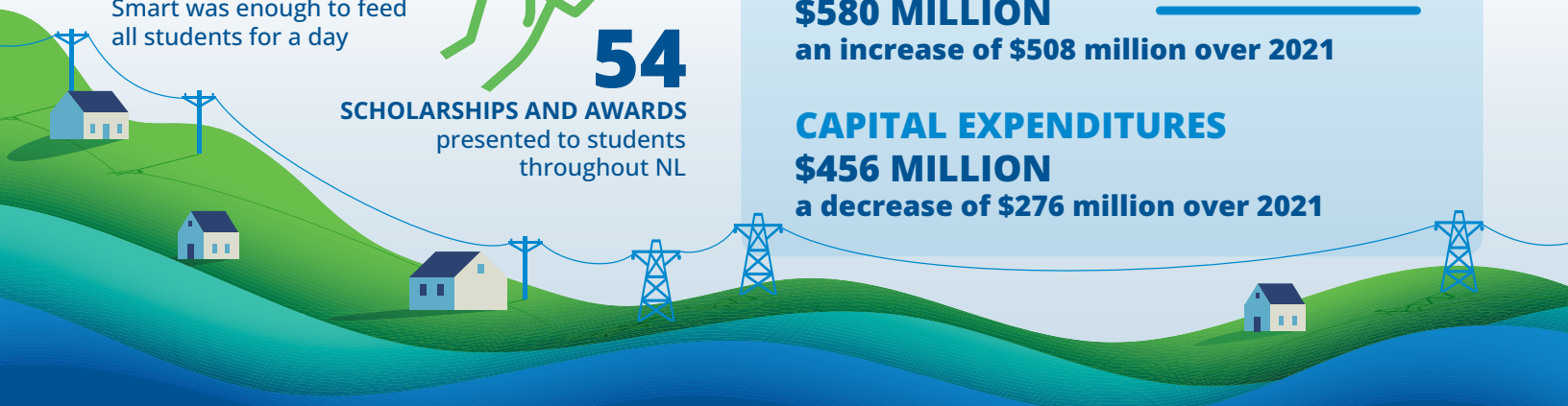


PROFIT

\$580 MILLION
an increase of \$508 million over 2021

CAPITAL EXPENDITURES

\$456 MILLION
a decrease of \$276 million over 2021



Years ended December 31 (millions of dollars)	2022	2021	2020	2019	2018
OPERATING RESULTS					
Continuing operations¹					
Revenue					
Energy sales	1,327	976	913	1,016	1,005
Other revenue	32	37	17	22	24
	1,359	1,013	930	1,038	1,029
Expenses					
Fuels and power purchased	269	202	249	319	276
Operating costs	264	230	211	226	216
Production, marketing and transportation costs	30	31	39	36	42
Transmission rental	23	24	26	26	25
Depreciation, depletion, amortization and impairment	224	202	437	197	189
Exploration and evaluation	-	-	-	33	29
Net finance expense	225	127	109	92	83
Other expense (income)	95	157	(37)	18	33
Share of loss of joint arrangement	-	1	-	-	-
	1,130	974	1,034	947	893
Profit for the year before regulatory adjustments	229	39	(104)	91	136
Regulatory adjustments	(351)	(33)	(14)	(36)	(46)
Profit (loss) for the year from continuing operations	580	72	(90)	127	182
Discontinued operations¹					
Loss for the year from discontinued operations	-	-	-	(1)	(2)
Profit (loss) for the year	580	72	(90)	126	180
SEGMENT EARNINGS²					
Continuing operations¹					
Hydro Regulated	36	36	36	30	28
Muskrat Falls	134	(107)	(6)	(1)	(2)
LCP Transmission	83	102	(25)	(13)	2
Churchill Falls	57	52	33	35	32
Energy Trading	72	26	(5)	-	23
Other Electric	22	(9)	9	4	5
Oil and Gas	193	(9)	(112)	96	125
Corporate and Inter-segment	(17)	(19)	(20)	(24)	(31)
Profit (loss) for the year from continuing operations	580	72	(90)	127	182
Discontinued operations¹					
Bull Arm Fabrication	-	-	-	(1)	(2)
Profit (loss) for the year	580	72	(90)	126	180
FINANCIAL POSITION					
Assets					
Property, plant and equipment	17,921	17,739	17,228	16,798	15,755
Investments	568	270	358	336	676
Other assets	2,262	1,581	1,549	2,084	2,203
Regulatory deferrals	540	184	172	123	159
	21,291	19,774	19,307	19,341	18,793
Liabilities and Equity					
Long-term debt, including current portion	10,790	9,860	9,645	9,686	9,695
Other liabilities	3,318	3,379	3,476	3,387	3,270
Regulatory deferrals	33	27	17	13	71
Shareholder's equity	7,150	6,508	6,169	6,255	5,757
	21,291	19,774	19,307	19,341	18,793
CAPITAL EXPENDITURES³	456	732	855	1,223	1,399

1 Effective January 1, 2020, the shares of Bull Arm Fabrication were distributed to the new Crown corporation, Oil and Gas Corporation of Newfoundland and Labrador.

2 The designation of segments is based on a combination of regulatory status and management accountability and have been updated in 2022 to reflect recent changes in reporting, leadership and focus. Previously reported segmented information has been presented to conform to the current operating structure.

3 Capital expenditures includes tangible and intangible expenditures.

(listed as of December 31, 2022)

NALCOR ENERGY BOARD OF DIRECTORS

ALBERT WILLIAMS*
Chairperson, Nalcor Energy
Retired Engineering Executive

JOHN GREEN, K.C. 1**
Retired Lawyer, McInnes Cooper

GEOFF GOODYEAR 2, 4
Retired Executive, Universal Helicopters Newfoundland
and Labrador LP

JACK HILLYARD 1, 3
Retired BMO Executive

MARK MACLEOD 2, 3
Formerly President and CEO, C-Core

JENNIFER WILLIAMS
President and Interim Chief Executive Officer,
Nalcor Energy

DEBBIE MOLLOY 3, 4
President and Chief Executive Officer, WSCC,
Northwest Territories and Nunavut

DEREK PURCHASE 1, 2***
Retired EY Partner, Sustainability Consultant

DAVID OAKE 1, 3
President, Invenio Consulting Inc.

EDNA TURPIN, ICD.D 2, 4
Corporate Director

1 – Audit Committee, 2 - Corporate Governance Committee, 3 - Human Resources & Compensation Committee,
4 - Safety, Health, Environment & Community Committee

* Appointed Chairperson October 13, 2022

**Acting Chairperson as of September 4, 2020 to October 13, 2022, and appointed to Audit Committee
November 18, 2022

***Appointed to Governance Committee May 13, 2022

Note: Brendan Paddick was a Director for part of 2022, although on leave of absence as of September 4, 2020, and
resigned prior to year-end (effective March 24, 2022)

NALCOR ENERGY OFFICERS

JENNIFER WILLIAMS
President & Interim Chief Executive Officer

GERARD DUNPHY
Vice President, Churchill Falls & Muskrat Falls

ROBERT COLLETT
Vice President, Hydro Engineering & NLSO

GAIL COLLINS
Vice President, People & Corporate Affairs

SCOTT CROSBIE
Vice President, Hydro Operations

KEVIN FAGAN
Vice President, Regulatory & Stakeholder Relations

LISA HUTCHENS
Vice President, Chief Financial Officer

MICHAEL LADHA
Vice President, Chief Legal Officer & Corporate Secretary

WALTER PARSONS
Vice President, Transmission Interconnections &
Business Development

MEREDITH BAKER
Assistant Corporate Secretary

(listed as of December 31, 2022)

NEWFOUNDLAND AND LABRADOR HYDRO BOARD OF DIRECTORS

ALBERT WILLIAMS*
Chairperson
Retired Engineering Executive

JOHN GREEN K.C.**
Retired Lawyer, McInnes Cooper

JENNIFER WILLIAMS
President & Interim Chief Executive Officer, Nalcor Energy

DONNA BREWER^{1,2}
Retired Deputy Minister of Finance

CHRIS LOOMIS²
Retired Professor, Memorial University of Newfoundland

DAVID OAKE¹
President, Invenio Consulting Inc.

FRASER EDISON²
President & CEO, Rutter Inc.

JOHN MALLAM¹
Retired Newfoundland and Labrador Hydro Executive

BRIAN WALSH²
Retired FortisTCI Executive

TRINA TROKE¹
Director of Projects, Cahill Group

1 - Audit Committee, 2 - Corporate Governance Committee

* Appointed Chairperson October 13, 2022

**Chairperson from April 22, 2016 to October 13, 2022

Note: Brendan Paddick was a Director for part of 2022, although on leave of absence as of September 4, 2020, and resigned prior to year-end (effective March 24, 2022)

Note: James Haynes and Bob Barnes appointed February 20, 2023

NEWFOUNDLAND AND LABRADOR HYDRO OFFICERS

JENNIFER WILLIAMS
President & Chief Executive Officer

GERARD DUNPHY
Vice President, Churchill Falls & Muskrat Falls

ROBERT COLLETT
Vice President, Hydro Engineering & NLSO

GAIL COLLINS
Vice President, People & Corporate Affairs

SCOTT CROSBIE
Vice President, Hydro Operations

KEVIN FAGAN
Vice President, Regulatory & Stakeholder Relations

LISA HUTCHENS
Vice President, Chief Financial Officer

MICHAEL LADHA
Vice President, Chief Legal Officer & Corporate Secretary

WALTER PARSONS
Vice President, Transmission Interconnections & Business Development

MEREDITH BAKER
Assistant Corporate Secretary

(listed as of December 31, 2022)

BOARD OF DIRECTORS

The principal functions of Nalcor Energy's Board of Directors include:

- (a) developing Nalcor's approach to corporate governance;
- (b) reviewing and approving the business, financial, strategic and other plans to enable Nalcor to execute its strategy;
- (c) adopting processes for monitoring the company's progress toward its strategic and operational goals;
- (d) approving the audited financial statements and Management's Discussion and Analysis;
- (e) ensuring that Management has a process for identifying the principal business risks;
- (f) overseeing the integrity of the internal control systems;
- (g) ensuring that Nalcor has processes for operating within applicable laws and regulations;
- (h) ensuring the company has a compensation philosophy and framework;
- (i) ensuring a process is in place to measure the performance of senior executives of Nalcor;
- (j) ensuring Management creates a culture of integrity throughout the organization; and
- (k) ensuring that succession plans are in place for senior Management, including the President and CEO.

The Board also has four standing committees:

1. Audit ^{1,2}
2. Corporate Governance ¹
3. Human Resources and Compensation
4. Safety, Health, Environment and Community ²

The Board also had two special committees for part of 2022:

5. Special Committee of the Board of Directors on the Muskrat Falls Inquiry and Rate Mitigation Reference Reports ³
6. Committee of the Hydro and Nalcor Boards of Directors on Organization and Structure ⁴

Nalcor has the following subsidiary companies (in addition to Newfoundland and Labrador Hydro), each with its own Board of Directors (listed as at Dec. 31, 2022). ⁵

1 Newfoundland and Labrador Hydro has its own Audit Committee and Corporate Governance Committee. The Corporate Governance Committee also deals with Regulatory, Human Resources and Compensation matters.

2 Churchill Falls (Labrador) Corporation Limited has its own Audit Committee and Safety, Health and Environment Committee.

3 Committee established on June 26, 2020 and dissolved on May 13, 2022.

4 Committee established on June 16, 2021 and dissolved on November 18, 2022.

5 Excludes currently inactive legal entities Gull Island Power Company Limited and Lower Churchill Development Corporation Limited.

(listed as of December 31, 2022)

CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED**JOHN GREEN, K.C.***

Chairperson
Retired Lawyer, McInnes Cooper

PIERRE GAGNON ^{1,2}

Executive Vice President, Corporate Affairs and
Chief Governance Officer, Hydro Quebec

GEOFF GOODYEAR ²

Retired Executive, Universal Helicopters Newfoundland
and Labrador LP

JEAN-HUGUES LAFLEUR ^{1,2}

Executive Vice President and Chief Financial Officer,
Hydro Quebec

DEBBIE MOLLOY** ¹

President and Chief Executive Officer, WSCC,
Northwest Territories and Nunavut

JENNIFER WILLIAMS

President & Interim Chief Executive Officer,
Nalcor Energy

DAVID OAKE ¹

President, Invenio Consulting Inc.

BOB WARR ²

Managing Director, Nor-Lab Limited

1 – Audit Committee, 2 – Safety, Health & Environment Committee

*Acting Chairperson as of September 4, 2020 and appointed Chairperson as of April 13, 2022

** Appointed April 13, 2022 and appointed to the Audit Committee April 25, 2022

Note: Brendan Paddick was a Director for part of 2022, although on leave of absence as of September 4, 2020, and resigned prior to year-end (effective March 24, 2022)

NALCOR ENERGY – OIL AND GAS INC.**MARK MACLEOD***

Chairperson
Formerly President and CEO, C-Core

JOHN GREEN, K.C.**

Retired Lawyer, McInnes Cooper

JUSTIN LADHA

CEO, KMK Capital Inc.

*Appointed Chairperson April 27, 2022

**Appointed March 24, 2022

Note: Brendan Paddick was a Director for part of 2022, although on leave of absence as of September 4, 2020, and resigned prior to year-end (effective March 24, 2022)

JENNIFER WILLIAMS

President & Interim Chief Executive Officer,
Nalcor Energy

DAVID OAKE

President, Invenio Consulting Inc.

TWIN FALLS POWER CORPORATION LIMITED**GERARD DUNPHY***

President
Vice President, Churchill Falls & Muskrat Falls,
Nalcor Energy

ORAL BURRY

Manager, Safety, Health and Environment
Churchill Falls (Labrador) Corporation Limited

LISA HUTCHENS**

Vice President, Chief Financial Officer, Nalcor Energy

MICHAEL LADHA***

Vice President, Chief Legal Officer & Corporate
Secretary, Nalcor Energy

DANA POPE

Senior Manager, Regulatory Affairs, Newfoundland
and Labrador Hydro

* Appointed January 27, 2022

**Appointed May 19, 2022

***Appointed November 1, 2022

Note: Donald Tremblay was appointed Director on January 27, 2022 but resigned prior to year-end (effective June 13, 2022)

Note: Benoit Palmer was a Director for part of 2022 but resigned prior to year-end (effective November 1, 2022)

Note: James Meaney was a Director for part of 2022 but tenure with the company concluded effective April 19, 2022

LOWER CHURCHILL MANAGEMENT CORPORATION

GERARD DUNPHY

Chairperson
Vice President, Churchill Falls & Muskrat Falls,
Nalcor Energy

TERENCE GARDINER*

Retired NL Hydro Executive

JUNE PERRY

President & CEO, Pilot Communications

WALTER PARSONS

Vice President, Transmission Interconnections &
Business Development, Nalcor Energy

JENNIFER WILLIAMS

President & Interim Chief Executive Officer,
Nalcor Energy

* Appointed January 31, 2022

Note: Gilbert Bennett was a Director for part of 2022 but tenure with the company concluded effective October 26, 2022

LABRADOR-ISLAND LINK GENERAL PARTNER CORPORATION

(General Partner of Labrador-Island Link Limited Partnership)

JOHN GREEN, K.C.

Chairperson
Retired Lawyer, McInnes Cooper

GEOFF GOODYEAR

Retired Executive, Universal Helicopters
Newfoundland and Labrador LP

PETER HICKMAN*

Retired Lawyer

JENNIFER WILLIAMS

President & Interim Chief Executive Officer,
Nalcor Energy

EDNA TURPIN, ICD.D

Corporate Director

* Appointed January 31, 2022

Note: Libby Burnham was a Director for part of 2022 but resigned prior to year-end (effective November 17, 2022)

LABRADOR-ISLAND LINK OPERATING CORPORATION

DEREK PURCHASE*

Chairperson
Retired EY Partner, Sustainability Consultant

GEOFF GOODYEAR

Retired Executive, Universal Helicopters
Newfoundland and Labrador LP

CHRIS LOOMIS

Retired Professor, Memorial University of Newfoundland

DESMOND WHALEN

Medical Doctor, Faculty of Medicine, Memorial University
of Newfoundland

JENNIFER WILLIAMS

President & Interim Chief Executive Officer,
Nalcor Energy

*Appointed Chairperson April 27, 2022

Note: Brendan Paddick was a Director for part of 2022, although on leave of absence as of September 4, 2020, and resigned prior to year-end (effective March 24, 2022)

LABRADOR-ISLAND LINK HOLDING CORPORATION

JACK HILLYARD
Chairperson
Retired BMO Executive

GERARD DUNPHY
Vice President, Churchill Falls & Muskrat Falls,
Nalcor Energy

LISA HUTCHENS*
Vice President, Chief Financial Officer, Nalcor Energy

SHEILA KELLY-BLACKMORE
Retired Business Person

BRIAN WALSH**
Retired FortisTCl Executive

* Appointed April 19, 2022

** Appointed January 31, 2022

Note: Brendan Paddick was a Director for part of 2022, although on leave of absence as of September 4, 2020, and resigned prior to year-end (effective March 24, 2022)

Note: James Meaney was a Director for part of 2022 but tenure with the company concluded effective April 19, 2022

LABRADOR TRANSMISSION CORPORATION

RONALD COLE
Chairperson
Lawyer, Cole Law Offices

GERARD DUNPHY
Vice President, Churchill Falls & Muskrat Falls,
Nalcor Energy

ROBERT HENDERSON*
Retired NL Hydro Executive

LISA HUTCHENS**
Vice President, Chief Financial Officer,
Nalcor Energy

JENNIFER WILLIAMS
President & Interim Chief Executive Officer,
Nalcor Energy

* Appointed January 31, 2022

** Appointed April 19, 2022

Note: Brendan Paddick was a Director for part of 2022, although on leave of absence as of September 4, 2020, and resigned prior to year-end (effective March 24, 2022)

Note: James Meaney was a Director for part of 2022 but tenure with the company concluded effective April 19, 2022

MUSKRAT FALLS CORPORATION

EDNA TURPIN, ICD.D
Chairperson
Corporate Director

RICHARD DAW
Chartered Professional Accountant, Certified
Management Consultant

JACK HILLYARD
Retired BMO Executive

JENNIFER WILLIAMS
President & Interim Chief Executive Officer,
Nalcor Energy

JOHN QUACO
Retired Professor

LABRADOR-ISLAND LINK HOLDING (2021) CORPORATION*

JACK HILLYARD
Chairperson
Retired BMO Executive

DONNA BREWER
Retired Deputy Minister of Finance

GERARD DUNPHY
Vice President, Churchill Falls & Muskrat Falls,
Nalcor Energy

LISA HUTCHENS
Vice President, Chief Financial Officer, Nalcor Energy

GEOFF YOUNG
Retired Lawyer

*Company incorporated February 4, 2022

Note: Brendan Paddick was a Director for part of 2022, although on leave of absence as of September 4, 2020, but resigned prior to year-end (effective March 24, 2022)

Note: James Meaney was a Director for part of 2022 but tenure with the company concluded effective April 19, 2022

LABRADOR-ISLAND LINK GENERAL PARTNER (2021) CORPORATION*

JOHN GREEN, K.C.
Chairperson
Retired Lawyer, McInnes Cooper

GEOFF GOODYEAR
Retired Executive, Universal Helicopters
Newfoundland and Labrador LP

JAMES HAYNES
Retired NL Hydro Executive

JOHN MALLAM
Retired NL Hydro Executive

EDNA TURPIN, ICD.D
Corporate Director

JENNIFER WILLIAMS
President & Interim Chief Executive Officer,
Nalcor Energy

*Company incorporated February 4, 2022

NALCOR ENERGY MARKETING CORPORATION

JACK HILLYARD
Chairperson
Retired BMO Executive

WALTER PARSONS
Vice President, Transmission Interconnections &
Business Development, Nalcor Energy

JOHN GREEN K.C.
Retired Lawyer, McInnes Cooper

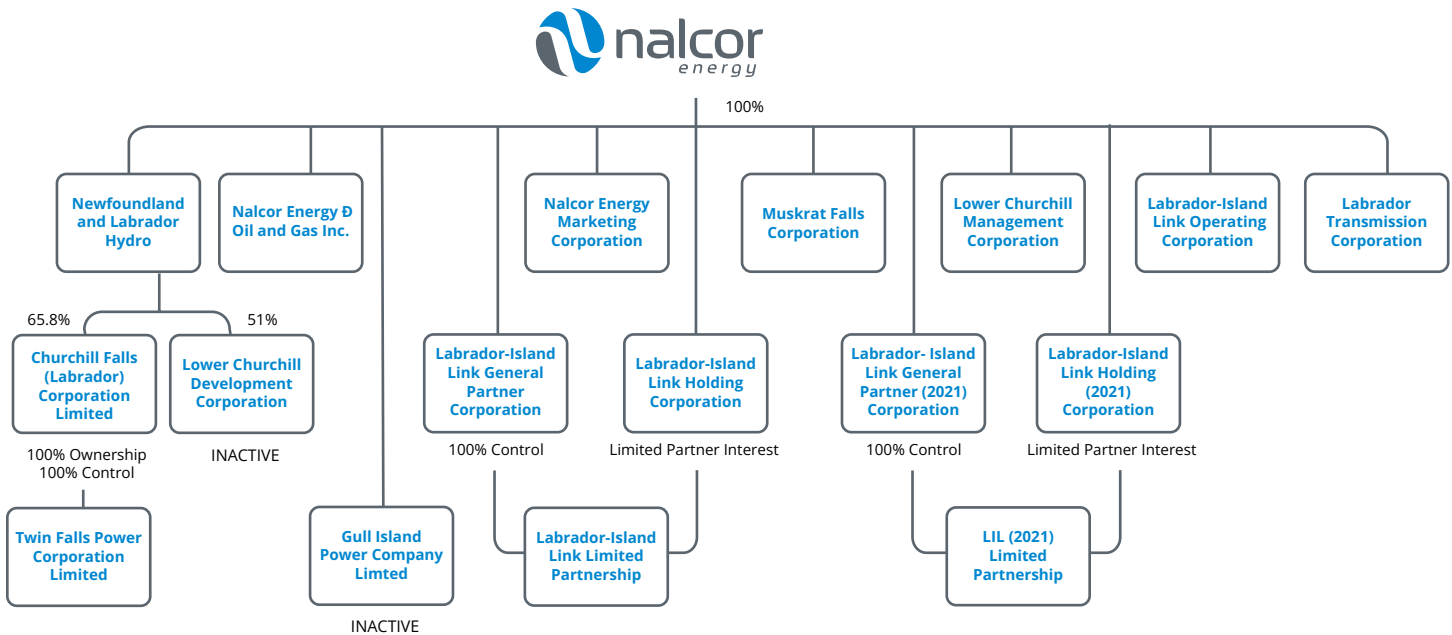
TRINA TROKE
Director of Projects, Cahill Group

FRASER EDISON
President & Chief Executive Officer, Rutter Inc.

EDNA TURPIN, ICD.D
Corporate Director

NALCOR'S LEGAL ENTITIES

As of December 31, 2022



AUDIT COMMITTEE

The Audit Committee's primary duties and responsibilities are to:

- Serve as an independent and objective party to monitor the integrity of Nalcor's financial statements, financial reporting process and systems of internal controls regarding finance, accounting and legal compliance;
- Identify and monitor the management of the principal risks that could impact the financial reporting of Nalcor;
- Appoint, approve compensation and monitor the independence and performance of Nalcor's external auditors;
- Monitor the compliance by Nalcor with legal and regulatory requirements;
- Provide an avenue of communication among the external auditors, management and the Board of Directors; and
- Encourage continuous improvement of, and foster adherence to, Nalcor's policies, procedures and practices at all levels.

CORPORATE GOVERNANCE COMMITTEE

The Corporate Governance Committee's primary duties and responsibilities are to:

- a) Provide oversight of governance principles for Nalcor and its subsidiaries that are consistent with high standards of corporate governance and review and assess on an ongoing basis Nalcor's system of corporate governance;
- b) Identify and recommend candidates for appointment to Nalcor subsidiary boards in the event of a vacancy;
- c) Review and recommend a process for Board assessment, as well as ensure appropriate orientation and education programs are in place for Directors; and
- d) Provide oversight of Enterprise Risk Management with respect to Nalcor and its subsidiaries.

HUMAN RESOURCES AND COMPENSATION COMMITTEE

The Human Resources and Compensation Committee's primary duties and responsibilities are to:

- a) Establish and maintain a compensation philosophy and framework for Nalcor;
- b) Consider Nalcor's approach to and policies for recruiting, developing and motivating Executives and executive compensation and human resources issues;
- c) With the Chair of the Board of Directors, undertake an annual performance review of the President and CEO of Nalcor and report and/or make recommendations to the Board of Directors;
- d) Review and assess annually corporate performance metrics;
- e) Review and assess annually Nalcor's succession planning policies and practices for Executives, and report and/or make recommendations to the Board of Directors;
- f) Review the approach to employment diversity and inclusion;
- g) Review compliance with Nalcor's Code of Conduct; and
- h) Review Nalcor's labour relations strategies and recommend to the Board of Directors negotiating mandates for collective bargaining.

SAFETY, HEALTH, ENVIRONMENT AND COMMUNITY COMMITTEE

The Safety, Health, Environment and Community Committee's primary duties and responsibilities are to:

- a) Review and report to the Board of Directors on Nalcor's maintenance of safety, environment and health policies, procedures and practices and in the conduct of its operation, directed to prevent injury to its employees, the public and the environment;
- b) Review with Management whether Nalcor's safety, environment and health policies are being effectively implemented and in compliance with statutory and regulatory requirements;
- c) Review the findings of reports arising from internal and external audits and assessments of safety, environment and health issues, together with Management's response there to and oversee to ensure that there is an agreed course of action leading to the resolution of any concerns, deficiencies or outstanding issues and timely follow-up on any unresolved matters;
- d) Review with Management the impact of proposed legislation in matters of safety, environment and health on the operations of Nalcor;
- e) Review and approve annually the safety and environmental audit plans by Nalcor and external auditors and review of annual Corporate safety performance and Corporate environmental report;
- f) Review with Management and make recommendations to the Board of Directors as appropriate on Nalcor's safety, environment, health and community programs, policies and procedures and any other matters relating to safety, environment, health and community that it considers relevant; and
- g) Meet with the Vice-President/Manager responsible at least annually to review safety, environmental, health or community matters that could have a material impact on Nalcor's reputation, business or financial position and report to the Board of Directors thereon in a timely manner.

DIRECTOR INDEPENDENCE POLICY

Nalcor Energy has a Director Independence Policy, consisting of:

1. A majority of the Board of Directors, including the Board Chair shall be independent in accordance with the criteria established by the Corporation (the "Independence Criteria").
2. All of the members of the Audit Committee, Human Resources and Compensation Committee, Corporate Governance Committee, and Safety, Health, Environment and Community Committee shall be independent Directors.
3. Directors have a responsibility to declare to the Corporate Secretary if they do not satisfy the Independence Criteria at any time.
4. In addition to the Independence Criteria, Directors have a responsibility to discuss any potential conflicts that might impact their independence with the Board Chair or the Chair of the Corporate Governance Committee. If based on these discussions, it is determined that the independence of the Director has been impacted, the Board and the Corporate Secretary should be advised.
5. If Directors do not satisfy the Independence Criteria, they should not participate in any discussion or voting relating to matters that contribute to the Independence issue.

EXTERNAL AUDITOR'S FEES

The external auditor of Nalcor and its subsidiaries is Deloitte. Deloitte has been the external auditor since 2003. Professional fees incurred in 2022 in connection with audit and audit-related services were \$1.0 million (2021 - \$0.9 million) and fees related to non-audit services were \$0.1 million (2021 - \$0.1 million).

POLICY ON INDEPENDENCE OF EXTERNAL AUDITORS

The External Auditor Independence Policy is a policy governing Nalcor Energy and its subsidiaries relationship with the External Auditor, including:

- a) establishing a process for determining whether various non-audit and other services provided by the External Auditor affects its independence;
- b) identifying the services that the External Auditor may and may not provide to Nalcor;
- c) pre-approving all services to be provided by the External Auditor; and
- d) establishing a process for hiring current or former members of the Audit Management Team of the External Auditor in a Financial Reporting Oversight Role to ensure auditor independence is maintained.

ENERGY PORTFOLIO

LEGEND

- Hydroelectric Generation Station

- Thermal Plant/Combustion Turbine

- ▲ Diesel Plant

- ✈ Wind Generation

- ⚙ Offshore Oil Projects

- ◆ Diesel Plant operated on behalf of Mushuau Innu First Nation

* Operated under licence from the Government of Newfoundland and Labrador

PPA Power Purchase Agreement



Nain ▲

Natuashish ◆

Hopedale ▲

Postville ▲ Makkovik

Menihok ●

Rigolet ▲

Twin Falls ●

Churchill Falls ●

Happy Valley-Goose Bay ▲

Muskrat Falls ●

Mud Lake ▲

Cartwright ▲

Paradise River ▲

Black Tickle ▲

Norman Bay ▲

Charlottetown ▲

Port Hope Simpson ▲

St. Lewis ▲

Mary's Harbour ▲

L'Anse-au-Loup ▲

St. Anthony ▲

Hawke's Bay ▲

Roddickton Mini Hydro ●

Cat Arm ●

Rattle Brook (PPA) ●

Venams Bight ●

Snooks Arm ●

Hinds Lake ●

Little Bay Islands ▲

Corner Brook CoGeneration (PPA) ■

Grand Falls* ●

Bishop's Falls* ●

Stephenville ■

Buchans* ●

St. Brendan's ▲

Star Lake* ●

Upper Salmon ●

Granite Canal ●

Bay d'Espoir ●

Ramea ✈

François ▲

McCallum ▲

St. John's ■

Holyrood ■

Hibernia ⚙

White Rose ⚙

Grey River ▲

Paradise River ●

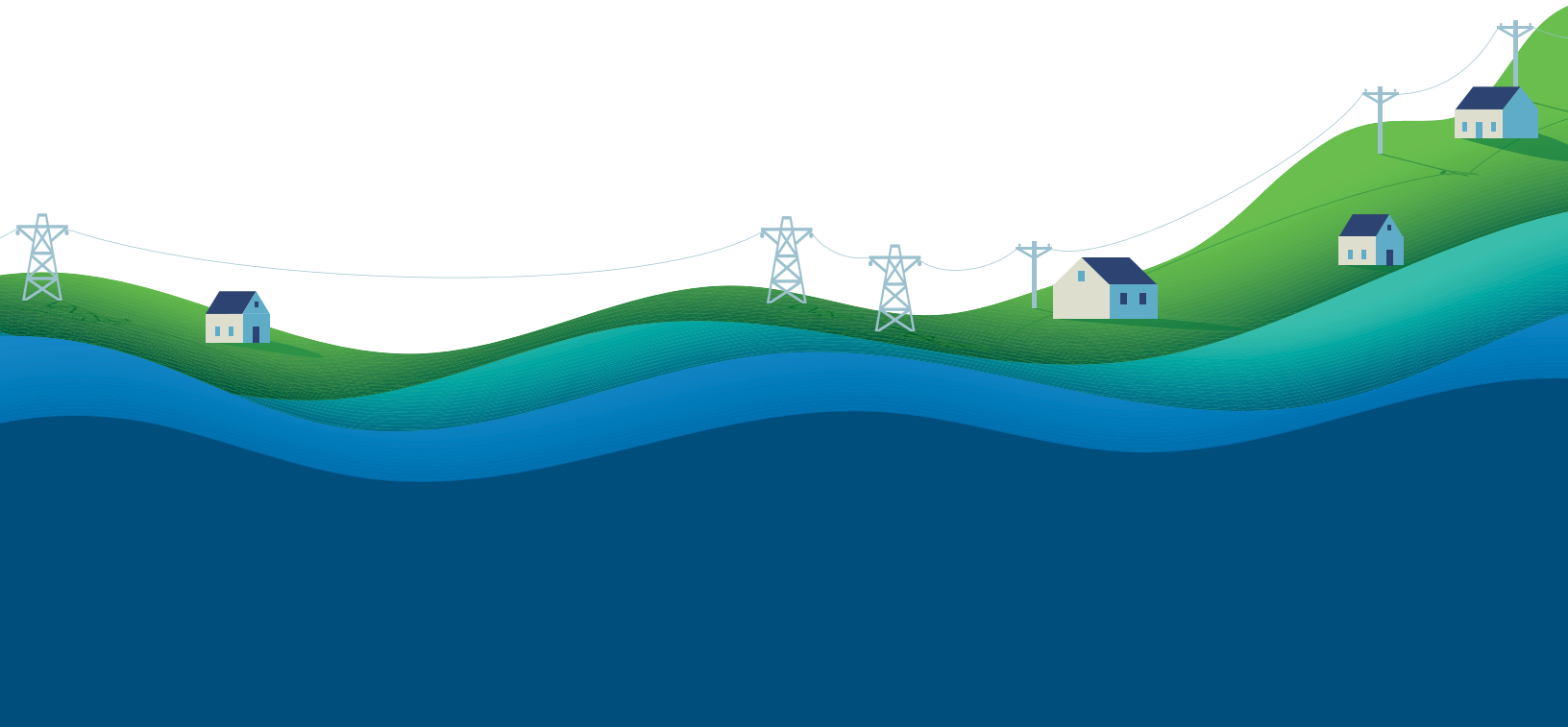
St. Lawrence (PPA) ✈

Fermeuse (PPA) ✈

Hebron ⚙

APPENDIX 1

MANAGEMENT DISCUSSION AND ANALYSIS



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MANAGEMENT DISCUSSION & ANALYSIS

This Management Discussion and Analysis (MD&A) should be read in conjunction with the annual audited consolidated financial statements (financial statements) of Nalcor Energy (Nalcor) 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 December 31, 2022, with subsequent events and outlook information updated to March 10, 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 March 10, 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 Crown 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 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 and Québec.

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 have seen a world of changes, including the focus on creating a safe and sustainable environment. We deliver more than 80 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 will work with the Province on the result of its review, including any policy or legislative inputs recommended. 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.

Our operating segments are based on a combination of regulatory status and management accountability and have been updated in 2022 to reflect these recent changes in reporting, leadership and focus. Previously reported segmented

MANAGEMENT DISCUSSION & ANALYSIS

information has been presented to conform to the current operating structure. The following summary provides a brief overview of the nature of operations included in each of Hydro's operating segments as at December 31, 2022.

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.

MANAGEMENT DISCUSSION & ANALYSIS

AT A GLANCE

<i>For the periods ended December 31 (millions of Canadian dollars)</i>	Three months ended		Twelve months ended	
	2022	2021	2022	2021
Profit	37	35	580	72
Operating profit ¹	137	35	562	72
Revenue	335	284	1,359	1,013
Operating costs	71	69	264	230
Cash provided from (used in) operations	100	(64)	348	102
Capital expenditures	124	187	456	732
Electricity sales (GWh)	11,082	11,013	42,194	40,633
Oil sales volume (thousands of bbls)	720	641	3,034	3,432
Realized oil price (CAD/bbl)	102	72	105	71

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 December 31, 2022 was comparable to the same period in 2021.

The Company's profit for the year ended December 31, 2022 was \$580 million, an increase of \$508 million compared to the same period in 2021. The annual increase is predominantly non-cash and relates to the impacts of bringing the Muskrat Falls assets online, HSE redetermination, which decreased profit in 2021, and higher electricity export price and 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 GRA. In the latest update provided to the PUB on December 19, 2022, Hydro 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. Once Hydro Regulated has certainty with respect to the timing of required payments associated with the LIL and the Province's rate mitigation plan, Hydro Regulated will finalize its schedule for its GRA filing.

Cost increases associated with the contractual requirements related to the LCP have been addressed through regulatory deferral accounts that defer LCP payments, rate mitigation funding, LCP cost recovery from customers, 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 immediate impact on net income and recovery from customers will be addressed through a separate application at the conclusion of the next GRA. The Rate Stabilization Plan (RSP), the Revised Energy Supply Cost Variance and the Holyrood Conversion rate deferral accounts have been discontinued, and the rules for balance disposition have been established.

Customer Rate Changes

With the purchases of clean energy produced by Muskrat Falls into the supply of the Island Interconnected System (IIS), Hydro is decreasing dependence on fuel from Holyrood Thermal Generating Station. As part of that transition, Hydro is incorporating the supply costs of Muskrat Falls energy into the IIS customer rates for the first time. As this occurs, Hydro is designing rates and regulatory mechanisms and working closely with the Province on rate mitigation to ensure a smooth transition from current rates to incorporating recovery of Muskrat Falls Project costs, while avoiding rate shock to its customers.

MANAGEMENT DISCUSSION & ANALYSIS

As a first step to the integration of Muskrat Falls supply costs into utility rates, in June 2022, Hydro Regulated filed an application to implement a Project Cost Recovery Rider to commence partial recovery of Muskrat Falls Power Purchase Agreement (MF PPA) costs as authorized by Order in Council 2022-120. This Project Cost Recovery Rider, in combination with the annual RSP and Conservation and Demand Management (CDM) Cost recovery adjustments normally implemented on July 1 of each year, resulted in a minimal change in electricity rates effective July 1, 2022. This application was approved in Order No. P.U. 19(2022).

Rates for Island Industrial customers are normally revised annually on January 1. Without intervention, these customers would have seen an approximate 23.6% increase in rates from 2021 to 2022. In efforts to avoid rate shock to this customer class, Hydro implemented a Mitigation Adjustment Rider, the impact of which extended the recovery period for fuel costs owing from a one year to a two year recovery period and split the projected increase approximately in half. The approval of the extended recovery period in Order No. P.U. 5(2022) reduced the rate increase to Island Industrial Customers effective February 1, 2022 to 12.7%.¹ In Order No. P.U. 3(2023), the PUB approved an update to the Island Industrial Customer 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 of Newfoundland and Labrador 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.²

In September of 2022, Hydro 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

On July 13, 2022, Hydro Regulated filed its 2023 Capital Budget Application, seeking approval of \$90.8 million in capital expenditures for 2023. The application reflected our ongoing objective and responsibility as the Province's Crown Utility to minimize costs while maintaining safe and reliable operations. The application was approved in full in Board Order No. P.U. 2(2023).

In 2021, Hydro Regulated submitted an application for the construction of Phase 1 of the long-term supply plan for Southern Labrador at an estimated cost of \$49.9 million. The review process has been delayed with an external consultant report expected at the end of March 2023.

In December of 2022, Hydro filed a \$50.6 million supplemental capital budget application related to the refurbishment of Penstock 1 in Bay D'Espoir. 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. The review process is currently ongoing.

Resource Adequacy

The Reliability and Resource Adequacy (RRA) Study outlines Hydro Regulated's long-term approach to providing cost-conscious, reliable service. On October 3, 2022, Hydro filed the RRA Study 2022 Update (2022 Update) that contained a number of findings and associated recommendations.

Hydro is recommending a phased approach to generation expansion as a result of uncertainty regarding long-term planning parameters and several other key considerations. The 2022 Update included a recommendation to proceed with

¹ A further adjustment to Island Industrial customers occurred in June 2022. Hydro Regulated filed an application requesting approval to charge a CDM Cost Recovery Adjustment to Island Industrial customers of 0.014 cents per kWh, effective July 1, 2022. This application was approved in Order No. P.U. 23(2022).

² 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 general rate application process.

MANAGEMENT DISCUSSION & ANALYSIS

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 plans to file an application for approval to construct this generation capacity addition in early 2024.

Hydro is also recommending that the HTGS, as well as Hardwoods Gas Turbine, remain available for reliable operation until any additional long-term sources (such as Bay d'Espoir Unit 8) 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.

These recommendations are the next steps towards planning for the future and are intended to provide additional information to assist in the PUB's review of the RRA Study. The Request for Information process has concluded and the review process is ongoing, stakeholder consultation will continue in 2023.

LOWER CHURCHILL PROJECT

The LIL operated at various levels throughout the year, with a peak power transfer from Muskrat Falls of approximately 480 MW. During October 2022, high power testing resulted in the LIL being cleared for operation at power levels up to 675 MW. Trial operation commenced in late November and was completed successfully; however, a 700 MW overload test that was required to complete commissioning failed. Hydro is continuing to work with GE on the software required for the LIL and testing has resumed in the first quarter of 2023.

In 2022, a new LIL timeline increased carrying costs by \$256 million, bringing the forecasted total project cost from \$13.11 billion to \$13.37 billion, which will be funded internally and considered as part of the overall rate mitigation plan. The impact of the most recent delay in schedule on the overall cost of the project will be dependent on the timing of completion of ongoing testing.

In advance of full commissioning of the LIL, Hydro is unable to utilize all of the available energy from Muskrat Falls to service customers on the Island and to export via the Maritime Link. However, in February 2022, Hydro Regulated began using Muskrat Falls energy to service customers in Labrador, maximizing the available Recapture energy exported and sold in the North American markets. A portion of the profit from these sales is being returned to Hydro Regulated's customers.

Rate Mitigation and Financial Restructuring of the LCP

On February 14, 2022, as part of the Province's Rate Mitigation Plan, Hydro, the Province and the Government of Canada agreed to a \$1 billion federal loan guarantee, capital restructuring of Muskrat Falls and Labrador Transco, and a \$1 billion investment by the Government of Canada in the LIL. On March 31, 2022, the Company received debt proceeds of \$1.0 billion, which carries a direct, absolute, unconditional and irrevocable guarantee from the Government of Canada. The ability to utilize this funding as well as the investment in the LIL by Canada is limited until commissioning of the LIL assets. Capital restructuring has also been completed. The arrangements provide rate relief to Island customers, keep financing costs low and maintain ownership of the Muskrat Falls and Labrador Transmission Assets as well as control of the LIL, all of which generate long-term benefits.

OTHER RECENT EVENTS

The partners of the West White Rose Project, after suspending major construction activities in 2020 and announcing a full review of the scope, schedule and cost of the project, announced its restart on May 31, 2022, with first oil from the platform anticipated in 2026.

MANAGEMENT DISCUSSION & ANALYSIS

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

<i>For the periods ended December 31 (millions of Canadian dollars)</i>	Three months ended			Twelve months ended		
	2022	2021	Variance	2022	2021	Variance
Revenue	335	284	51	1,359	1,013	346
Fuels	66	39	27	188	122	66
Power purchased	20	22	(2)	81	80	1
Operating costs	71	69	2	264	230	34
Production, marketing and transportation costs	6	6	-	30	31	(1)
Transmission rental	6	6	-	23	24	(1)
Depreciation, depletion, amortization and impairment	163	55	108	224	202	22
Net finance expense	51	42	9	225	127	98
Other expense	24	17	7	95	157	(62)
Share of loss of joint arrangement	-	1	(1)	-	1	(1)
(Loss) profit for the period before regulatory adjustments	(72)	27	(99)	229	39	190
Regulatory adjustments	(109)	(8)	(101)	(351)	(33)	(318)
Profit for the period	37	35	2	580	72	508

Non-GAAP Operating Profit Disclosure

Reconciliation of the Company's profit to operating profit for the three months and year ended December 31, 2022 and 2021 is as follows:

<i>For the periods ended December 31 (millions of Canadian dollars)</i>	Three months ended			Twelve months ended		
	2022	2021	Variance	2022	2021	Variance
Profit for the period	37	35	2	580	72	508
Impairment (reversal of impairment)	100	-	100	(18)	-	(18)
Operating profit for the period	137	35	102	562	72	490

Revenue

<i>For the periods ended December 31 (millions of Canadian dollars)</i>	Three months ended			Twelve months ended		
	2022	2021	Variance	2022	2021	Variance
Electricity sales	252	222	30	968	716	252
Petroleum and natural gas sales, net of royalty expense	75	56	19	359	260	99
Other revenue	8	6	2	32	37	(5)
Total revenue	335	284	51	1,359	1,013	346

Electricity sales

Electricity sales for the three months ended December 31, 2022 were \$252 million, an increase of \$30 million compared to the same period in 2021. The increase for the quarter was due to an increase in the volume of delivery of the NS Block and higher export electricity volumes. Electricity sales for the year ended December 31, 2022 were \$968 million, an increase of \$252 million compared to the same period in 2021. The increase for the year was due to an increase in the volume of delivery of the NS Block, higher export electricity price and volume, favourable adjustments from regulatory

MANAGEMENT DISCUSSION & ANALYSIS

mechanisms, an increase in excess energy sales to Hydro-Québec and higher regulated utility customer energy sales volume. Regulatory mechanisms impacting revenue are offset in the regulatory adjustments line.

Electricity sales volume is summarized in the table below:

<i>For the periods ended December 31 (GWh)</i>	Three months ended		Twelve months ended	
	2022	2021	2022	2021
Regulated	1,897	1,923	7,087	6,972
Hydro-Québec	7,750	8,174	30,033	30,182
Emera - NS Block	376	89	1,008	115
Other export markets	554	329	2,105	1,462
Other domestic	505	498	1,961	1,902
	11,082	11,013	42,194	40,633

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

<i>For the periods ended December 31</i>	Three months ended		Twelve months ended	
	2022	2021	2022	2021
Average Export Electricity Price (USD/MWh) ¹	44	43	52	31
Realized Export Electricity Price (USD/MWh) ²	43	43	53	31
Realized Export Electricity Price (CAD/MWh) ³	59	54	68	39

¹The Average Export Electricity Price reflects actual prices achieved in the export market for all exports.

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

³The 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 December 31, 2022 were comparable to the same period in 2021. Average and realized USD electricity prices for the year ended December 31, 2022 were higher compared to the same periods in 2021 due to the impacts of higher natural gas prices on electricity markets as a result of a lower supply of natural gas in the United States and higher global liquefied natural gas prices.

Petroleum and natural gas sales, net of royalty expense

Petroleum and natural gas sales, net of royalty expense for the three months ended December 31, 2022 was \$75 million, an increase of \$19 million compared to the same period in 2021. The increase for the quarter was due to higher oil sales volume, favourable foreign exchange and an increase in average Dated Brent price per barrel. Petroleum and natural gas sales, net of royalty expense for the year ended December 31, 2022 was \$359 million, an increase of \$99 million compared to the same period in 2021. The increase for the year was due to an increase in average Dated Brent price per barrel and favourable foreign exchange, partially offset by a decrease in oil sales volume largely as a result of HSE Redetermination.

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

<i>For the periods ended December 31</i>	Three months ended		Twelve months ended	
	2022	2021	2022	2021
Average Dated Brent Price (USD/bbl) ¹	83	78	100	69
Realized Price (USD/bbl) ²	78	56	83	56
Realized Price (CAD/bbl) ³	102	72	105	71
Oil Sales Volume (thousands of bbls)	720	641	3,034	3,432

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

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

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

MANAGEMENT DISCUSSION & ANALYSIS

Other revenue

Other revenue for the three months and year ended December 31, 2022 was comparable to the same periods in 2021.

Fuels

<i>For the periods ended December 31 (millions of Canadian dollars)</i>	Three months ended			Twelve months ended		
	2022	2021	Variance	2022	2021	Variance
No. 6 fuel and other	59	29	30	163	100	63
Gas Turbine fuel	-	6	(6)	1	9	(8)
Diesel fuel	7	4	3	24	13	11
Total fuels	66	39	27	188	122	66

Fuel costs for the three months ended December 31, 2022 were \$66 million, an increase of \$27 million compared to the same period in 2021. Fuel costs for the year ended December 31, 2022 were \$188 million, an increase of \$66 million compared to the same period in 2021. The increase for the quarter and year was due to increased price of No. 6 fuel used at the HTGS. Also contributing to the variance for the year is an increase in price of diesel fuel. Certain variances in fuel are offset through regulatory mechanisms in the regulatory adjustments line.

Power purchased

Power purchased for the three months and year ended December 31, 2022 was comparable to the same periods in 2021.

Operating costs

<i>For the periods ended December 31 (millions of Canadian dollars)</i>	Three months ended			Twelve months ended		
	2022	2021	Variance	2022	2021	Variance
Salaries and benefits	34	34	-	143	140	3
Maintenance and materials	17	18	(1)	62	47	15
Professional services	14	8	6	36	23	13
Insurance	3	2	1	12	8	4
Travel and transportation	1	2	(1)	8	7	1
Other operating costs	2	5	(3)	3	5	(2)
Total operating costs	71	69	2	264	230	34

Operating costs for the three months ended December 31, 2022 were comparable to the same period in 2021. Operating costs for the year ended December 31, 2022 were \$264 million, an increase of \$34 million compared to the same period in 2021. The increase for the year was due to the remaining units of the Muskrat Falls Generating Station becoming operational throughout 2021 and the commencement of non-cash operating costs of the Maritime Link in Q3 2021.

Production, marketing and transportation costs

Production, marketing and transportation costs for the three months and year ended December 31, 2022 were comparable to the same periods in 2021.

Transmission rental

Transmission rental for the three months and year ended December 31, 2022 was comparable to the same periods in 2021.

Depreciation, depletion, amortization and impairment

Depreciation, depletion, amortization and impairment for the three months ended December 31, 2022 was \$163 million, an increase of \$108 million compared to the same period in 2021. The increase for the quarter was due to impairment recorded during the quarter related to oil and gas assets and higher depletion of oil and gas assets as a result of lower remaining oil reserves. Depreciation, depletion, amortization and impairment for the year ended December 31, 2022 was \$224 million, an increase of \$22 million compared to the same period in 2021. The increase for the year was due to an increase in depletion of oil and gas assets and depreciation associated with the Maritime Link, partially offset by the net reversal of impairment associated with oil and gas assets recognized in 2022.

MANAGEMENT DISCUSSION & ANALYSIS

The recognition of impairments and reversals are required under IFRS. In assessing impairment and impairment reversals associated with its oil and gas assets, Hydro uses factors including expected future oil prices and proved and probable reserves from third party specialists to determine the present value of future cash flows generated from the oil and gas developments in which Hydro has a working interest. Resulting expenses or reversals of such expenses is not uncommon and can lead to large fluctuations in profit or loss between financial reporting periods.

In the second quarter of 2022, Hydro recognized a reversal of previously recorded impairment of \$118 million related to its oil and gas assets. In Q4 2022, impairment expense of \$100 million was recorded, resulting in a total net reversal of \$18 million.

Net finance expense

Net finance expense for the three months ended December 31, 2022 was \$51 million, an increase of \$9 million compared to the same period in 2021. Net finance expense for the year ended December 31, 2022 was \$225 million, an increase of \$98 million compared to the same period in 2021. The increase for the quarter and year was primarily due to the expensing of borrowing costs for Muskrat Falls, which began with the completion of the assets in Q4 2021.

Other expense

<i>For the periods ended December 31 (millions of Canadian dollars)</i>	Three months ended			Twelve months ended		
	2022	2021	Variance	2022	2021	Variance
Settlement of commodity price swap contracts	5	17	(12)	69	59	10
HSE Redetermination re-balancing adjustment	(7)	(5)	(2)	(22)	89	(111)
HSE Redetermination royalty adjustment	-	-	-	-	31	(31)
Loss (gain) on disposal of property, plant and equipment	19	6	13	19	(24)	43
Rental and royalty	4	4	-	19	12	7
Other	3	(5)	8	10	(10)	20
Total other expense	24	17	7	95	157	(62)

Other expense for the three months ended December 31, 2022 was \$24 million, an increase of \$7 million compared to the same period in 2021. The increase for the quarter was primarily due to higher loss on disposal of assets, unfavourable variances in foreign exchange forward contract settlements and fair value losses related to the future value of energy sales commitments. These increases were partially offset by favourable variances in the settlement of oil commodity price swap contracts. Other expense for the year ended December 31, 2022 was \$95 million, a decrease of \$62 million compared to the same period in 2021. The decrease for the year was primarily due to a decrease in the impact of HSE Redetermination, partially offset by higher water power rental and other costs associated with Muskrat Falls, increased losses on disposal of assets and unfavourable variances in the settlement of foreign exchange forward and commodity price swap contracts associated with Oil and Gas.

Regulatory adjustments

Regulatory recoveries for the three months ended December 31, 2022 were \$109 million, an increase of \$101 million compared to the same period in 2021. The increase for the quarter was primarily due to variations in regulatory mechanisms largely driven by costs associated with Muskrat Falls, favourable variations in supply costs and asset disposal deferrals. Regulatory recoveries for the year ended December 31, 2022 were \$351 million, an increase of \$318 million compared to the same period in 2021. The increase for the year was primarily due to variations in supply costs and regulatory mechanisms driven by costs associated with Muskrat Falls.

MANAGEMENT DISCUSSION & ANALYSIS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION HIGHLIGHTS

Significant changes in the Consolidated Statement of Financial Position between December 31, 2022 and 2021 include:

ASSETS (millions of Canadian dollars)	Increase (Decrease)	Explanation
Cash and cash equivalents	159	See Liquidity and Capital Resources for additional details on movement in cash during the year ended December 31, 2022.
Restricted cash	494	Increase primarily due to the debt proceeds of the third federal loan guarantee received in 2022 and transfers associated with requirements under the project financing agreements.
Short-term investments	53	Increase driven by the investment of a portion of debt proceeds of the third federal loan guarantee.
Property, plant and equipment	182	Increase driven by capital expenditure programs in Hydro and Churchill Falls, borrowing costs associated with the LIL that are capitalized until it is commissioned and the net reversal of impairment of oil and gas assets; partially offset by normal depreciation and depletion.
Investments	245	Increase driven by the investment of a portion of debt proceeds of the third federal loan guarantee.
Regulatory assets, net of regulatory liabilities	350	Increase due to variations in supply costs and related regulatory mechanisms largely driven by power purchased from Muskrat Falls.
LIABILITIES AND EQUITY (millions of Canadian dollars)		
Short-term borrowings	76	Increase driven by promissory notes issued to fund operations and cash fluctuations.
Trade and other payables	(83)	Decrease driven by completion of contracts associated with Muskrat Falls; partially offset by differences in accruals.
Current portion of deferred credits	128	Increase primarily related to reclassification of the current portion of deferred credits associated with anticipated deliveries of the NS Block to Emera.
Long-term debt	929	Increase driven by the new debt issuance related to the third federal loan guarantee in 2022, partially offset by scheduled debt repayments.
Class B limited partnership units	58	Increase driven by accrued interest on partnership units.
Deferred credits	(155)	Decrease relates to reclassification of the current portion associated with anticipated deliveries of the NS Block to Emera and revenue recognized relating to delivery of energy during the year, partially offset by additions during the year.
Decommissioning liabilities	(30)	Decrease is primarily due to revisions associated with changes in assumptions such as estimated cash flows, discount rates and timing.
Employee benefits liability	(41)	Decrease is primarily driven by actuarial gains associated with fluctuations in the discount rate.
Other long-term liabilities	(30)	Decrease due to the repayment of a portion of the HSE redetermination rebalancing liability during the year.
Reserves	62	Increase relates to unrealized actuarial gains on employee future benefits and settlements of cash flow hedges during the year, partially offset by unrealized losses on Oil and Gas cash flow hedges.
Retained earnings	580	Increase due to the profit recorded for the year. See At A Glance for additional details.

MANAGEMENT DISCUSSION & ANALYSIS

SEGMENTED RESULTS

The following presents an overview of the Company's profit for the three months and year ended December 31, 2022, by operating segment, in comparison to the three months and year ended December 31, 2021. This discussion should be read in conjunction with Note 34 of the financial statements.

<i>For the periods ended December 31 (millions of Canadian dollars)</i>	Three months ended			Twelve months ended		
	2022	2021	Variance	2022	2021	Variance
Hydro Regulated	1	(4)	5	36	36	-
Muskrat Falls	39	(1)	40	134	(107)	241
LCP Transmission	25	19	6	83	102	(19)
Churchill Falls	12	11	1	57	52	5
Energy Trading	13	12	1	72	26	46
Other Electric	13	(9)	22	22	(9)	31
Oil and Gas	(59)	13	(72)	193	(9)	202
Corporate	(6)	(4)	(2)	(14)	(12)	(2)
Inter-segment	(1)	(2)	1	(3)	(7)	4
Profit for the period	37	35	2	580	72	508

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

<i>For the periods ended December 31 (millions of Canadian dollars)</i>	Three months ended			Twelve months ended		
	2022	2021	Variance	2022	2021	Variance
Revenue	177	171	6	680	554	126
Expenses	285	183	102	996	551	445
(Loss) profit for the period before regulatory adjustments	(108)	(12)	(96)	(316)	3	(319)
Regulatory adjustments	(109)	(8)	(101)	(352)	(33)	(319)
Profit (loss) for the period	1	(4)	5	36	36	-

Revenue

Revenue for the three months ended December 31, 2022 was comparable to the same period in 2021. Revenue for the year ended December 31, 2022 was \$680 million, an increase of \$126 million compared to the same period in 2021. The increase for the year was due to favourable adjustments from regulatory mechanisms, sales of energy for export, higher utility customer energy sales volume, higher transmission tariff revenue and an increase in Greenhouse Gas Performance Credit sales. The impacts of regulatory mechanisms are offset in the regulatory adjustments line.

MANAGEMENT DISCUSSION & ANALYSIS

Regulated energy sales and supply are summarized below:

For the periods ended December 31 (GWh)	Three months ended		Twelve months ended	
	2022	2021	2022	2021
Customer:				
Newfoundland Power	1,489	1,509	5,509	5,433
Rural	322	316	1,191	1,117
Industrial	86	98	387	422
	1,897	1,923	7,087	6,972
Generation:				
Hydraulic generation ¹	1,205	1,219	4,644	4,495
Holyrood generation	237	181	746	711
Standby generation ²	(2)	15	(5)	17
Thermal diesel generation	12	11	48	45
Purchases:				
Domestic ³	469	472	1,820	1,735
Off-Island ⁴	68	120	188	346
Gross generation	1,989	2,018	7,441	7,349
Losses	92	95	354	377
Net generation	1,897	1,923	7,087	6,972

¹ Includes NL 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 December 31, 2022 were \$285 million, an increase of \$102 million compared to the same period in 2021. Expenses for the year ended December 31, 2022 were \$996 million, an increase of \$445 million compared to the same period in 2021. The increase for the quarter and year was primarily related to power purchases from Muskrat Falls that began in the second half of 2021, higher price of No. 6 fuel used at the HTGS and an increased loss on asset disposals. Certain variances in power purchased, fuel and asset disposals are offset through regulatory mechanisms in the regulatory adjustments line.

Regulatory adjustments

Regulatory recoveries for the three months ended December 31, 2022 were \$109 million, an increase of \$101 million compared to the same period in 2021. The increase for the quarter was primarily due to variations in regulatory mechanisms largely driven by costs associated with Muskrat Falls, favourable variations in supply costs and asset disposal deferrals. Regulatory recoveries for the year ended December 31, 2022 were \$352 million, an increase of \$319 million compared to the same period in 2021. The increase for the year was primarily due to variations in supply costs and regulatory mechanisms driven by costs associated with Muskrat Falls.

MUSKRAT FALLS

Muskrat Falls includes the operation of the 824 MW hydroelectric generating facility in Labrador on the Lower Churchill River. The Muskrat Falls Generating Station was completed in Q4 2021 and the assets are now generating energy and providing capacity. 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.

MANAGEMENT DISCUSSION & ANALYSIS

Financial Highlights

<i>For the periods ended December 31 (millions of Canadian dollars)</i>	Three months ended			Twelve months ended		
	2022	2021	Variance	2022	2021	Variance
Revenue	105	48	57	416	59	357
Expenses	66	49	17	282	166	116
Profit (loss) for the period	39	(1)	40	134	(107)	241

Revenue

Revenue for the three months ended December 31, 2022 was \$105 million, an increase of \$57 million compared to the same period in 2021. Revenue for the year ended December 31, 2022 was \$416 million, an increase of \$357 million compared to the same period in 2021. The increase for the quarter and year relates to the sale of energy and capacity to Hydro Regulated, which commenced in the second half of 2021.

Expenses

Expenses for the three months ended December 31, 2022 were \$66 million, an increase of \$17 million compared to the same period in 2021. Expenses for the year ended December 31, 2022 were \$282 million, an increase of \$116 million compared to the same period in 2021. The increase for the quarter and year is a result of completion of the assets in 2021. The increase for the year was partially offset by lower transmission expense due to a decrease in cost associated with Muskrat Falls' use of the LTA interconnection services.

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 remain under construction, 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.

Financial Highlights

<i>For the periods ended December 31 (millions of Canadian dollars)</i>	Three months ended			Twelve months ended		
	2022	2021	Variance	2022	2021	Variance
Revenue	30	28	2	110	135	(25)
Expenses	5	9	(4)	27	33	(6)
Profit for the period	25	19	6	83	102	(19)

Revenue

Revenue for the three months ended December 31, 2022 was comparable to the same period in 2021. Revenue for the year ended December 31, 2022 was \$110 million, a decrease of \$25 million compared to the same period in 2021. The decrease for the year was due to lower revenue from Muskrat Falls as a result of rate mitigation, which reduced the price charged for LTA interconnection services.

Expenses

Expenses for the three months and year ended December 31, 2022 were comparable to the same periods in 2021.

MANAGEMENT DISCUSSION & ANALYSIS

CHURCHILL FALLS

The Churchill Falls operating segment 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

<i>For the periods ended December 31 (millions of Canadian dollars)</i>	Three months ended			Twelve months ended		
	2022	2021	Variance	2022	2021	Variance
Revenue	27	30	(3)	119	115	4
Expenses	15	19	(4)	62	63	(1)
Profit for the period	12	11	1	57	52	5

Results of Churchill Falls for the three months and year ended December 31, 2022 were comparable to the same periods in 2021.

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

<i>For the periods ended December 31 (millions of Canadian dollars)</i>	Three months ended			Twelve months ended		
	2022	2021	Variance	2022	2021	Variance
Revenue	31	18	13	128	57	71
Expenses	18	6	12	56	31	25
Profit for the period	13	12	1	72	26	46

Revenue

Revenue for the three months ended December 31, 2022 was \$31 million, an increase of \$13 million compared to the same period in 2021. Revenue for the year ended December 31, 2022 was \$128 million, an increase of \$71 million compared to the same period in 2021. The increase for the quarter and year was due to higher export electricity volumes. Also contributing to the variance for the year is higher export electricity prices.

Expenses

Expenses for the three months ended December 31, 2022 were \$18 million, an increase of \$12 million compared to the same period in 2021. Expenses for the year ended December 31, 2022 were \$56 million, an increase of \$25 million

MANAGEMENT DISCUSSION & ANALYSIS

compared to the same period in 2021. The increase for the quarter and year was due to higher price and volume of power purchases. Also contributing to the variance for the year is higher transmission rental costs.

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

<i>For the periods ended December 31 (millions of Canadian dollars)</i>	Three months ended			Twelve months ended		
	2022	2021	Variance	2022	2021	Variance
Revenue	44	21	23	142	65	77
Expenses	31	30	1	120	74	46
Profit for the period	13	(9)	22	22	(9)	31

Revenue

Revenue for the three months ended December 31, 2022 was \$44 million, an increase of \$23 million compared to the same period in 2021. Revenue for the year ended December 31, 2022 was \$142 million, an increase of \$77 million compared to the same period in 2021. The increase for the quarter and year was due to an increase in non-cash revenue associated with the delivery of the NS Block to Emera, which commenced in the second half of 2021. Also contributing to the variance for the year is an increase in sales price and volume to unregulated customers in Labrador West.

Expenses

Expenses for the three months ended December 31, 2022 are comparable to the same period in 2021. Expenses for the year ended December 31, 2022 were \$120 million, an increase of \$46 million compared to the same period in 2021. The increase for the year relates to higher depreciation and non-cash operating costs associated with the Maritime Link along with costs associated with the delivery of the NS Block. Also contributing to the variance for the year is a higher volume of power purchases to service unregulated customers in Labrador West.

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

MANAGEMENT DISCUSSION & ANALYSIS

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

<i>For the periods ended December 31 (millions of Canadian dollars)</i>	Three months ended			Twelve months ended		
	2022	2021	Variance	2022	2021	Variance
Revenue	75	56	19	359	260	99
Expenses	134	43	91	166	269	(103)
(Loss) profit for the period	(59)	13	(72)	193	(9)	202

Non-GAAP Operating Profit (Loss) Disclosure

Reconciliation of Oil and Gas profit (loss) to operating profit (loss) for the three months and year ended December 31, 2022 and 2021 is as follows:

<i>For the periods ended December 31 (millions of Canadian dollars)</i>	Three months ended			Twelve months ended		
	2022	2021	Variance	2022	2021	Variance
Loss (profit) for the period	(59)	13	(72)	193	(9)	202
Impairment (reversal of impairment)	100	-	100	(18)	-	(18)
Operating profit (loss) for the period	41	13	28	175	(9)	184

Revenue

Revenue for the three months ended December 31, 2022 was \$75 million, an increase of \$19 million compared to the same period in 2021. The increase for the quarter was due to higher oil sales volume, favourable foreign exchange and an increase in average Dated Brent price per barrel. Revenue for the year ended December 31, 2022 was \$359 million, an increase of \$99 million compared to the same period in 2021. The increase for the year was due to an increase in average Dated Brent price per barrel and favourable foreign exchange, partially offset by a decrease in oil sales volume largely as a result of HSE Redetermination.

Expenses

Expenses for the three months ended December 31, 2022 were \$134 million, an increase of \$91 million compared to the same period in 2021. The increase for the quarter was primarily due to impairment of \$100 million recorded during the period and higher depletion, partially offset by variances in the settlement of commodity price swap contracts and lower operating costs due to an allowance recorded in 2021 related to amounts owing from affiliates. Expenses for the year ended December 31, 2022 were \$166 million, a decrease of \$103 million compared to the same period in 2021. The decrease for the year was primarily due to the impact of HSE Redetermination in 2021, the net reversal of impairment recognized in 2022, and a decrease in operating costs, partially offset by an increase in depletion and variances in the settlement of commodity price swap and foreign exchange forward contracts.

MANAGEMENT DISCUSSION & ANALYSIS

Reserves

Oil and Gas contracts independent reserve evaluators to prepare reports on remaining oil reserves related to its working interest in offshore developments. Gross reserves represent Oil and Gas' working interest in remaining reserves, while net reserves represent remaining reserves less royalties. Remaining reserve data for both proved and probable reserves to be recovered as at December 31, 2022 with 2021 comparatives are summarized in the table below:

As at December 31 (Mbbbls)	2022		2021	
	Light and Medium Oil		Light and Medium Oil	
	Gross	Net	Gross	Net
Developed ¹	14,394	11,590	13,318	11,522
Undeveloped ²	3,840	3,840	4,160	3,700
Total Proved ³	18,234	14,841	17,478	15,222
Probable ⁴	19,626	14,910	20,956	16,951
Total Proved Plus Probable	37,860	29,751	38,434	32,173

¹Barrels that are expected to be produced from existing wells and installed facilities.

²Barrels that are expected to be produced from known accumulations of oil, requiring additional wells or infrastructure in order to extract.

³Barrels that can be estimated with a high degree of certainty to be recoverable.

⁴Barrels that are less certain to be recovered than proved reserves.

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 and depreciation and amortization of assets.

Financial Highlights

For the periods ended December 31 (millions of Canadian dollars)	Three months ended			Twelve months ended		
	2022	2021	Variance	2022	2021	Variance
Revenue	-	-	-	-	1	(1)
Expenses	6	4	2	14	13	1
Loss for the period	(6)	(4)	(2)	(14)	(12)	(2)

Results of Corporate for the three months and year ended December 31, 2022 were comparable to the same periods in 2021.

LIQUIDITY AND CAPITAL RESOURCES

CASH FLOW HIGHLIGHTS

For the period ended December 31 (millions of Canadian dollars)	Twelve months ended		
	2022	2021	Variance
Cash and cash equivalents, beginning of the year	407	329	78
Net cash provided from operating activities	348	102	246
Net cash used in investing activities	(737)	(338)	(399)
Net cash provided from financing activities	548	314	234
Cash and cash equivalents, end of the year	566	407	159

MANAGEMENT DISCUSSION & ANALYSIS

Operating Activities

Net cash provided from operating activities during the year ended December 31, 2022 was \$348 million, an increase of \$246 million compared to the same period in 2021. The increase in cash was primarily due to cash generated from operations as a result of increased realized oil price and higher realized electricity export price and sales volume, partially offset by lower oil sales volumes and higher operating expenditures in Muskrat Falls as a result of commissioning in Q4 2021. Also contributing to the increase is favourable changes from non-cash working capital balances.

Investing Activities

Net cash used in investing activities during the year ended December 31, 2022 was \$737 million, an increase of \$399 million compared to the same period in 2021. The increase was driven by investment of a portion of the debt proceeds of the third federal loan guarantee which was received during 2022, unfavourable changes from non-cash working capital balances and lower proceeds on disposal of property, plant and equipment, partially offset by a decrease in capital expenditures resulting from the wind down of construction of the LCP.

Financing Activities

Net cash provided from financing activities during the year ended December 31, 2022 was \$548 million, an increase of \$234 million compared to the same period in 2021. The increase was due to an increase in proceeds from long-term debt issuances and variations in promissory note balances, partially offset by changes in restricted cash and a decrease in shareholder contributions received. A portion of the proceeds of long-term debt of \$1 billion related to the third federal loan guarantee is included in restricted cash with the remaining balance in investments, as noted above.

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.

As a result of a revised timeline for completion of the LIL, carrying costs associated with project financing incurred during 2022 have increased the total forecasted cost of the LCP by \$256 million. This increase in cost did not require any additional equity funding from the Province and was covered through internal sources of funding. Any additional cost increases resulting from more recent updates to the LIL schedule are anticipated to be covered by internal sources of funding.

The Company's ability to sufficiently fund future capital resource requirements is largely impacted by the finalization of the Province's rate mitigation plan. On February 14, 2022, the Province, Hydro, and the Government of Canada signed term sheets with respect to the \$2 billion financial restructuring of the LCP outlined in the agreement in principle between the Government of Canada and the Province. The financial restructuring includes a \$1 billion investment in the LIL and a third federal loan guarantee of \$1 billion in relation to the Muskrat Falls and LTA. On March 31, 2022, the \$1 billion federal loan guarantee financing was secured by Hydro and the funds have been received. Final agreements associated with the investment by the Government of Canada in the LIL have been completed, however, the ability to utilize this funding along with the \$1 billion financing is limited until commissioning of the LIL assets. In the short-term, Hydro will utilize its available short-term borrowing capacity, cash on hand and cash from operations to assist with capital resource requirements and will continue to work with the Province on the remaining component of rate mitigation.

MANAGEMENT DISCUSSION & ANALYSIS

Hydro Regulated addresses longer-term capital funding through a process whereby the Province issues debt specifically on Hydro Regulated's behalf and lends the proceeds to Hydro Regulated on a cost recovery basis. Short-term and long-term borrowings are restricted by legislation that currently limits Hydro Regulated's short-term borrowings to \$500 million and total borrowings to \$2.6 billion. Hydro Regulated's short-term borrowing limit decreases to \$300 million effective March 31, 2023 and Hydro continues to engage with the Province concerning its short-term borrowing limit.

Churchill Falls has access to a reserve fund which, when fully funded, totals \$75 million and can be used to fund capital expenditures relating to Churchill Falls' existing facilities and their replacement, subject to the terms and conditions established in the Shareholder's Agreement. As at December 31, 2022, the reserve fund balance was \$75 million (December 31, 2021 - \$66 million). The Company has recorded its 65.8% proportionate share of the amount invested of \$49 million (December 31, 2021 - \$43 million).

Outstanding commitments for the Company's capital projects, excluding those related to Oil and Gas, total approximately \$95 million as at December 31, 2022 (December 31, 2021 - \$86 million). Hydro has the available capital resources to sufficiently fund these requirements.

As at December 31, 2022, the Company's short-term credit facilities are as follows:

<i>(millions of Canadian dollars)</i>	Limit	Drawn	Letters of Credit Issued	Available Limit
Revolving Term Facilities:				
Nalcor Energy ¹	250	-	6	244
Hydro Regulated ¹	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	131	-	169
Total credit facilities	1,110	131	33	946

¹On July 25, 2022, the maturity dates of these credit facilities were extended from July 31, 2022 to July 31, 2023.

CAPITAL STRUCTURE

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

<i>As at December 31 (millions of Canadian dollars)</i>	2022	2021
Short-term borrowings	131	55
Long-term debt (net of sinking funds) ¹	10,588	9,668
Class B limited partnership units ²	739	681
Lease liabilities ¹	5	5
Total debt	11,463	10,409
Total shareholder's equity	7,150	6,508
Debt to capital	62%	62%

¹Includes current portion.

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

MANAGEMENT DISCUSSION & ANALYSIS

CAPITAL EXPENDITURES

<i>For the periods ended December 31 (millions of Canadian dollars)</i>	Three months ended			Twelve months ended		
	2022	2021	Variance	2022	2021	Variance
Hydro Regulated	37	37	-	104	115	(11)
Muskrat Falls	(2)	76	(78)	28	307	(279)
LCP Transmission	50	56	(6)	214	244	(30)
Churchill Falls	31	10	21	69	48	21
Other Electric	2	2	-	10	(7)	17
Oil and Gas	8	4	4	31	24	7
Corporate	1	2	(1)	3	4	(1)
Inter-Segment	(3)	-	(3)	(3)	(3)	-
Total capital expenditures	124	187	(63)	456	732	(276)

The breakdown of capital expenditures incurred related to the LCP for the quarter and year are as follows:

<i>For the periods ended December 31 (millions of Canadian dollars)</i>	Three months ended		Twelve months ended		Total to Date ¹
	2022	2021	2022	2021	
Muskrat Falls	(4)	55	26	176	5,569
Labrador Transmission Assets	-	-	-	1	867
Labrador-Island Link	3	7	20	37	3,676
Facilities capital costs	(1)	62	46	214	10,112
Capitalized interest and financing costs	28	51	109	243	1,854
Class B Limited Partnership Unit Interest	15	14	58	53	330
Transition to Operations	6	5	29	41	171
Total capital expenditures	48	132	242	551	12,467

¹Total to date excludes \$386 million of allowance for funds used during construction on Nalcor's Class A limited partnership units in the LIL LP that are eliminated on consolidation.

Capital expenditures for the three months ended December 31, 2022 were \$124 million, a decrease of \$63 million compared to the same period in 2021. Capital expenditures for the year ended December 31, 2022 were \$456 million, a decrease of \$276 million compared to the same period in 2021. The decrease for the quarter and year was primarily due to wind down of construction of the LCP.

KEY BUSINESS RISKS

Top risks are managed through Hydro's Enterprise Risk Framework. Hydro's Enterprise Risk Framework employs semi-annual Risk Working Groups and Management Risk Committees that identify and assess top risks and develop and apply mitigations to reduce residual risks to an acceptable level. These top risks are reported semi-annually to the Governance Committee of the Board of Directors.

The following information describes the top risks inherent to the Company's activities. This section does not describe all applicable risks and is intended to be a summary of risks that could materially affect the business, results of operations and financial position or cash flows. Other risks may arise or risks not currently considered material may become material in the future.

STRATEGIC RISKS

Sustainability of Future Electricity Rates

Since the LCP was sanctioned the cost of construction and schedules for commissioning of its components have changed. Additionally, load forecasts and required supply assumptions have decreased from levels forecasted in 2012 and as a

MANAGEMENT DISCUSSION & ANALYSIS

result, projected electricity rates have increased from initial estimates. The requirement for additional investments in generation and the further extension of the HTGS as a generating facility (as indicated in Hydro's RRA Study) plus the changing energy landscape to deal with de-carbonization will also put pressure on electricity rates. Hydro will need to closely manage integration costs and electricity rates all while meeting a least-cost mandate.

Without mitigation, rates would increase to an unsustainable level. On February 14, 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 and capital restructuring of Muskrat Falls and Labrador Transco, and for a \$1 billion investment by the Government of Canada in the LIL. The ability to use this funding is limited until commissioning of the LIL assets. The Government of Newfoundland and Labrador has committed to further mitigating rate increases that result from the LCP.

The Company is working closely with the Province to identify a path forward for implementation of rate mitigation funding in the short-term and long-term. As further decisions are made with respect to rate mitigation, management will continue to assess the impact on Hydro's financial results. The structure and timing of final decisions on rate mitigation may have an adverse effect on the results of operations and financial position or cash flows of the Company.

Completion of the Lower Churchill Project

With any large construction project, there are a number of uncertainties that exist relating to execution. Muskrat Falls and the LTA have been commissioned and the LIL is operating on a limited basis to deliver energy to the Island and to Emera. The Company continues to work closely with contractors to find solutions to any tactical execution risks that remain prior to full commissioning of the LIL.

LCP assets are insured under a Construction All-Risk 24 month Completed Operations Coverage insurance policy that provides coverage for any construction losses/risks for 24 months after the entity moves over to the Corporate Insurance Program. This coverage lapses on December 1, 2023 for Muskrat Falls and the LTA and on October 1, 2024 for the LIL.

There may be a period during which system performance and reliability are impacted by ongoing corrective work on new assets in operation and service disruptions may occur before full system stability is achieved. In addition, no assurance can be given that the insurance program will be adequate to fully cover any, and all, damages or liabilities. These factors along with any increases in cost and schedule delays may have an adverse effect on the results of operations and financial position or cash flows of the Company.

Adaptation to Climate Change

The uncertainty surrounding the exact future effects of climate change globally and locally creates risk for the organization. The inadequate preparation for long-term effects of climate change, such as sea-level rise or changing hydrological cycle, or shorter term effects such as more frequent and severe weather events, could potentially expose the organization to safety, environmental and reliability risks through major impacts to our assets and infrastructure.

A 'Climate Change Mitigation and Adaptation' group monitors the research available and the potential impacts to our assets. This group will continually look to identify proactive investments or measures in improving infrastructure resiliency, emergency planning and response and electrification initiatives. Impacts to our assets and infrastructure associated with climate change may result in material impact on the results of operations and financial position or cash flows of the Company.

Changing Energy Landscape

Hydro's customers' expectations are evolving and the energy landscape is changing as the global shift away from fossil fuels continues, the demand for clean and renewable energy grows and electrification advances. The evolution in the energy landscape presents Hydro with an opportunity to further advance environmental and sustainability initiatives while meeting climate goals. There is also risk involved in this changing landscape as Hydro will need to closely manage integration costs and electricity rates all while meeting a least-cost mandate. There will also be challenges in managing the timelines for new network capacity additions as well as managing multiple stakeholders.

MANAGEMENT DISCUSSION & ANALYSIS

Hydro's corporate strategic plan is helping to guide and prioritize decision making. Hydro continues to work closely with the provincial government on developing policies relating to new customers and load growth. Hydro also continues to work closely with government on initiatives such as rate mitigation, the RRA Study and the Renewable Energy Plan.

Although Hydro is working to mitigate any risks associated with the changing energy landscape in the province, certain long-term risk factors may result in a material impact on the results of operations and financial position or cash flows of the Company.

Regulatory Risk

Hydro Regulated is subject to the normal uncertainties facing entities that operate under cost of service rate regulation, including approvals of regulatory applications and customer rates by the PUB. Hydro Regulated is entitled to recover prudently incurred costs of providing electrical service, including a fair rate of return. Hydro Regulated's capital budget is approved by the PUB in advance of executing its capital program; however, there is a delay in recovering the associated costs until the capital investments are reflected in rates resulting from a GRA.

There is no assurance that Hydro Regulated will receive approval of regulatory applications for deferral or recovery of costs from customers in advance of incurring those costs. There is also no assurance that rate orders issued by the PUB will result in Hydro Regulated recovering all costs incurred in providing electricity service.

Contractual payment obligations associated with the Muskrat Falls assets have commenced for Hydro Regulated and these contractual obligations will grow upon commercial commissioning of the LIL. While regulatory deferral accounts have been approved related to these costs, regulatory processes and outcomes may be impacted by the implementation of rate mitigation funding, as well as any further changes to LIL cost or schedule.

Hydro Regulated's RRA Study addresses its long-term approach to providing least-cost, reliable service for its customers and focuses on Hydro's proposed planning criteria, reflecting the inclusion of the LCP assets, and ability to meet customer and system requirements reliably over a ten-year planning period from 2020 to 2029. The RRA Study is under review by the PUB and includes a risk assessment of potential outages of the LCP assets to determine system investments required to mitigate these risks.

Hydro Regulated works to provide timely, complete and justified filings and adopts a collaborative approach to regulatory matters including technical conferences and settlement negotiations, where appropriate. Management is also focused on ensuring that operational plans are achieved and Hydro Regulated complies with its regulatory obligations.

The uncertainties inherent to the regulatory process governing the operation of Hydro Regulated, including the timing of decisions regarding customer rates and rate mitigation may result in volatility and material impacts on the timing of its capital program, results of operations and financial position or cash flows of the Company.

Financial Risks

Commodity Price and Foreign Exchange

Commodity price risk arises wherever a change in the market price for a particular commodity would cause a corresponding change to expected profit, cash flow and/or the fair value of assets or liabilities. Foreign exchange rate risk arises when a financial transaction is denominated in a currency other than the Company's base currency, the Canadian dollar. The Company's primary exposure to commodity price and foreign exchange risk is through the sale of crude oil, electricity exports and the purchase of No. 6 fuel for Hydro Regulated's generation facilities, all of which are transacted in USD.

The market price for electricity exports is impacted by a number of factors including emerging technologies, seasonality and changes in weather patterns and fluctuations in demand. The market price for oil is also impacted by a number of factors such as supply and demand, geopolitical events, and severe weather.

MANAGEMENT DISCUSSION & ANALYSIS

Hydro Regulated's exposure to commodity price and foreign exchange fluctuations is mitigated by regulatory mechanisms that transfer the impact of commodity price risk and foreign exchange to customers. While regulatory mechanisms mitigate the impact of commodity price and foreign exchange volatility on profit, risk remains on the timing of cash flows, which is managed by ensuring sufficient short-term liquidity is available to address capital requirements. Once LCP is operating at full capacity, usage of No. 6 fuel is expected to be materially reduced.

Fluctuations in commodity prices and foreign exchange rates could have an adverse effect on the results of operations and financial position or cash flows of the Company.

Liquidity

Liquidity risk is the risk that Hydro will not be able to meet its financial obligations as they become due. The Company is exposed to liquidity risk with respect to its short-term contractual obligations and financial liabilities. Short-term liquidity is provided by cash and cash equivalents, funds from operations and maintenance of borrowing facilities sufficient to cover both anticipated and unexpected fluctuations within operations. Cash flows are monitored continuously and the Company maintains a committed revolving term credit facility with its bank to ensure additional liquidity is available to each of its lines of business. In addition, Hydro Regulated maintains a term credit facility as well as a government guaranteed promissory note program. Demand operating credit facilities are maintained for Oil and Gas, Churchill Falls and Energy Trading.

Hydro Regulated addresses longer-term capital funding through a process whereby the Province issues debt specifically on Hydro Regulated's behalf and lends the proceeds to Hydro Regulated on a cost recovery basis. The funding obligations associated with a portion of Hydro Regulated's long-term debt are managed through a sinking fund investment program.

Short-term and long-term borrowings are restricted by legislation that currently limits Hydro Regulated's short-term borrowings to \$500 million and total borrowings to \$2.6 billion. Hydro Regulated's short-term borrowing limit decreases to \$300 million effective March 31, 2023 and the Company continues to engage with the Province concerning its short-term borrowing limit. Nalcor's borrowings are also limited to \$600 million, however, this excludes Hydro Regulated's borrowings and any debt associated with the LCP.

Continued long-term liquidity depends on access to capital markets through the Province and on the Province's ability to provide loans or equity contributions, if required. Diminished liquidity may result in constraints on executing capital plans and carrying out planned investments and cash flow shortages could adversely affect the Company's ability to operate.

Operational Risks

Health & Safety

Hydro's operations have material inherent safety risks and regulatory and legislative requirements, in particular with respect to the provincial Occupational Health and Safety Act and Regulations, which have potential associated fines and penalties for non-compliance. Notably within utility operations, this includes risks related to working around energized equipment and operating dams and dykes. There are additional unique hazards associated with certain facilities such as the underground powerhouse at Churchill Falls, the thermal generating station at Holyrood and worksites related to various capital projects for Hydro Regulated, Churchill Falls, Muskrat Falls and LCP Transmission. These facilities carry risks relating to working from heights and management of contractors onsite. Based on the industry and the nature of work performed, there are many hazards and risks that could result in workplace incidents that could cause serious injury or death to employees, contractors or members of the public.

The Company has implemented a safety management system that is based on ISO 45001 Occupational Health and Safety. Unsafe work conditions can lead to workplace incidents and disruption of the business, which could have an adverse effect on the results of operations and financial position or cash flows of the Company.

MANAGEMENT DISCUSSION & ANALYSIS

Human Resource Management

The future success of Hydro is linked to delivering on our corporate priorities through employees who are engaged and invested in our organization. The ability to attract and retain sufficient qualified staff to replace those seeking other opportunities or retiring is a key risk. Attrition, including retirements and voluntary turnover, was a key focus following the announcement of organizational and Executive changes in 2021 and 2022, and continues to be monitored. Hydro will utilize attrition opportunities to find efficiencies and reduce operating costs. However, Hydro must also manage the pace and extent of change to ensure that it is able to provide safe, cost-conscious, reliable electricity while harnessing sustainable energy opportunities to benefit the people of Newfoundland and Labrador. This is dependent on attracting and retaining qualified union and non-union staff. Hydro is managing its overall workforce cognizant of the balance of labour cost reduction with prudent utility oversight and management.

Recruitment and retention is being monitored closely across the organization. An increase in the availability of remote work in many industries is still a concern with respect to retention. Hydro introduced its own Remote Work Policy in 2021 to assist in addressing this risk.

Inability to attract and retain qualified trade and technical staff could have an adverse effect on the results of operations and financial position or cash flows of the Company.

Cyber Security Risk

The Company develops, maintains and manages complex Information Technology (IT) systems and Operational Technology (OT) systems that operate transmission and generation facilities and support critical financial and other business processes. Key systems are subject to the risk of unauthorized access, including cyber security threats, which may result in loss of confidential and critical data, processing capability due to hardware and/or software failure, or communication across the wide area network. The loss of confidentiality, integrity, or availability could reasonably be expected to have an adverse impact on organizational operations, assets or individuals, including: financial losses, impacted service levels, reputational damage, physical or psychological distress or trauma, legal action, delays in issuing accurate internal or external reporting, including financial reports and information required to maintain contractual and regulatory compliance or delays in issuing vendor payments, processing payroll, or providing customer billings.

There are unique risks relating to the industrial control systems and other OT that controls the electricity grid and certain physical assets. Disruptions in service for any reason could result in the loss of control of physical assets where critical industrial control systems that generate, monitor, maintain and transmit power to the power grid are affected. This may result in additional impacts such as unplanned power outages and damage to physical assets. It could create unsafe working conditions in plants that cannot be safely controlled or shutdown, which could result in loss of life.

External threats are mitigated with firewalls, anti-malware tools and detection and intrusion prevention appliances. Internet access is controlled and risk is managed by a web-filtering device where devices are connected. Hydro maintains a disaster recovery plan that details recovery procedures and processes, and is updated and tested on a periodic basis.

A serious incident involving access to critical systems or the loss of corporate data could result in an adverse effect on the results of operations and financial position or cash flows of the Company.

Supply Chain

Supply chain globally has been impacted by lack of raw materials, work force capacity, logistical issues, rising costs and longer shipping and delivery times. Hydro is communicating with suppliers and sharing information with the business as the global supply chains in 2022 remained unpredictable and are expected to remain that way for some time. As manufacturers, freight transportation companies and supply chain processes continue to change in response to competing demands; the effect on global supply chains will remain unpredictable.

Hydro has taken a number of mitigating measures and is adjusting to the new realities of global supply chain challenges. Hydro's Supply Chain department is proactively engaging suppliers on delays and working with operational areas to enable effective and timely execution of projects.

MANAGEMENT DISCUSSION & ANALYSIS

Geo-political and macroeconomic events may continue to impact supply chains and could have an adverse effect on the results of operations and financial position or cash flows of the Company.

Asset Condition & Maintenance

Hydro's operations are subject to normal risks inherent to operating generation and transmission assets. As assets approach the end of their service lives they become more costly to maintain and less reliable. Hydro maintains asset plans as well as integrated annual work plans that consolidate and monitor the activities within operating, capital, winter readiness and preventative and corrective maintenance programs. Utility assets are maintained and replaced in a manner that accounts for the age of the infrastructure and for the extreme weather conditions that are inherent to our climate.

The Company maintains a comprehensive corporate insurance program, typical for companies operating in similar industries. Insurance is subject to coverage limits and exclusions, as well as, time-sensitive claims discovery and reporting provisions, and may not be available for all of the risks and hazards to which the Company is exposed. In addition, no assurance can be given that insurance will adequately cover all of the Company's liabilities or will be generally available in the future, or if available, that premiums will be commercially justifiable.

The occurrence of significant unforeseen equipment failures could have a material adverse effect on customer reliability, contractual commitments, results of operations and financial position or cash flows of the Company.

SIGNIFICANT ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

The Company's significant accounting policies are described in Note 2 of the financial statements.

CURRENT AND FUTURE CHANGES IN ACCOUNTING POLICIES

Amendments to IFRS that are applicable to and have been adopted by the Company in 2022 include IAS 37 – *Onerous Contracts* – Costs of fulfilling a contract.

The following amendments to existing standards have been issued, however, are not yet effective for the year ended December 31, 2022, and have not been applied in preparing the financial statements:

- Amendments to IAS 1 *Presentation of Financial Statements* – Disclosure of Accounting Policies
- Amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* – Definition of Accounting Estimates
- Amendments to IAS 1 *Presentation of Financial Statements* – Classification of Liabilities as Current or Non-Current

Further information on the impact of current and future changes in accounting policies is disclosed in Note 4 to the financial statements.

SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

Preparing the financial statements in accordance with IFRS requires management to make significant accounting judgments and estimates that impact reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting periods. Significant accounting judgments and estimates are based on historical experience, current conditions and various other assumptions believed to be reasonable under the circumstances. Due to changes in facts and circumstances, and the inherent uncertainty involved in making estimates, actual results may differ materially from current estimates. The estimates used are reviewed on an on-going basis by Management and, as adjustments become

MANAGEMENT DISCUSSION & ANALYSIS

necessary, are recognized in profit or loss in the period in which they become known. A summary of the Company's critical accounting judgments and estimates are described in Note 3 of the financial statements.

RELATED PARTY TRANSACTIONS

The Company enters into various transactions with its shareholder and other related parties. Refer to Note 31 of the 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. Hydro has developed a three-year strategic plan based on how best to serve the needs of our employees, customers, partners and stakeholders. The strategy is defined by three overarching themes – Serving Our Province, Working Together, and Enabling Sustainable Growth. It includes objectives that support 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.

Hydro is focused on the commissioning of the LIL assets and is working closely with GE to advance the software required to operate the LIL, with additional tests planned over the coming months. These tests, if successful, will allow Hydro 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 and capital restructuring for LCP refinancing 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. The timing of Hydro Regulated's next GRA is dependent on certainty related to the commissioning of the LIL and the finalization of the Province's rate mitigation plan. 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.

Discussions and stakeholder consultation with respect to Hydro Regulated's RRA Update will continue into 2023. Hydro has recommended a phased approach to required generation expansion and will continue to progress the necessary regulatory processes in the coming year.

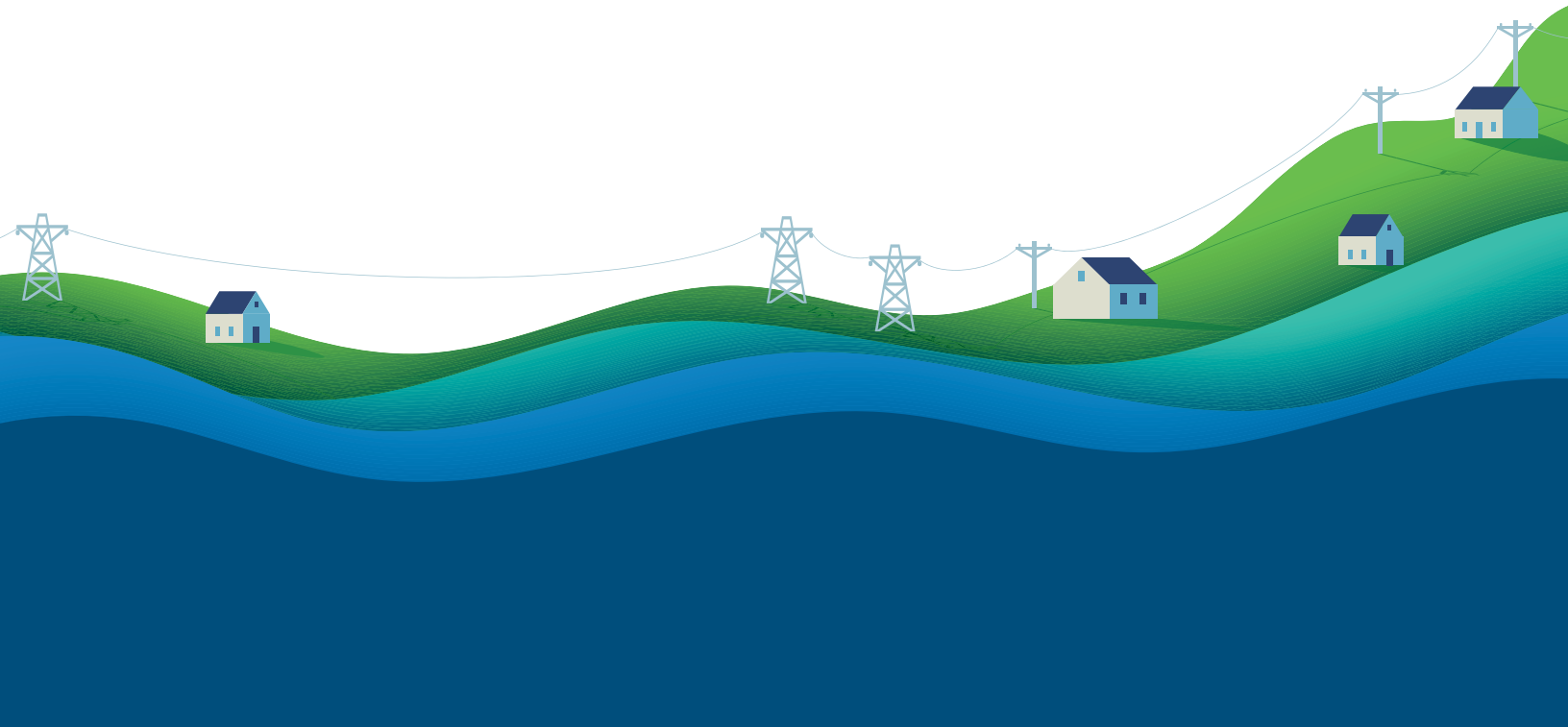
Throughout the year, Hydro supported the Province's 2041 Churchill River Management Expert Panel and its mandate, providing information and analysis where required. The Panel provided its report to the Province in February 2023. Hydro will continue to work with and support the Provincial Government, to ensure Newfoundland and Labrador is best positioned to maximize long-term benefits from the Churchill Falls assets for the people of the province.

MANAGEMENT DISCUSSION & ANALYSIS

2023 will bring key changes within the business as we continue to integrate all of the LCP assets into the provincial electricity system. In addition, 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 2

CONSOLIDATED FINANCIAL STATEMENTS – DECEMBER 31, 2022



NALCOR ENERGY
CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022

Independent Auditor's Report

To the Lieutenant-Governor in Council,
Province of Newfoundland and Labrador

Opinion

We have audited the consolidated financial statements of Nalcor Energy (the "Company"), which comprise the consolidated statement of financial position as at December 31, 2022, and the consolidated statements of profit and comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Deloitte LLP

Chartered Professional Accountants
March 21, 2023

NALCOR ENERGY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

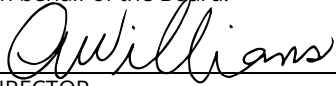
As at December 31 (millions of Canadian dollars)

	Notes	2022	2021
ASSETS			
Current assets			
Cash and cash equivalents	5	566	407
Restricted cash		1,307	813
Short-term investments	11	61	8
Trade and other receivables	6	187	177
Inventories	7	132	115
Other current assets	8	30	24
Total current assets		2,283	1,544
Non-current assets			
Property, plant and equipment	9	17,921	17,739
Intangible assets	10	35	38
Investments	11	507	262
Other long-term assets		5	7
Total assets		20,751	19,590
Regulatory deferrals	12	540	184
Total assets and regulatory deferrals		21,291	19,774
LIABILITIES AND EQUITY			
Current liabilities			
Short-term borrowings	15	131	55
Trade and other payables	13	301	384
Current portion of long-term debt	15	69	68
Current portion of deferred credits	17	130	2
Other current liabilities	14	88	72
Total current liabilities		719	581
Non-current liabilities			
Long-term debt	15	10,721	9,792
Class B limited partnership units	16	739	681
Deferred credits	17	1,654	1,809
Decommissioning liabilities	18	96	126
Employee future benefits	19	98	139
Other long-term liabilities	20	81	111
Total liabilities		14,108	13,239
Shareholder's equity			
Share capital	22	123	123
Shareholder contributions		4,859	4,859
Reserves		(19)	(81)
Retained earnings		2,187	1,607
Total equity		7,150	6,508
Total liabilities and equity		21,258	19,747
Regulatory deferrals	12	33	27
Total liabilities, equity and regulatory deferrals		21,291	19,774

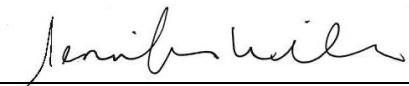
Commitments and contingencies (Note 32)

See accompanying notes

On behalf of the Board:



 DIRECTOR



 DIRECTOR

NALCOR ENERGY
CONSOLIDATED STATEMENT OF PROFIT AND COMPREHENSIVE INCOME

<i>For the year ended December 31 (millions of Canadian dollars)</i>	Notes	2022	2021
Energy sales	24	1,327	976
Other revenue	25	32	37
Revenue		1,359	1,013
Fuels		188	122
Power purchased		81	80
Operating costs	26	264	230
Production, marketing and transportation costs	27	30	31
Transmission rental		23	24
Depreciation, depletion, amortization and impairment		224	202
Net finance expense	28	225	127
Other expense	29	95	157
Expenses		1,130	973
Share of loss of joint arrangement		-	1
Profit for the year before regulatory adjustments		229	39
Regulatory adjustments	12	(351)	(33)
Profit for the year		580	72
Other comprehensive income			
Total items that may or have been reclassified to profit or loss:			
Actuarial gain on employee future benefits	19	48	21
Net fair value loss on reserve fund	11	(3)	(1)
Net fair value loss on cash flow hedges		(62)	(61)
Reclassification adjustments related to:			
Cash flow hedges recognized in profit or loss		79	58
Other comprehensive income for the year		62	17
Total comprehensive income for the year		642	89

See accompanying notes

NALCOR ENERGY
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

<i>(millions of Canadian dollars)</i>	Notes	Share Capital	Shareholder Contributions	Fair Value Reserve	Employee Benefit Reserve	Retained Earnings	Total
Balance at January 1, 2022		123	4,859	(69)	(12)	1,607	6,508
Profit for the year		-	-	-	-	580	580
Other comprehensive income		-	-	14	48	-	62
Total comprehensive income for the year		-	-	14	48	580	642
Balance at December 31, 2022		123	4,859	(55)	36	2,187	7,150
Balance at January 1, 2021		123	4,609	(65)	(33)	1,535	6,169
Profit for the year		-	-	-	-	72	72
Other comprehensive income		-	-	(4)	21	-	17
Total comprehensive income for the year		-	-	(4)	21	72	89
Shareholder contributions	31	-	250	-	-	-	250
Balance at December 31, 2021		123	4,859	(69)	(12)	1,607	6,508

See accompanying notes

NALCOR ENERGY

CONSOLIDATED STATEMENT OF CASH FLOWS

<i>For the year ended December 31 (millions of Canadian dollars)</i>	Notes	2022	2021
Operating activities			
Profit for the year		580	72
Adjustments to reconcile profit to cash provided from operating activities:			
Depreciation, depletion, amortization and impairment		224	202
Amortization of deferred credits	17	(77)	(11)
Hibernia South Extension (HSE) Redetermination re-balancing adjustment	29	(22)	89
Loss (gain) on disposal of property, plant and equipment	29	19	(24)
Amortization of rate stabilization plan fuel credit		-	33
Maritime Link operating costs		20	7
Regulatory adjustments	12	(351)	(33)
Finance income	28	(67)	(27)
Finance expense	28	292	154
Other		23	26
		641	488
Changes in non-cash working capital balances	33	59	(11)
Interest received		48	12
Interest paid		(400)	(387)
Net cash provided from operating activities		348	102
Investing activities			
Additions to property, plant and equipment and intangible assets	34	(271)	(452)
Proceeds on disposal of property, plant and equipment		-	40
(Increase) decrease in investments		(311)	76
Other		5	2
Changes in non-cash working capital balances	33	(160)	(4)
Net cash used in investing activities		(737)	(338)
Financing activities			
Proceeds from long-term debt	15	1,000	287
Repayment of long-term debt		(60)	(61)
(Increase) decrease in restricted cash		(494)	47
Increase in deferred credits		13	6
Increase (decrease) in short-term borrowings		76	(207)
Shareholder contributions		-	250
Other		13	(8)
Net cash provided from financing activities		548	314
Net increase in cash and cash equivalents		159	78
Cash and cash equivalents, beginning of the year		407	329
Cash and cash equivalents, end of the year		566	407

See accompanying notes

NALCOR ENERGY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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.

1.1 Subsidiaries

Nalcor holds interests in the following subsidiaries:

A 100% interest in Newfoundland and Labrador Hydro (Hydro), whose principal activity is the generation, transmission and sale of electricity. Hydro's operations include both regulated and non-regulated activities.

A 100% interest in Nalcor Energy – Oil and Gas Inc. (Oil and Gas), which has a mandate to engage in the upstream and downstream sectors of the oil and gas industry. Upstream includes exploration, development, and production activities, while downstream includes transportation and processing activities.

A 100% interest in Nalcor Energy Marketing Corporation (Energy Marketing), a subsidiary established to market Nalcor's energy throughout North America.

A 100% interest in Muskrat Falls Corporation (Muskrat Falls), created to develop, construct, finance and operate the Muskrat Falls plant, an 824 megawatt (MW) hydroelectric generating facility in Labrador.

A 100% interest in Labrador Transmission Corporation (Labrador Transco), created to develop, construct, finance and operate transmission assets connecting the Muskrat Falls plant to the existing hydroelectric generating facility in Churchill Falls.

A 100% interest in Labrador-Island Link General Partner Corporation (LIL GP) and Labrador-Island Link Holding Corporation (LIL Holdco), created to control, manage and hold Nalcor's interest in the Labrador-Island Link Limited Partnership (LIL LP or the Partnership).

A 100% interest in Labrador-Island Link Operating Corporation (LIL Opco), created to operate and maintain the Labrador-Island Link (LIL).

A 100% interest in Lower Churchill Management Corporation (LCMC), created to carry out the project development and management functions for Phase 1 of the Lower Churchill Project (LCP) including planning, engineering and design management, construction management, risk management, finance, procurement and supply chain management.

A limited partnership interest in the LIL LP, created to develop, construct and finance the assets and property constituting the LIL, a transmission link constructed between the Muskrat Falls plant and the Newfoundland and Labrador Island Interconnected System. LIL Holdco holds 100% of the Class A and Class C limited partnership units.

A 100% interest in Labrador-Island Link General Partner (2021) Corporation (LIL GP (2021)) and Labrador-Island Link Holding (2021) Corporation (LIL Holdco (2021)), created to control, manage and hold Nalcor's interest in the LIL (2021) Limited Partnership (the 2021 Partnership or LIL (2021) LP).

A limited partnership interest in the LIL (2021) LP. The 2021 partnership will hold the common shares of LIL Holdco and administer a Federal Government of Canada investment in the LIL that is a component of the Province's Rate Mitigation Plan.

NALCOR ENERGY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

A 100% interest in Gull Island Power Company Limited (GIPCo) and, through Hydro, a 51.0% interest in Lower Churchill Development Corporation Limited (LCDC), both of which are inactive.

1.2 Investment in Joint Arrangement

Nalcor holds a 65.8% beneficial interest (through Hydro) in Churchill Falls (Labrador) Corporation Limited (Churchill Falls), a joint operation that owns and operates a hydroelectric generating plant and related transmission facilities situated in Labrador with a rated capacity of 5,428 MW.

Nalcor holds a 100% beneficial interest (through Churchill Falls) in Twin Falls Power Corporation Limited (Twin Falls). On January 25, 2022, Churchill Falls purchased Wabush Resources Inc.'s 12.5% interest and Wabush Iron Co. Limited's 4.6% interest in Twin Falls for a purchase price of \$875 thousand, increasing its ownership share to 50.4%. On November 1, 2022, Churchill Falls purchased Iron Ore Company of Canada (IOC)'s 49.6% interest in Twin Falls for a nominal amount and provided an indemnity to IOC for any contingent environmental liabilities associated with Twin Falls. The purchase of the IOC shares increased Churchill Falls' ownership to 100.0%.

Given Twin Falls has no assets, other than cash, that would be capable of being managed for the purpose of providing goods or services to customers, or otherwise generating income, Twin Falls does not meet the definition of a business and therefore the acquisition is scoped out of *IFRS 3 Business Combinations*. Upon acquisition of the remaining shares, Churchill Falls measured its previously held equity interest in Twin Falls using the accumulated carrying amount and, accordingly, no gain or loss was recorded.

The acquisition has been accounted for prospectively in the financial statements. As such, the Consolidated Statement of Financial Position as at December 31, 2022 includes Twin Falls assets and liabilities, with any intercompany transactions eliminated.

The Company's profit for the year ended December 31, 2022 includes a share of loss of joint venture representing Churchill Falls' share of Twin Falls net revenue and expenditures for the period of January 1, 2022 through October 31, 2022. The revenue and expenditures for Twin Falls post acquisition for the period of November 1, 2022 to December 31, 2022 have been consolidated with any intercompany transactions eliminated.

1.3 Structured Entities

Nalcor consolidates the results of structured entities in which it holds a financial interest and is the primary beneficiary. Nalcor has determined that it is the primary beneficiary of the LIL Construction Project Trust (the IT) and, as a result, has included the financial statements of the IT in these annual audited consolidated financial statements. Nalcor has determined that it is not the primary beneficiary of the Muskrat Falls/Labrador Transmission Assets (MF/LTA) Funding Trust or the Labrador-Island Link Funding Trust and therefore the operations of these trusts are not reflected in these annual audited consolidated financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of Compliance and Basis of Measurement

These annual audited consolidated financial statements (financial statements) have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB).

These 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 financial statements are presented in Canadian Dollars (CAD) and all values rounded to the nearest million, except when otherwise noted. The financial statements were approved by Nalcor's Board of Directors (the Board) on March 10, 2023.

NALCOR ENERGY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2.2 Basis of Consolidation

The 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 financial statements. Intercompany transactions and balances have been eliminated upon consolidation.

2.3 Cash and Cash Equivalents and Short-term Investments

Cash and cash equivalents consist of amounts on deposit with Schedule 1 Canadian Chartered banks, as well as highly liquid investments with maturities of three months or less. Investments with maturities greater than three months and less than twelve months are classified as short-term investments.

2.4 Restricted Cash

Restricted cash consists of cash held on deposit with Schedule 1 Canadian Chartered banks and administered by the Collateral Agent for the sole purpose of funding construction, operating, maintenance and sustaining costs related to the LIL, Labrador Transmission Assets (LTA) and Muskrat Falls' hydroelectric generating facility, including pre-funded equity amounts required under the Labrador-Island Link Project Finance Agreement (LIL PFA) and MF/LTA Project Finance Agreement (MF/LTA PFA). The LCP companies draw funds from these accounts in accordance with procedures set out in the LIL PFA and MF/LTA PFA. Restricted cash also includes accounts administered by the Administrator of the IT and funds held in trust by solicitors of the LCP companies.

2.5 Inventories

Inventories are carried at the lower of cost and net realizable value. Cost is determined on a weighted average basis and includes expenditures incurred in acquiring inventories and bringing them to their existing condition and location. The cost of crude oil is based on production costs and an estimated capital component based on depletion. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

2.6 Property, Plant and Equipment

Items of property, plant and equipment are recognized at cost less accumulated depreciation and accumulated impairment losses. Cost includes materials, labour, contracted services, professional fees and, for qualifying assets, borrowing costs capitalized in accordance with Nalcor's accounting policy outlined in Note 2.8. Costs capitalized with the related asset include all those costs directly attributable to bringing the asset into operation.

When significant parts of property, plant and equipment, including petroleum and natural gas properties, are required to be replaced at intervals, Nalcor recognizes such parts as individual assets with specific useful lives and depreciation rates. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the asset as a replacement if the recognition criteria are satisfied. All other repairs and maintenance costs are recognized in profit or loss as incurred.

Project support assets are directly attributable to the construction of the Muskrat Falls plant and LTA and, as such, related depreciation costs are capitalized as incurred, until such time as the assets are substantially ready for their intended use or sale.

Depreciation commences when the assets are ready for their intended use. Residual values and useful lives are reviewed at the end of each year and adjusted prospectively, if appropriate. Depreciation is calculated on a straight-line basis over the estimated useful lives for all segments except Hydro, where depreciation is calculated based on the average group methodology. As per Board Order P.U. 30 (2019), Hydro was approved to recover gains and losses through accumulated amortization and to record removal costs through depreciation. To comply with International Accounting Standard (IAS) 16, the adjustments related to the recovery of gains and losses through accumulated amortization and removal depreciation are presented as a regulatory adjustment in Note 12.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The depreciation rates used are as follows:

Generation plant	
Hydroelectric	7 to 110 years
Thermal	20 to 70 years
Diesel	3 to 70 years
Transmission	
Lines	26 to 75 years
Terminal stations	7 to 70 years
Distribution system	20 to 60 years
Service facilities and other assets	3 to 100 years

Hydroelectric generation plant includes the powerhouse, turbines and generators, governors and exciters, and auxiliary systems, as well as water conveying and control structures, including dams, dikes, tailraces, surge chambers, spillways, penstocks, draft tube and intake structures. Thermal generation plant is comprised of the powerhouse, turbines and generators, boilers, oil storage tanks, stacks, and auxiliary systems. Diesel generation plant includes the buildings, engines, generators, switchgear, fuel storage and transfer systems, dikes and liners and cooling systems.

Transmission lines and terminal stations include the support structures, foundations, conductors and insulators associated with lines at voltages from 69 to 735 kilovolt. Terminal station assets which are used to step up voltages of electricity for transmission and to step down voltages for distribution, provide switching and protection functions, and include HVDC Converters to convert between AC and DC voltages, synchronous condensers and auxiliary systems. Distribution system assets include poles, transformers, insulators, conductors, subsea cables, and electrode equipment.

Service facilities and other assets include roads, telecontrol, buildings, airport, aircraft, vehicles, heavy equipment, furniture, tools and equipment, and the Churchill Falls town site, including municipal water and sanitary sewer systems.

The carrying amount of a replaced asset is derecognized when replaced. Gains and losses on disposal of an item of property, plant and equipment, including petroleum and natural gas interests, are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recorded in other expense. Pursuant to Board Order P.U. 30 (2019), Hydro's gains and losses are deferred on retirement of property, plant and equipment. The deferral will be recovered through future depreciation expense.

Petroleum and Natural Gas Properties

Petroleum and natural gas development and production assets are carried at cost less accumulated depreciation, depletion and impairment losses. Development and production assets are grouped into cash-generating units (CGUs) for impairment testing.

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

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the decommissioning costs and, for qualifying assets, borrowing costs in accordance with Nalcor's accounting policy in Note 2.8. The purchase price or constructed cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Costs incurred subsequent to the determination of technical feasibility and commercial viability are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to the Company and the cost can be measured reliably.

Depletion

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

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

Such reserves are considered commercially producible when Management has the intention of developing and producing them and such intention is based upon:

- a reasonable assessment of the future economics of such production;
- a reasonable expectation that there is a market for all (or substantially all) of the expected petroleum and natural gas production; and
- evidence that the necessary production, transshipment and transportation facilities are available or can be made available.

2.7 Intangible Assets

Intangible assets that are expected to generate future economic benefit and are measurable, including computer software costs and costs of technical services, are capitalized as intangible assets in accordance with IAS 38.

Intangible assets with finite useful lives are carried at cost less accumulated amortization and impairment losses. The estimated useful life and amortization method are reviewed at the end of each year, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives are carried at cost less accumulated impairment losses.

Amortization is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Computer software	5 to 10 years
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2.8 Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in the Consolidated Statement of Profit and Comprehensive Income in the period in which they are incurred.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2.9 Impairment of Non-Financial Assets

Property, plant and equipment and other non-financial assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Where it is not possible to estimate the recoverable amount of an individual asset, Nalcor estimates the recoverable amount of the CGU to which the asset belongs. The recoverable amount is the higher of fair value less costs of disposal and value in use. Value in use is generally computed by reference to the present value of future cash flows expected to be derived from non-financial assets. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately in the Consolidated Statement of Profit and Comprehensive Income.

2.10 Investments in Joint Arrangements

A joint arrangement is an arrangement of which two or more parties have joint control. Control exists when Nalcor has the power, directly or indirectly, to govern the financial and operating policies of another entity, so as to obtain benefits from its activities. A joint arrangement is either classified as a joint operation or a joint venture based on the rights of the parties involved.

Nalcor holds interests in the Hebron, Hibernia South Extension and White Rose Extension projects. These projects are classified as joint operations as multiple parties hold joint control and stakeholders have rights to the project assets and obligations for its liabilities. Nalcor accounts for its oil and gas investments by recognizing its share of assets, liabilities and profit or loss in relation to its interest in the joint operation.

Nalcor accounts for its investment in Churchill Falls by recognizing its share of assets, liabilities and profit or loss in relation to its interest in the joint operation.

2.11 Employee Future Benefits

Pension Plan

Employees participate in the Province's Public Service Pension Plan, a multi-employer defined benefit plan. Contributions by Nalcor to this plan are recognized as an expense when employees have rendered service entitling them to the contributions. Liabilities associated with this plan are held with the Province.

Other Benefits

Nalcor provides group life insurance and health care benefits on a cost-shared basis to retired employees, in addition to a retirement allowance.

The cost of providing these benefits is determined using the projected unit credit method, with actuarial valuations being completed on an annual basis, based on service and Management's best estimate of salary escalation, retirement ages of employees and expected health care costs.

Actuarial gains and losses on Nalcor's defined benefit obligation are recognized in reserves in the period in which they occur. Past service costs are recognized in operating costs as incurred. Pursuant to Board Order No. P.U. 36 (2015), Nalcor recognizes the amortization of Hydro's employee future benefit actuarial gains and losses in the Consolidated Statement of Profit and Comprehensive Income as a regulatory adjustment.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The retirement benefit obligation recognized in the Consolidated Statement of Financial Position represents the present value of the defined benefit obligation.

2.12 Provisions

A provision is a liability of uncertain timing or amount. A provision is recognized if Nalcor has a present legal obligation or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognized for future operating losses. The provision is measured at the present value of the best estimate of the expenditures expected to be required to settle the obligation using a discount rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. Provisions are re-measured at each Consolidated Statement of Financial Position date using the current discount rate.

2.13 Decommissioning, Restoration and Environmental Liabilities

Legal and constructive obligations associated with the retirement of property, plant and equipment are recorded as liabilities when those obligations are incurred and are measured as the present value of the expected costs to settle the liability, discounted at a rate specific to the liability. The liability is accreted up to the date the liability will be incurred with a corresponding charge to net finance expense. The carrying amount of decommissioning, restoration and environmental liabilities is reviewed annually with changes in the estimates of timing or amount of cash flows added to or deducted from the cost of the related asset or expensed in the Consolidated Statement of Profit and Comprehensive Income if the liability is short-term in nature.

2.14 Revenue Recognition

Revenue from Contracts with Customers

Nalcor recognizes revenue from contracts with customers related to the sale of electricity to regulated Provincial industrial, utility and direct customers in rural Newfoundland and Labrador and to non-regulated industrial, utility and external market customers.

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. Nalcor recognizes revenue when it transfers control of a product or service to a customer.

Revenue from the sale of energy is recognized when Nalcor satisfies its performance obligation by transferring energy to the customer. Sales within the Province are primarily at rates approved by the Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB), whereas sales to certain other major industrial customers and export sales are either at rates under the terms of the applicable contracts, or at market rates.

Nalcor will continue to recognize revenue as customers are invoiced on a monthly basis using practical expedient IFRS 15.B16. Nalcor recognizes some revenue at the amount to which it has the right to invoice, which corresponds directly to the value to the customer of Nalcor's performance to date.

Revenue from Crude Oil Sales

Revenue from the sale of crude oil is recognized when the amount of revenue can be reasonably measured, the significant risks and rewards of ownership have passed to the buyer and collection is reasonably assured. This typically occurs when the oil has been produced and delivered to the buyer in accordance with contracted shipping terms.

Revenue from properties in which Nalcor has an interest with other producers is recognized on the basis of Nalcor's sales to customers. Under this method, when Nalcor sells less crude oil production than its net working interest (under-lift), it has a right to future production of the joint operation and the under-lift portion is recognized as inventory that represents crude oil production not yet received. Similarly, an over-lift position is recognized as a liability that represents an accrual for crude oil production received but not yet paid, measured at cost.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2.15 Leasing

Lessee Accounting

Nalcor assesses whether a contract is or contains a lease, at inception of a contract. Nalcor recognizes a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low-value assets. For these leases, Nalcor recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, Nalcor uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed (and in-substance) lease payments less any lease incentives;
- variable lease payments that depend on an index or rate; and
- payments expected under residual value guarantees and payments relating to purchase options and renewal option periods that are reasonably certain to be exercised (or periods subject to termination options that are not reasonably certain to be exercised).

The lease liability is subsequently measured at amortized cost using the effective interest rate method. Lease liabilities are remeasured, with a corresponding adjustment to the related right-of-use assets, when there is a change in variable lease payments arising from a change in an index or rate, or when Nalcor changes its assessment of whether purchase, renewal or termination options will be exercised. Nalcor did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever Nalcor incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognized and measured under *IAS 37 – Provisions, Contingent Liabilities and Contingent Assets*. The costs are included in the related right-of-use asset.

Right-of-use assets are depreciated over the shorter period of the lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that Nalcor expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. Depreciation starts at the commencement date of the lease.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognized as an expense in operating costs in the period in which the event or condition that triggers those payments occurs.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. Nalcor has elected to apply this practical expedient.

2.16 Foreign Currencies

Transactions in currencies other than Nalcor's functional currency (foreign currencies) are recognized using the exchange rate in effect at the date of transaction, approximated by the prior month end close rate. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates of exchange

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

in effect at the period end date. Foreign exchange gains and losses not included in regulatory deferrals are recorded in the Consolidated Statement of Profit and Comprehensive Income as other expense.

2.17 Income Taxes

Nalcor is exempt from paying income taxes under Paragraph 149(1)(d) of the Income Tax Act.

2.18 Financial Instruments

Classification and Initial Measurement

Financial assets and financial liabilities are recognized in the Consolidated Statement of Financial Position when Nalcor becomes a party to the contractual provisions of the instrument and are initially measured at fair value.

Financial assets are classified at amortized cost, FVTOCI, FVTPL or as derivatives designated as hedging instruments in an effective hedge.

Financial liabilities are classified at amortized cost, FVTPL or as derivatives designated as hedging instruments in an effective hedge. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

Financial Assets at Amortized Cost

Financial assets with contractual cash flows arising on specified dates, consisting solely of principal and interest, and that are held within a business model whose objective is to collect the contractual cash flows are subsequently measured at amortized cost using the effective interest rate method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

Nalcor's financial assets at amortized cost include cash and cash equivalents, restricted cash, short-term investments, trade and other receivables, sinking fund investments, long-term receivables and long-term investments with the exception of reserve fund investments.

Financial Assets at FVTOCI

Financial assets measured at FVTOCI are those that have contractual cash flows arising on specific dates, consisting solely of principal and interest, and that are held within a business model whose objective is to collect the contractual cash flows and to sell the financial asset. Any change in the carrying amount of these assets other than foreign exchange gains and losses, impairment gains and losses, and interest income are recognized in other comprehensive income accumulated in the fair value reserve. When these assets are derecognized, the cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss.

Nalcor's financial assets measured at FVTOCI include reserve fund investments.

Financial Assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortized cost or FVTOCI are measured at FVTPL. Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognized in profit or loss to the extent they are not part of a designated hedging relationship.

Nalcor's financial assets measured at FVTPL include derivative instruments not part of a designated hedging relationship.

Financial Liabilities at Amortized Cost

Nalcor subsequently measures all financial liabilities at amortized cost using the effective interest rate method. Gains and losses are recognized in profit or loss when the liability is derecognized.

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Nalcor's financial liabilities at amortized cost include trade and other payables, short-term borrowings, long-term debt, long-term payables, and Class B limited partnership units.

Financial Liabilities at FVTPL

Financial liabilities that do not meet the criteria for being measured at amortized cost or FVTOCI are measured at FVTPL. Financial liabilities at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognized in profit or loss to the extent they are not part of a designated hedging relationship.

Nalcor's financial liabilities measured at FVTPL include derivative instruments not part of a designated hedging relationship.

Derecognition of Financial Instruments

Nalcor derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. Nalcor derecognizes financial liabilities when, and only when, its obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Impairment of Financial Assets

Nalcor recognizes a loss allowance for expected credit losses (ECL) on investments in debt instruments that are measured at amortized cost or at FVTOCI. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

Nalcor always recognizes lifetime ECL for trade and other receivables. The ECL on these financial assets are estimated based on Nalcor's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate. Nalcor also records 12-month ECL for those financial assets which have low credit risk and where the low credit risk exemption has been applied. The classes of financial assets that have been identified to have low credit risk are cash and cash equivalents, restricted cash, short-term investments, long-term investments, sinking funds and the reserve fund.

For all other financial instruments, Nalcor recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, Nalcor measures the loss allowance for that financial instrument at an amount equal to 12-month ECL. The assessment of whether lifetime ECL should be recognized is based on significant increases in the likelihood or risk of a default occurring since initial recognition instead of on evidence of a financial asset being credit-impaired at the reporting date or an actual default occurring.

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

Hedges

Nalcor may choose to designate derivative instruments as hedges and apply hedge accounting if there is an economic relationship between the hedged item and the hedging instrument; the effect of credit risk does not dominate the value changes that result from that economic relationship; and the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that Nalcor actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item. Nalcor formally documents all hedges and the related risk management objectives at the inception of the hedge. Derivative instruments that have been designated and qualify for hedge accounting are classified as either cash flow or fair value hedges.

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The effective portion of the gain or loss on a cash flow hedging instrument is recognized directly in other comprehensive income, while any ineffective portion is recognized immediately in the Consolidated Statement of Profit and Comprehensive Income for the period in other expense. Amounts recognized in other comprehensive income are transferred to the Consolidated Statement of Profit and Comprehensive Income for the period when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognized or when a forecast sale occurs.

2.19 Government Grants

Government grants are recognized when there is reasonable assurance that Nalcor will comply with the associated conditions and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which Nalcor recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that Nalcor should purchase, construct or otherwise acquire non-current assets are recognized as deferred credits in the Consolidated Statement of Financial Position and transferred to the Consolidated Statement of Profit and Comprehensive Income on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to Nalcor with no future related costs are recognized in the Consolidated Statement of Profit and Comprehensive Income in the period in which they become receivable.

2.20 Regulatory Deferrals

Nalcor's revenues from its electrical sales to most customers within the Province are subject to rate regulation by the PUB. Hydro's borrowing and capital expenditure programs are also subject to review and approval by the PUB. Rates are set through periodic general rate applications utilizing a cost of service methodology. Hydro's allowed rate of return on rate base based upon Board Order No. P.U. 30 (2019) is 5.4% in 2022 and 5.4% in 2021. Hydro applies various regulator approved accounting policies that differ from enterprises that do not operate in a rate regulated environment. Generally, these policies result in the deferral and amortization of costs or credits which are expected to be recovered or refunded in future rates. In the absence of rate regulation, these amounts would be included in the determination of profit or loss in the year the amounts are incurred. The effects of rate regulation on the financial statements are disclosed in Note 12.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the financial statements in conformity with IFRS requires Management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ materially from these estimates, including changes as a result of future decisions made by the PUB. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is reviewed if the revision affects only that period or future periods.

3.1 Use of Judgments

(i) Asset Impairment and Reversals

Nalcor applies judgment in evaluating impairment and impairment reversal indicators based on various internal and external factors.

The recoverable amount of a CGU or asset is determined based on the higher of fair value less costs of disposal and its value in use. For example, with respect to petroleum and natural gas properties, Management uses factors including expected future oil prices, proved and probable reserves from third party specialists and

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discount rates to determine the recoverable amount, as well as judgments regarding the occurrence of future events. Changes in these factors will affect the recoverable amount of CGUs and assets, which may result in a material adjustment to their carrying value.

(ii) Property, Plant and Equipment

Nalcor's accounting policy relating to property, plant and equipment is described in Note 2.6. In applying this policy, judgment is used in determining whether certain costs are additions to the carrying amount of the property, plant and equipment as opposed to repairs and maintenance. If an asset has been developed, judgment is required to identify the point at which the asset is capable of being used as intended and to identify the directly attributable borrowing costs to be included in the carrying value of the development asset. Judgment is also used in determining the appropriate componentization structure for Nalcor's property, plant and equipment.

(iii) Revenue

Management exercises judgment in estimating the value of electricity consumed by retail customers in the period, but billed subsequent to the end of the reporting period. Specifically, this involves an estimate of consumption for each retail customer, based on the customer's past consumption history.

In addition, when recognizing deferrals and related amortization of costs or credits in Hydro Regulated, Management assumes that such costs or credits will be recovered or refunded through customer rates in future years. Recovery of some of these deferrals is subject to a future PUB order. As such, there is a risk that some or all of the regulatory deferrals will not be approved by the PUB which could have a material impact on Hydro Regulated's profit or loss in the year the order is received.

(iv) Functional Currency

Functional currency was determined by evaluating the primary economic environment in which Nalcor operates. As Nalcor enters into transactions in multiple currencies, judgment is used in determining the functional currency. Management considered factors regarding currency of sales, costs incurred, and operating and financing activities and determined the functional currency to be CAD.

(v) Determination of CGUs

Nalcor's accounting policy relating to impairment of non-financial assets is described in Note 2.9. In applying this policy, Nalcor groups assets into the smallest identifiable groups for which cash flows are largely independent of the cash flows from other assets or groups of assets. Judgment is used in determining the level at which cash flows are largely independent of other assets or groups of assets.

(vi) Discount Rates

Certain of Nalcor's financial liabilities are discounted using discount rates that are subject to Management's judgment.

(vii) Consolidation

Management applies its judgment when determining whether to consolidate structured entities in accordance with the criteria outlined in IFRS 10 and when applying the criteria outlined in IFRS 11 to determine whether joint arrangements constitute joint ventures or joint operations.

(viii) Leases

Definition of a Lease

At inception of a contract, Nalcor assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, Nalcor assesses whether the contract involves the use of an identified asset, Nalcor has the right to obtain

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substantially all of the economic benefits from use of the asset throughout the period of use and Nalcor has the right to direct the use of the asset.

Lease Extension and Termination Options

In determining the lease term, Nalcor considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. The assessment is reviewed if a significant event or a significant change in circumstances occurs within its control. The assessment requires the consideration of facts and circumstances such as contractual terms and conditions for option periods, significant leasehold improvements undertaken, costs to terminate the lease, the importance of the asset to the lessee's operations and past practice.

(ix) Regulatory adjustments

Regulatory assets and liabilities recorded in Hydro arise due to the rate setting process for regulated utilities governed by the PUB. The amounts relate to costs or credits which Management believes will be recovered or settled through customer rates in future periods, pursuant to the proceedings and outcomes of future PUB orders. Certain estimates are necessary since the regulatory environment often requires amounts to be recognized at estimated values until these amounts are finalized pursuant to regulatory decisions or other regulatory proceedings. The final amounts approved by the PUB for deferral as regulatory assets and liabilities and the approved recovery or settlement periods may differ from those originally expected. Any resulting adjustments to original estimates could have a material impact and are recognized in profit or loss in the period in which they become known.

3.2 Use of Estimates

(i) Property, Plant and Equipment

Amounts recorded for depreciation are based on the useful lives of Nalcor's assets. The useful lives of property, plant and equipment are determined by independent specialists and reviewed annually by Nalcor. These useful lives are Management's best estimate of the service lives of these assets. Changes to these lives could materially affect the amount of depreciation recorded.

(ii) Oil and Natural Gas Reserves

Oil and natural gas reserves are evaluated by independent reserve engineers. Reserve estimates are used in calculating depletion, impairment and decommissioning liabilities. Estimates of recoverable reserves are based upon variable factors and assumptions regarding historical production, production rates, ultimate reserve recovery, marketability of petroleum and natural gas, and timing and amount of future cash expenditures. Changes to these amounts could materially affect these calculations.

(iii) Decommissioning Liabilities

Nalcor recognizes a liability for the fair value of the future expenditures required to settle obligations associated with the retirement of property, plant and equipment. Decommissioning liabilities are recorded as a liability at fair value, with a corresponding increase to property, plant and equipment. Accretion of decommissioning liabilities is included in the Consolidated Statement of Profit and Comprehensive Income through net finance expense. Differences between the recorded decommissioning liabilities and the actual decommissioning costs incurred are recorded as a gain or loss in the settlement period.

(iv) Employee Future Benefits

Nalcor provides group life insurance and health care benefits on a cost-shared basis to retired employees, in addition to a severance payment upon retirement. The expected cost of providing these other employee benefits is accounted for on an accrual basis, and has been actuarially determined using the projected unit credit method prorated on service, and Management's best estimate of salary escalation, retirement ages of employees, and expected health care costs.

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(v) Leases Incremental Borrowing Rate

Nalcor uses its incremental borrowing rates in measuring its lease liabilities. The incremental borrowing rate is the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The determination of the incremental borrowing rate requires the consideration of different components, all of which are to incorporate a number of important lease characteristics.

4. CURRENT AND FUTURE CHANGES IN ACCOUNTING POLICIES

The following is a list of amendments that have been issued and are effective for accounting periods commencing on or after January 1, 2022, as specified.

- *IAS 37 – Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Costs of Fulfilling a Contract (Amendments to IAS 37)*¹
- *IAS 1 – Presentation of Financial Statements– Disclosure of Accounting Policies (Amendments to IAS 1)*²
- *IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Accounting Estimates (Amendments to IAS 8)*²
- *IAS 1 – Presentation of Financial Statements – Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)*³

¹ Effective for annual periods beginning on or after January 1, 2022.

² Effective for annual periods beginning on or after January 1, 2023, with earlier application permitted.

³ These amendments were originally effective for annual periods beginning on or after January 1, 2023, however, in 2022 the IASB deferred the effective date to January 1, 2024, with earlier application permitted.

4.1 IAS 37 – Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Costs of Fulfilling a Contract (Amendments to IAS 37)

The amendments to IAS 37 specify that the cost of fulfilling a contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract, such as direct labour and materials, or an allocation of other costs that relate directly to fulfilling contracts, such as the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract. These amendments apply to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the amendments and are currently not applicable to Nalcor, however, may apply to future transactions.

4.2 IAS 1 – Presentation of Financial Statements– Disclosure of Accounting Policies (Amendments to IAS 1)

The IASB issued amendments to IAS 1, which change the requirements with regard to the disclosure of accounting policies. The amendments replace all instances of the term 'significant accounting policies' with 'material accounting policy information'. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Management does not expect this change will have a material impact on the financial statements.

4.3 IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Accounting Estimates (Amendments to IAS 8)

The IASB issued amendments to IAS 8 to clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. The amendments are intended to improve the understanding of the existing requirements and therefore will not have an impact on Nalcor's financial statements.

4.4 IAS 1 – Presentation of Financial Statements – Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)

The IASB issued amendments to IAS 1 to promote consistency in applying the requirements by helping companies determine whether, in the Statement of Financial Position, debt and other liabilities with an uncertain settlement

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date should be classified as current (due or potentially due to be settled within one year) or non-current. The classification is based on rights that are in existence at the end of the reporting period and specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability. Additional information was added to clarify that only covenants with which an entity is required to comply on or before the reporting date affect the classification of a liability as current or non-current. In addition, an entity has to disclose information in the notes that enables users of financial statements to understand the risk that non-current liabilities with covenants could become repayable within twelve months. The amendments are applied retrospectively upon adoption. The application of these amendments is not expected to have a material impact on Nalcor's financial statements.

5. CASH AND CASH EQUIVALENTS

As at December 31, 2022 and 2021, cash and cash equivalents consisted entirely of cash.

6. TRADE AND OTHER RECEIVABLES

<i>As at December 31 (millions of Canadian dollars)</i>	2022	2021
Trade receivables	189	176
Other receivables (a)	23	24
Loss allowance	(25)	(23)
	187	177

(a) Other receivables are comprised primarily of harmonized sales tax as well as bank interest and advances.

<i>As at December 31 (millions of Canadian dollars)</i>	2022	2021
0-60 days	176	168
60+ days	11	9
	187	177

<i>As at December 31 (millions of Canadian dollars)</i>	2022	2021
Loss allowance, beginning of the year	(23)	(17)
Change in balance during the year	(2)	(6)
Loss allowance, end of the year	(25)	(23)

7. INVENTORIES

<i>As at December 31 (millions of Canadian dollars)</i>	2022	2021
Materials and other	70	65
Fuel	59	46
Crude oil	3	4
	132	115

The amount of inventory recognized as an expense during the year was \$192.3 million (2021 - \$126.1 million) and is included in fuels and operating costs.

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8. OTHER CURRENT ASSETS

<i>As at December 31 (millions of Canadian dollars)</i>	2022	2021
Prepayments	22	21
Derivative assets	8	3
	30	24

9. PROPERTY, PLANT AND EQUIPMENT

<i>(millions of Canadian dollars)</i>	Generation Plant	Transmission and Distribution	Petroleum and Natural Gas Properties	Other	Assets Under Development	Total
Cost						
Balance as at January 1, 2021	2,051	1,436	1,628	532	13,531	19,178
Additions	1	-	24	12	690	727
Disposals	(13)	(2)	(46)	(2)	-	(63)
Transfers	96	1,836	-	27	(1,959)	-
Decommissioning liabilities and revisions	-	-	1	-	-	1
Other adjustments	-	(4)	-	2	-	(2)
Balance as at December 31, 2021	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
Depreciation, depletion and impairment						
Balance as at January 1, 2021	659	272	758	206	55	1,950
Depreciation and depletion	57	46	81	15	-	199
Disposals	(7)	(1)	(37)	(2)	-	(47)
Balance as at December 31, 2021	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
Carrying value						
Balance as at January 1, 2021	1,392	1,164	870	326	13,476	17,228
Balance as at December 31, 2021	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

Capitalized interest for the year ended December 31, 2022 was \$167.7 million (2021 - \$292.2 million) related to assets under development.

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On a quarterly basis, the Company assesses its CGUs for indicators that events or changes in circumstances may have impacted the recoverable amount of the associated assets. The Company determines the recoverable amount of its CGUs using value in use, which, for petroleum and natural gas properties, is estimated using discounted future cash flows based on forecasted oil prices, proved and probable reserves, forecasted future operating and capital costs and a discount rate derived from post-tax weighted average cost of capital, adjusted to reflect specific risks to the CGUs. For the year ended December 31, 2022, the Company recognized a net reversal of previously recorded impairment of \$18.4 million.

The forecasted oil prices as at December 31, 2022 used to determine future cash flows from oil reserves were:

	2023	2024	2025	2026	2027	Average Annual Change thereafter
Brent Price (CAD/barrel)	90.00	87.00	82.00	83.64	85.31	2.00%

10. INTANGIBLE ASSETS

<i>(millions of Canadian dollars)</i>	Computer Software	Assets Under Development	Total
Cost			
Balance as at January 1, 2021	46	13	59
Additions	1	4	5
Transfers	6	(6)	-
Balance as at December 31, 2021	53	11	64
Additions	-	2	2
Transfers	4	(4)	-
Balance as at December 31, 2022	57	9	66
Amortization			
Balance as at January 1, 2021	21	-	21
Amortization	5	-	5
Balance as at December 31, 2021	26	-	26
Amortization	5	-	5
Balance as at December 31, 2022	31	-	31
Carrying value			
Balance as at January 1, 2021	25	13	38
Balance as at December 31, 2021	27	11	38
Balance as at December 31, 2022	26	9	35

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11. INVESTMENTS

<i>As at December 31 (millions of Canadian dollars)</i>		2022	2021
Investments	(a)	282	-
Sinking Funds	(b)	237	227
Reserve Fund	(c)	49	43
Total investments		568	270
Less: amounts maturing within the next year, classified as short-term		(61)	(8)
		507	262

<i>As at December 31 (millions of Canadian dollars)</i>		Year of Maturity	2022	2021
Muskrat Falls/Labrador Transco				
Amortizing Fixed Rate Deposit Notes with interest paid at a rate of 3.745% per annum		2023-2029	282	-
Less: redemptions to be received within the next year, classified as short-term			(41)	-
			241	-

On March 31, 2022, Muskrat Falls and Labrador Transco jointly purchased structured deposit notes using the proceeds from issued long-term debt. The investments are restricted in nature and subject to the provisions contained within the MF/LTA PFA.

- (b) As at December 31, 2022, sinking funds include \$201.9 million (2021 - \$191.7 million) related to repayment of Hydro's long-term debt and \$35.0 million (2021 - \$35.6 million) related to funding of Nalcor's long-term payable under the Upper Churchill Redress Agreement (UCRA). Sinking fund investments consist of bonds, debentures, promissory notes and coupons issued by, or guaranteed by, the Government of Canada, provincial governments or Schedule 1 banks, and have maturity dates ranging from 2023 to 2041.

Hydro debentures, which are intended to be held to maturity, are deducted from debt while all other sinking fund investments are shown separately on the Consolidated Statement of Financial Position as assets. Annual contributions to the various sinking funds are in accordance with bond indenture terms, and are structured to ensure the availability of adequate funds at the time of expected bond redemption. Effective yields range from 1.42% to 6.82% (2021 - 1.42% to 6.82%).

LIL LP, Muskrat Falls and Labrador Transco are required to contribute to sinking funds as part of the federal loan guarantee on Tranche A, B and C debentures for LIL LP, and Tranche B, C and U debentures for Muskrat Falls and Labrador Transco. The sinking fund payment originally required for Tranche A for Muskrat Falls and Labrador Transco was removed as part of an amendment to the MF/LTA PFA in March 2022. Sinking fund instalments commence in 2029 for Muskrat Falls and Labrador Transco.

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The movements in sinking funds for the year are as follows:

<i>As at December 31 (millions of Canadian dollars)</i>	2022	2021
Sinking funds, beginning of the year	227	219
Contributions	7	7
Earnings	15	14
Disposals and maturities	(2)	(2)
Change in sinking fund investments in own debentures	(10)	(11)
Sinking funds, end of the year	237	227
Less: amounts classified as short-term	(11)	(2)
	226	225

Sinking fund instalments due over the next five years are as follows:

<i>(millions of Canadian dollars)</i>	2023	2024	2025	2026	2027
Sinking fund instalments	70	70	70	67	67

- (c) Under the Shareholder's Agreement, Churchill Falls is required to maintain a \$75.0 million segregated reserve fund to contribute towards the funding of capital expenditures related to Churchill Falls' existing facilities and their replacement. In December 2022, \$13.1 million was invested (2021 - \$9.4 million) into the fund to re-establish the \$75.0 million in accordance with the Shareholder's Agreement.

The fund must remain in place until the end of the Shareholders' Agreement in 2041. Any amounts removed to fund capital expenditures must be replaced. Reserve fund holdings consist of securities issued by the Government of Canada, various provinces of Canada and Schedule 1 and 2 Canadian Chartered Banks.

The movement in Nalcor's proportionate share of the reserve fund for the year is as follows:

<i>As at December 31 (millions of Canadian dollars)</i>	2022	2021
Reserve fund, beginning of the year	43	39
Principal contributions	9	5
Mark-to-market adjustment	(3)	(1)
Reserve fund, end of the year	49	43
Less: amounts classified as short-term	(9)	(6)
	40	37

As at December 31, 2022, the reserve fund has been restored to the required balance per the Shareholder's Agreement.

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12. REGULATORY DEFERRALS

		January 1	Reclass and	Regulatory	December 31	Remaining
		2022	Disposition	Activity	2022	Recovery
						Settlement
						Period
<i>(millions of Canadian dollars)</i>						
Regulatory asset deferrals						
Supply cost variance deferral account	(a)	18	-	172	190	n/a
Power purchase expense recognition	(b)	18	-	148	166	n/a
Rate stabilization plan (RSP)	(c)	56	12	(16)	52	n/a
Foreign exchange losses	(d)	44	-	(2)	42	19.0
Retirement asset pool	(e)	19	-	16	35	n/a
Muskrat Falls PPA monetization	(f)	-	-	26	26	n/a
Supply deferrals	(g)	12	(12)	9	9	n/a
Business system transformation program	(h)	5	-	3	8	n/a
Deferred energy conservation costs	(i)	8	-	(1)	7	n/a
Other		4	-	1	5	n/a
		184	-	356	540	
Regulatory liability deferrals						
Removal provision	(j)	(17)	-	(5)	(22)	n/a
Insurance amortization and proceeds	(k)	(7)	-	3	(4)	n/a
Other		(3)	-	(4)	(7)	n/a
		(27)	-	(6)	(33)	

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

		2022	2021
<i>For the year ended December 31 (millions of Canadian dollars)</i>			
RSP amortization		19	(24)
RSP fuel deferral		-	33
RSP interest		(3)	(3)
Rural rate adjustment		-	2
Total RSP activity	(c)	16	8
Supply deferral recovery		-	4
Supply deferrals		(9)	(12)
Total supply deferral activity	(g)	(9)	(8)
Supply cost variance deferrals	(a)	(172)	(18)
Power purchase expense recognition	(b)	(148)	(18)
Loss on disposal	(e)	(16)	(6)
Muskrat Falls PPA monetization	(f)	(26)	-
Removal provision	(j)	5	5
Other		(1)	4
		(351)	(33)

The following section describes Nalcor's regulatory assets and liabilities which will be, or are expected to be, reflected in customer rates in future periods and have been established through the rate setting process. In the absence of rate regulation, these amounts would be reflected in operating results in the year and profit for the year ended December 31, 2022 would have decreased by \$350.8 million (2021 - \$32.7 million).

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(a) 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 2022, Hydro deferred \$172.1 million (2021 - \$18.3 million) for future recovery from customers resulting in a total balance owing from customers of \$190.4 million (2021 - \$18.3 million).

(b) 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 Power Purchase Agreement. For the year ended December 31, 2022, IFRS power purchase expenses were \$148.2 million (2021 - \$17.6 million) higher than commercial payments which resulted in a total regulatory asset of \$165.8 million (2021 - \$17.6 million).

(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 2022, Hydro recovered \$19.1 million (2021 - \$23.9 million refund) from customers; which was partially offset by Board Order No. P.U. 16 (2022) which approved the recovery of the 2021 Supply deferrals from the RSP Current Plan of \$12.4 million. This activity and associated interest and other adjustments in 2022 of \$2.5 million (2021 - \$3.2 million) resulted in a remaining balance for future recovery from customers of \$52.3 million (2021 - \$56.5 million).

(d) Foreign Exchange Losses

In 2002, the PUB ordered Hydro to defer realized foreign exchange losses related to the issuance of Swiss Franc and Japanese Yen denominated debt and amortize the balance over a 40 year period. Accordingly, these costs were recognized as a regulatory asset. During 2022, amortization expense of \$2.2 million (2021 - \$2.2 million) was recorded.

(e) Retirement Asset Pool

As per Board Order No. P.U. 30 (2019), the Board approved Hydro's proposed depreciation methodology which includes the deferral of gains and losses on retirement of assets. The deferral will be recovered through future depreciation expense. In 2022, Hydro deferred \$16.1 million (2021 - \$6.1 million) of retirement asset activity resulting in a total balance of \$35.4 million (2021 - \$19.3 million).

(f) Muskrat Falls PPA Monetization

Under the Muskrat Falls PPA, 30 days following the calendar year end Hydro is able to monetize an amount of undelivered Schedule II energy at an Annual Average Sales Price of Muskrat Falls energy exports for the previous year. In Board Order No's. P.U. 33 (2021) and P.U. 4 (2022), the Board approved Hydro's proposal to recognize an estimate of the monetized energy in the year in which the energy was exported by Muskrat Falls, instead of waiting until Hydro can monetize in the following year. In 2022, Hydro recorded an estimate of \$25.8 million (2021 - \$nil).

(g) Supply Deferrals

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

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Board Order No. P.U. 33 (2021) and Hydro's compliance application, the Energy Supply and Holyrood Conversion deferrals were discontinued with the account maintained to provide for a timely recovery of the remaining balance. During 2022, Hydro recorded a net decrease in the supply deferral asset of \$3.4 million (2021 - \$47.4 million) resulting in a balance from customers of \$8.9 million (2021 - \$12.3 million). The decrease in the supply deferral asset is primarily due to the recovery of the 2021 supply cost variance deferral, which resulted in a net decrease to the supply deferral of \$12.4 million as per Board Order No. P.U. 16 (2022); and normal operation of the supply deferral, resulting in a net increase of \$9.0 million (2021 - \$12.3 million), with recovery of the period's activity to be determined through an annual application process.

(h) Business System Transformation Program

As per Board Order No.'s P.U. 23 (2019) and P.U. 30 (2019), the Board approved the deferral of business system transformation program costs. The recovery of the deferral is subject to a future Board order. During the year, Hydro deferred \$3.1 million (2021 - \$1.0 million), resulting in a total deferral of \$7.7 million (2021 - \$4.6 million). As per Board Order No. P.U. 27, (2022), the Board approved the recovery of a portion of the deferred costs up to the end of 2022, which totalled \$6.7 million, through customer rates to be established in Hydro's next general rate application.

(i) Deferred Energy Conservation Costs

In 2022, Hydro deferred \$1.1 million (2021 - \$1.1 million) in Energy Conservation Costs associated with an electrical conservation demand management program for residential, industrial, and commercial sectors. As per Board Order No. P.U. 22 (2017), Hydro recovered \$1.9 million (2021 - \$1.5 million) of the balance through a rate rider which resulted in a total deferred balance of \$7.5 million (2021 - \$8.3 million).

(j) Removal Provision

As per Board Order No. P.U. 30 (2019), the Board approved Hydro's proposed depreciation methodology which includes the provision for removal costs. Hydro recorded a net increase to the provision relating to 2022 activity of \$5.0 million (2021 - \$4.9 million) resulting in a total balance of \$21.9 million (2021 - \$16.9 million). The increase was driven by removal depreciation of \$5.5 million (2021 - \$5.2 million) which was partially offset by removal costs of \$0.5 million (2021 - \$0.3 million).

(k) Insurance Amortization and Proceeds

Pursuant to Board Order No. P.U. 13 (2012), Hydro records net insurance proceeds against the capital costs and amortizes the balance over the life of the asset. Under IFRS, Hydro is required to recognize the insurance proceeds and corresponding amortization in regulatory liabilities. During 2022, Hydro recorded a net decrease of \$2.8 million (2021 - \$4.2 million net increase) to the regulatory liability. The decrease was driven by an adjustment of \$2.6 million (2021 - \$nil) and insurance amortization of \$0.2 million (2021 - \$0.3 million).

13. TRADE AND OTHER PAYABLES

<i>As at December 31 (millions of Canadian dollars)</i>	2022	2021
Trade payables and accruals	183	269
Other payables	68	59
Accrued interest payable	50	56
	301	384

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14. OTHER CURRENT LIABILITIES

<i>As at December 31 (millions of Canadian dollars)</i>	Notes	2022	2021
Current portion of long-term payables	20(b)	53	38
Derivative liabilities	(a)	30	31
Current portion of decommissioning liabilities	18	4	2
Current portion of deferred contributions	20(a)	1	1
		88	72

(a) Included in derivative liabilities as at December 31, 2022 is \$25.2 million (2021 - \$18.4 million) related to an embedded derivative associated with the HSE Redetermination re-balancing liability which is recorded in long-term payables, as disclosed in Note 20(b). The embedded derivative represents the change in fair value of the liability based on current forward oil prices. The offsetting unrealized loss is recorded in other expense. Also included in derivative liabilities are foreign exchange forward contracts, as disclosed in Note 30.

15. DEBT

15.1 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 December 31, 2022 (2021 - \$nil), however \$6.2 million CAD equivalent of the borrowing limit has been used to issue eight irrevocable letters of credit (2021 - \$5.9 million CAD equivalent to issue eight irrevocable letters of credit) which relate to power purchases and sale contracts with various independent system operators, transmission providers and bilateral counterparties. Borrowings in CAD may take the form of Prime Rate Advances, Bankers' Acceptances (BAs) and letters of credit. Borrowings in USD may take the form of Base Rate Advances, Secured Overnight Financing Rate (SOFR) Advances and letters of credit. The facility also provides coverage for overdrafts on Nalcor's bank accounts, with interest calculated at the Prime Rate.

Hydro utilized its \$300.0 million government guaranteed promissory note program to fulfil its short-term funding requirements. As at December 31, 2022, there was a \$131.0 million promissory note outstanding with a maturity date of January 3, 2023 bearing an interest rate of 4.27% (2021 - \$55.0 million relating to two promissory notes outstanding bearing an average interest rate of 0.20%). Upon maturity, the promissory note was 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 December 31, 2022, there were no amounts drawn on the facility (2021 - \$nil). Borrowings in CAD may take the form of Prime Rate Advances, BAs, and letters of credit, with interest calculated at the Prime Rate or BA fee. Borrowings in USD may take the form of Base Rate Advances, SOFR Advances and letters of credit. The facility also provides coverage for overdrafts on Hydro's bank accounts, with interest calculated at the Prime Rate.

Churchill Falls maintains a \$10.0 million CAD or USD equivalent unsecured demand operating credit facility with its banker. Advances may take the form of a Prime Rate Advance, the issuance of a BA with interest calculated at the Prime Rate or prevailing Government BA Fee and letters of credit. The facility provides coverage for overdrafts on Churchill Falls' bank accounts, with interest calculated at the Prime Rate. There were no amounts drawn on this facility as at December 31, 2022 (2021 - \$nil).

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Churchill Falls has issued three irrevocable letters of credit totaling \$2.0 million (2021 - \$2.0 million to issue three irrevocable letters of credit), \$1.0 million of which does not impact the borrowing limit of the operating credit facility (2021 - \$1.0 million). The letters of credit ensure satisfactory management of its waste management system and compliance with a certificate of approval for the transportation of special and hazardous wastes, granted by the Provincial Department of Environment and Conservation.

Oil and Gas maintains a \$30.0 million CAD or USD equivalent unsecured demand operating facility with its banker and as at December 31, 2022, there were no amounts drawn on this facility (2021 - \$nil). Borrowings in CAD may take the form of Prime Rate Advances and letters of credit. Borrowings in USD may take the form of Base Rate Advances and letters of credit. \$20.9 million of the borrowing limit has been used to issue two irrevocable letters of credit (2021 - \$20.9 million to issue two irrevocable letters of credit) to ensure compliance with service agreements and regulations relating to petroleum and natural gas exploration and production activities.

Energy Marketing maintains a \$20.0 million CAD or USD equivalent demand operating credit facility with its banker, and as at December 31, 2022, there were no amounts drawn on this facility (2021 - \$nil). This facility has an unconditional and irrevocable guarantee from Nalcor. Borrowings in CAD may take the form of Prime Rate Advances, BAs and letters of credit. Borrowings in USD may take the form of Base Rate Advances, SOFR Advances and letters of credit. \$4.8 million of the borrowing limit has been used to issue five irrevocable letters of credit (2021 - \$6.4 million to issue six irrevocable letters of credit) to various independent system operators, transmission providers, and bilateral counterparties in relation to power purchase and sale contracts. These letters of credit have automatic renewal clauses, unless cancelled with appropriate notice by the issuer or beneficiary.

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15.2 Long-term Debt

<i>As at December 31 (millions of Canadian dollars)</i>	Face Value	Coupon Rate %	Year of Issue	Year of Maturity	2022	2021
Hydro						
Y*	300	8.40	1996	2026	298	297
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	638
2A	300	1.75	2021	2030	288	287
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	74
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	105	145
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	-
Tranche U*	500	3.38	2022	2057	500	-
Total	10,872				10,884	9,944
Less: sinking fund investments in own debentures					(94)	(84)
					10,790	9,860
Less: repayment of debt due within one year					(69)	(68)
					10,721	9,792

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

Hydro's promissory notes and debentures are unsecured and unconditionally guaranteed as to principal and interest and, where applicable, sinking fund payments, by the Province, with exception of Series 1A and Series 2A, which are borrowed directly from the Province. The Province charges Hydro a guarantee fee of 25 basis points annually on the total debt (net of sinking funds) with a remaining term to maturity of less than or equal to 10 years and 50 basis points annually on total debt (net of sinking funds) with a remaining term to maturity greater than 10

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years for debt outstanding as of December 31, 2010. For debt issued subsequent to December 31, 2010, the guarantee rate is 25 basis points annually on the total debt (net of sinking funds) with an original term to maturity of less than or equal to 10 years and 50 basis points annually on total debt (net of sinking funds) with an original term to maturity greater than 10 years. The guarantee fee recorded for the year ended December 31, 2022 was \$8.7 million (2021 - \$8.6 million).

On March 31, 2022, an additional credit facility was jointly issued to Muskrat Falls and Labrador Transco in the amount of \$1.0 billion available in 21 tranches (Tranches A through U). All tranches of the credit facility were drawn down by way of a single advance to an account administered by a Collateral Agent. The LIL LP, Labrador Transco/Muskrat Falls funding benefits from a direct, absolute, unconditional and irrevocable guarantee from the Government of Canada, and thereby carries its full faith and credit (AAA rating or equivalent).

16. CLASS B LIMITED PARTNERSHIP UNITS

Debt and equity instruments issued by LIL LP are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

The Class B limited partnership units represent Emera NL's ownership interest in the Partnership. As described in the Partnership Agreement, these units have certain rights and obligations, including mandatory distributions, that indicate that the substance of the units represent a financial liability and are measured at amortized cost using the effective interest rate method. The return on the units is classified as a finance expense. All finance expenses associated with the units have been capitalized.

<i>As at December 31 (millions of Canadian dollars)</i>	Units	2022	Units	2021
Class B limited partnership units, beginning of the year	25	681	25	628
Accrued interest	-	58	-	53
Class B limited partnership units, end of the year	25	739	25	681

17. DEFERRED CREDITS

Deferred credits consist of deferred energy sales to Emera NL, deferred revenue related to Menihek assets for the sale of energy to Hydro-Québec, deferrals related to telecommunications services to be provided by Churchill Falls to Hydro-Québec and funding from the Province.

<i>As at December 31, 2022 (millions of Canadian dollars)</i>	Deferred Energy Sales	Deferred Lease Revenue	Other	Total
Deferred credits, beginning of the year	1,769	40	2	1,811
Additions	19	12	19	50
Amortization	(75)	(1)	(1)	(77)
Deferred credits, end of the year	1,713	51	20	1,784
Less: current portion	(127)	-	(3)	(130)
	1,586	51	17	1,654

Nalcor has recorded deferred energy sales of \$1,713.0 million (2021 - \$1,769.0 million) which represents Nalcor's obligation to deliver the Nova Scotia Block to Emera in exchange for construction and operation and maintenance of the Maritime Link. Nalcor has determined that it controls the Maritime Link asset for financial reporting purposes, and as such, has recorded the costs of construction within property, plant and equipment.

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Included in Other are deferred credits relating to Churchill Falls' obligation to provide required telecommunications services to Hydro-Québec in exchange for significant upgrades to the microwave telecommunications equipment linking the Churchill Falls Generating Station to Hydro-Québec's transmission system. On November 4, 2022, Churchill Falls received legal title to the assets in consideration for providing telecommunications services to Hydro-Québec over the term of the contract ending August 31, 2041. The deferred credit will be recognized in other revenue evenly over the contract term as Churchill Falls satisfies its performance obligation.

18. DECOMMISSIONING LIABILITIES

Nalcor has recognized liabilities associated with the retirement of portions of the HTGS, disposal of Polychlorinated Biphenyls (PCB) and decommissioning liabilities resulting from its net ownership interests in petroleum and natural gas properties and related well sites.

The reconciliation of the beginning and ending carrying amounts of decommissioning liabilities as at December 31, 2022 and 2021 are as follows:

<i>As at December 31 (millions of Canadian dollars)</i>	2022	2021
Decommissioning liabilities, beginning of the year	128	124
Accretion	4	4
Additions	2	-
Revisions	(34)	-
Decommissioning liabilities, end of the year	100	128
Less: current portion	(4)	(2)
	96	126

The total estimated undiscounted cash flows required to settle the HTGS obligations at December 31, 2022 are \$25.0 million (2021 - \$15.2 million). Payments to settle the liability are expected to occur between 2023 and 2033. The fair value of the decommissioning liabilities was determined using the present value of future cash flows discounted at a credit adjusted risk free rate of 4.3% (2021 - 1.3%).

Oil and Gas' decommissioning liabilities result from net ownership interests in petroleum and natural gas properties and related well sites. The total undiscounted estimated cash flows required to settle the obligations, at December 31, 2022 are \$199.8 million (2021 - \$185.5 million). Payments to settle the liabilities are expected to occur between 2034 and 2041. The fair value of the decommissioning liabilities was determined using the present value of future cash flows discounted at rates ranging from 5.6% to 5.8% (2021 - 3.1% to 3.5%).

A significant number of Nalcor's assets include generation plants, transmission assets and distribution systems. These assets can continue to run indefinitely with ongoing maintenance activities. As it is expected that Nalcor's assets will be used for an indefinite period, no removal date can be determined and consequently, a reasonable estimate of the fair value of any related decommissioning liability cannot be determined at this time. If it becomes possible to estimate the fair value of the cost of removing assets that Nalcor is required to remove, a decommissioning liability for those assets will be recognized at that time.

19. EMPLOYEE FUTURE BENEFITS

19.1 Pension Plan

Employees participate in the Province's Public Service Pension Plan, a multi-employer defined benefit plan. The employer's contributions for the year ended December 31, 2022 of \$12.8 million (2021 - \$13.1 million) are expensed as incurred.

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19.2 Other Benefits

Nalcor provides group life insurance and health care benefits on a cost shared basis to retired employees, and in certain cases, their surviving spouses, in addition to a retirement allowance. In 2022, cash payments to beneficiaries for its unfunded other employee future benefits were \$3.8 million (2021 - \$4.3 million). An actuarial valuation was performed as at December 31, 2022.

<i>As at December 31 (millions of Canadian dollars)</i>	2022	2021
Accrued benefit obligation, beginning of the year	139	153
Current service cost	6	7
Interest cost	5	4
Benefits paid	(4)	(4)
Actuarial gain	(48)	(21)
Accrued benefit obligation, end of the year	98	139

<i>For the year ended December 31 (millions of Canadian dollars)</i>	2022	2021
Component of benefit cost		
Current service cost	6	7
Interest cost	5	4
Total benefit expense for the year	11	11

The significant actuarial assumptions used in measuring the accrued benefit obligations and benefit expenses are as follows:

	2022	2021
Discount rate - benefit cost	3.35%	2.70%
Discount rate - accrued benefit obligation	5.20%	3.35%
Rate of compensation increase	3.50%	3.50%

Assumed healthcare trend rates:

	2022	2021
Initial health care expense trend rate	5.42%	5.53%
Cost trend decline to	3.60%	3.60%
Current rate 5.42%, reducing linearly to 3.6% in 2040 and thereafter.		

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

<i>Increase (millions of Canadian dollars)</i>	2022	2021
Current service and interest cost	2.3	2.6
Accrued benefit obligation	12.0	22.4
<i>Decrease (millions of Canadian dollars)</i>	2022	2021
Current service and interest cost	(1.6)	(1.9)
Accrued benefit obligation	(9.6)	(17.1)

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20. OTHER LONG-TERM LIABILITIES

<i>As at December 31 (millions of Canadian dollars)</i>		2022	2021
Deferred contributions	(a)	40	30
Long-term payables	(b)	36	76
Non-current lease liabilities		5	5
		81	111

(a) Deferred contributions:

<i>As at December 31 (millions of Canadian dollars)</i>		2022	2021
Deferred contributions, beginning of the year		31	27
Additions		11	5
Amortization		(1)	(1)
Deferred contributions, end of the year		41	31
Less: current portion		(1)	(1)
		40	30

Nalcor has received contributions in aid of construction of property, plant and equipment. These contributions are deferred and amortized to other revenue over the life of the related property, plant and equipment asset.

(b) Long-term payables:

<i>As at December 31 (millions of Canadian dollars)</i>	Notes	2022	2021
Long-term payables, beginning of the year		114	47
Additions		-	100
Settlements		(33)	(37)
Accretion		3	3
Revisions		5	1
Long-term payables, end of the year		89	114
Less: current portion	14	(53)	(38)
		36	76

As at December 31, 2022, long-term payables consist of a payable to the Innu Nation under the UCRA, a payable to the NunatuKavut Community Council under the Community Development Agreement, and a payable as a result of First Redetermination under the HSE Operating Agreement, which became effective on March 1, 2021.

Under the UCRA, Nalcor is required to pay to the Innu Nation \$2.0 million annually, escalating by 2.5% annually until 2041. At December 31, 2022, \$2.7 million (2021 - \$2.6 million) of the amount is current and is recorded in other current liabilities. Nalcor has sinking funds in the amount of \$35.0 million (2021 - \$35.6 million) to fund these future obligations. The present value of the remaining payments using a discount rate of 5.6% (2021 - 3.1%) is \$38.1 million (2021 - \$37.7 million).

HSE First Redetermination resulted in a reduction in Oil and Gas' working interest in the HSE field from 10% to 8.7%. The change in working interest triggered the re-balancing of historic barrels of oil, which requires Oil and Gas to repay oil received above the revised working interest over an estimated 30-month period, commencing May 2021. The balance of the liability as at December 31, 2022 is \$43.3 million (2021 - \$71.9 million) of which \$43.3 million (2021 - \$33.4 million) is recorded as current and included in other current liabilities.

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21. LEASES

Amounts recognized in the Consolidated Statement of Profit and Comprehensive Income

<i>For the year ended December 31 (millions of Canadian dollars)</i>		2022	2021
Variable lease payments not included in the measurement of leases	(a)	29	29

(a) Variable lease payments not included in the measurement of leases include payments made to the Province 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 year ended December 31, 2022 amount to \$29.0 million (2021 - \$28.9 million).

22. SHAREHOLDER'S EQUITY

22.1 Share Capital

<i>As at December 31 (millions of Canadian dollars)</i>	2022	2021
Common shares of par value \$1 each		
Authorized - unlimited		
Issued and outstanding - 122,500,000	123	123

23. CAPITAL MANAGEMENT

Nalcor's principal business requires ongoing access to capital in order to maintain assets and ensure the continuity of its operations as a going concern. Nalcor also requires access to capital to fund its development activities relating to the LCP. Therefore, Nalcor's primary objective when managing capital is to ensure ready access to capital at a reasonable cost, to minimize its cost of capital within the confines of established risk parameters, and to safeguard Nalcor's ability to continue as a going concern.

The capital managed by Nalcor is comprised of debt (long-term debentures, promissory notes, bank credit facilities and Class B limited partnership units) and equity (share capital, shareholder contributions, reserves and retained earnings).

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A summary of the consolidated capital structure is outlined below:

<i>As at December 31 (millions of Canadian dollars)</i>	2022		2021	
Debt				
Sinking funds (Hydro portion only)	(202)		(192)	
Short-term borrowings	131		55	
Current portion of long-term debt	69		68	
Long-term debt	10,721		9,792	
Class B limited partnership units	739		681	
Lease liabilities	5		5	
	11,463	62%	10,409	62%
Equity				
Share capital	123		123	
Shareholder contributions	4,859		4,859	
Reserves	(19)		(81)	
Retained earnings	2,187		1,607	
	7,150	38%	6,508	38%
Total Debt and Equity	18,613	100%	16,917	100%

Nalcor's committed operating facility has covenants restricting the issuance of debt such that the unconsolidated debt to total capitalization ratio cannot exceed 70.0%. The covenants further stipulate that the debt service coverage ratio should at all times be greater than 1.5 on an unconsolidated basis. As at December 31, 2022 and 2021, Nalcor was in compliance with these covenants.

23.1 Hydro

Hydro's principal business requires ongoing access to capital in order to maintain assets to ensure the continued delivery of safe and reliable service to its customers. Therefore, Hydro's primary objective when managing capital is to ensure ready access to capital at a reasonable cost, to minimize its cost of capital within the confines of established risk parameters, and to safeguard Hydro's ability to continue as a going concern.

The capital managed by Hydro is comprised of debt (long-term debentures, short-term borrowings, bank credit facilities and bank indebtedness) and equity (share capital, shareholder contributions, reserves and retained earnings).

Hydro's approach to capital management encompasses various factors including monitoring the percentage of floating rate debt in the total debt portfolio, the weighted average term to maturity of its overall debt portfolio, its percentage of debt to debt plus equity, and its interest coverage.

For the regulated portion of Hydro's operations, Management targets a capital structure comprised of 75% debt and 25% equity, a ratio which Management believes to be optimal with respect to its cost of capital. This capital structure is maintained by a combination of dividend policy, shareholder contributions and debt issuance. The issuance of any new debt with a term greater than one year requires prior approval of the PUB. Hydro's committed operating facility has a covenant requiring Hydro to ensure that its consolidated debt to total capitalization ratio does not exceed 85%. As at December 31, 2022 and 2021, Hydro was in compliance with this covenant.

Legislation stipulates that the total of the short-term loans issued by Hydro and outstanding at any time shall not exceed a limit as fixed by the Lieutenant-Governor in Council. Short-term loans are those loans issued with a term not exceeding two years. 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 million, effective until March 31, 2023. As at December 31, 2022, there are \$131.0 million in short-term borrowings outstanding (2021 - \$55.0 million). The Hydro Corporations Act limits Hydro's total borrowings outstanding at any point in time, which includes both short-term borrowings and long-term debt, to \$2.6 billion.

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Historically, Hydro Regulated addressed longer-term capital funding requirements by issuing government guaranteed long-term debt in the domestic capital markets. However, in December 2017, Hydro Regulated's process changed; the Province now issues debt in the domestic capital markets, on Hydro Regulated's behalf, and in turn loans the funds to Hydro Regulated on a cost recovery basis. Any additional funding to address long-term capital funding requirements requires approval from the Province and the PUB.

23.2 Muskrat Falls

Capital includes share capital, shareholder contributions and long-term debt. Muskrat Falls' objectives for managing capital are to maintain its ability to continue as a going concern and to ensure timely payment of its contractual obligations. Cash generated from operations will be sufficient to fund the operating, maintaining and sustaining activities of the MF Plant.

23.3 LCP Transmission

The capital structure of the LIL LP is comprised of partner capital (issued units, cash calls and deficit) and long-term debt. The capital structure is adjusted through the amount of distributions paid to the partners as well as capital contributions.

LIL LP's objective when managing capital is to fund the construction and ongoing sustaining capital requirements of the LIL while providing its partners a required return. The focus of the capital management policy is to provide flexibility to ensure cash continues to be available to satisfy capital requirements. Managing cash calls from the limited partners is a key aspect of ensuring the availability of funding to develop the LIL. The Province has provided guarantees to ensure partner contributions in relation to the construction of the LIL. These guarantees will ensure sufficient funds are available to finance remaining construction costs.

The capital structure of Labrador Transco includes share capital, shareholder contributions, and long-term debt. Labrador Transco's objectives for managing capital are to maintain its ability to continue as a going concern and to ensure timely payment of its contractual obligations. Cash generated from operations will be sufficient to fund the operating, maintaining and sustaining activities of the Labrador Transmission Assets.

The capital structure of LIL Opco and LIL GP includes share capital and shareholder contributions. LIL Opco's and LIL GP's objectives when managing capital are to maintain its ability to continue as a going concern and ensure timely payment of its contractual obligations as it relates to the operations and maintenance of the LIL.

The capital structure of LIL GP (2021) includes share capital. LIL GP (2021)'s objectives when managing capital are to maintain its ability to continue as a going concern and ensure payment of its obligations.

23.4 Churchill Falls

Churchill Falls' objective when managing capital is to maintain its ability to continue as a going concern. Churchill Falls' requirements for capital in the future are expected to remain consistent, in line with the aging of the plant and related infrastructure and the execution of the long-term asset management plan. The focus of the capital management policy is to provide flexibility to ensure cash continues to be available to satisfy capital requirements. Managing the level of dividend payments is a key aspect of ensuring the availability of funding to maintain the plant and infrastructure.

At present, the capital position of Churchill Falls is comprised entirely of equity capital (issued capital, shareholder contributions, reserves and retained earnings). The capital structure is adjusted through the amount of dividends paid to shareholders.

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23.5 Energy Marketing

Energy Marketing's objective when managing capital is to maintain its ability to continue as a going concern. Energy Marketing's capital consists of shareholder's equity, specifically, share capital, and retained earnings. Capital resource requirements are limited to working capital needs, which are funded through cash from operations, support from its parent, and a \$20.0 million demand operating facility with its primary banker.

23.6 Oil and Gas

Oil and Gas' objective when managing capital is to maintain the ability to fund operating costs and expenditures related to development and production assets, on a timely basis. Oil and Gas maintains an unsecured demand credit facility, which is used to finance operations in the short-term. Long-term capital includes share capital, shareholder contributions and retained earnings. Additional requirements will be funded through Oil and Gas' credit facility.

24. ENERGY SALES

<i>For the year ended December 31 (millions of Canadian dollars)</i>	2022	2021
Electricity sales	968	716
Petroleum and natural gas sales	393	298
Royalty expense	(34)	(38)
Total energy sales	1,327	976

25. OTHER REVENUE

<i>For the year ended December 31 (millions of Canadian dollars)</i>	2022	2021
Contract settlement	-	16
Lease revenue	10	9
Greenhouse gas performance credit sales	9	3
Other	13	9
Total other revenue	32	37

26. OPERATING COSTS

<i>For the year ended December 31 (millions of Canadian dollars)</i>	2022	2021
Salaries and benefits	143	140
Maintenance and materials	62	47
Professional services	36	23
Insurance	12	8
Travel and transportation	8	7
Other operating costs	3	5
Total operating costs	264	230

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27. PRODUCTION, MARKETING AND TRANSPORTATION COSTS

Production, marketing and transportation costs include costs incurred related to the operating, processing and transportation of oil.

<i>For the year ended December 31 (millions of Canadian dollars)</i>	2022	2021
Project operating costs	21	21
Transportation and transshipment	7	7
Processing and marketing	2	3
Total production, marketing and transportation costs	30	31

28. NET FINANCE EXPENSE

<i>For the year ended December 31 (millions of Canadian dollars)</i>	2022	2021
Finance income		
Interest on restricted cash	29	4
Interest on investments	26	18
Other interest income	12	5
	67	27
Finance expense		
Interest on long-term debt	387	361
Interest on Class B limited partnership units	58	53
Debt guarantee fee	-	23
Other	15	9
	460	446
Interest capitalized during construction	(168)	(292)
	292	154
Net finance expense	225	127

29. OTHER EXPENSE

<i>For the year ended December 31 (millions of Canadian dollars)</i>	2022	2021
Settlement of commodity price swap contracts	69	59
HSE Redetermination re-balancing adjustment (a)	(22)	89
HSE Redetermination royalty adjustment (a)	-	31
Loss (gain) on disposal of property, plant and equipment	19	(24)
Rental and royalty	19	12
Other	10	(10)
Total other expense	95	157

(a) On March 1, 2021 First Redetermination under the HSE Operating Agreement became effective, resulting in a reduction in Oil and Gas' working interest in the HSE field from 10% to 8.7%. The impact of the decrease in working interest included a historical true-up of production, capital costs and royalties.

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30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

30.1 Fair Value

The estimated fair values of financial instruments as at December 31, 2022 and December 31, 2021 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 years ended December 31, 2022 and 2021.

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
		December 31, 2022		December 31, 2021	
<i>As at (millions of Canadian dollars)</i>					
Financial assets					
Derivative assets	2	8	8	3	3
Sinking funds - investments in Hydro debt issue	2	94	93	84	94
Sinking funds - other investments	2	237	243	227	271
Investments, including short-term	2	282	264	-	-
Reserve fund	2	49	49	43	43
Financial liabilities					
Derivative liabilities	2	30	30	31	31
Long-term debt including amount due within one year (before sinking funds)	2	10,884	9,910	9,944	11,741
Class B limited partnership units	3	739	739	681	681
Long-term payables including amount due within one year	2	89	96	114	132

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The fair value of cash and cash equivalents, restricted cash, short-term investments, 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 Class B limited partnership units.

The Class B limited partnership units are carried at amortized cost calculated using the effective interest rate method. The effective interest rate of 8.5% (2021 – 8.5%) is defined in the Newfoundland and Labrador Development Agreement as 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 cash flows associated with the units, the fair value is assumed to approximate carrying value and the instruments have therefore 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:

<i>(millions of Canadian dollars)</i>	1% Increase	1% Decrease
Class B limited partnership units	(51.3)	48.2

30.2 Risk Management

Nalcor is exposed to certain credit, liquidity and market 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.

Credit risk on cash and cash equivalents is considered to be minimal, as Nalcor's cash deposits are held by a Schedule 1 Canadian Chartered bank with a rating of A+ (Standard and Poor's). Credit risk on restricted cash is considered to be minimal, as Nalcor's restricted cash deposits are held by Schedule 1 Canadian Chartered banks with a rating of A+ to AA- (Standard and Poor's). Restricted cash also includes funds held in trust by solicitors of the Company. Credit risk on short-term investments is minimized by limiting holdings to high-quality, investment grade securities issued by the Federal and Provincial governments, as well as BAs and term deposits issued by Schedule 1 Canadian Chartered banks. The Financial Risk Management Policy as approved by the Board, also restricts the aggregate principal amount of permitted investments issued by a single Canadian Schedule 1 or 2 bank from exceeding 30% of the total principal amount of all investments on a consolidated basis.

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Credit exposure on Nalcor's sinking funds is limited by restricting the holdings to long-term debt instruments issued by the Government of Canada or any province of Canada, Crown corporations and Schedule 1 Canadian Chartered banks. The following credit risk table provides information on credit exposures according to issuer type and credit rating for the remainder of the sinking fund's portfolio:

	Issuer Credit Rating	Fair Value of Portfolio (%)	Issuer Credit Rating	Fair Value of Portfolio (%)
	2022		2021	
Provincial governments	AA-to AAA	16.88%	AA-to AAA	17.44%
Provincial governments	A- to A+	25.17%	A- to A+	25.95%
Provincially owned utilities	AA-to AAA	26.57%	AA-to AAA	25.86%
Provincially owned utilities	A- to A+	31.38%	A- to A+	30.75%
		100.00%		100.00%

Credit exposure on the reserve fund is mitigated by adhering to an investment policy which restricts the holdings to long-term debt instruments issued or guaranteed by the Government of Canada or any province of Canada. Investments in the long-term debt instruments of Canadian banks are also permitted, provided the bank is rated A or higher by Standard and Poor's. With the exception of the Government of Canada, holdings of any one issuer are limited to 10.0% of the total principal amount of the portfolio. The following credit risk table provides information on credit exposures according to issuer type and credit rating for the reserve fund:

	Issuer Credit Rating	Fair Value of Portfolio (%)	Issuer Credit Rating	Fair Value of Portfolio (%)
	2022		2021	
Government of Canada	AAA	2.56%	AAA	0.00%
Provincial governments	AA- to AAA	16.37%	AA- to AAA-	10.58%
Provincially owned utilities	AA- to AAA	4.14%	AA- to AAA	4.82%
Provincial governments	A- to A+	39.26%	A- to A+	38.14%
Provincially owned utilities	A- to A+	2.31%	A- to A+	5.30%
Schedule 1 Canadian banks	AA- to AAA-	12.95%	AA- to AAA	15.59%
Schedule 1 Canadian banks	A- to A+	22.41%	A- to A+	25.57%
		100.00%		100.00%

Credit exposure on Nalcor's long-term investments is considered to be limited as the investments are held by Schedule 1 Canadian Chartered banks and Provincially owned utilities with investment grade ratings of A- or higher (Standard and Poor's). The following credit risk table provides information on long-term and short-term investment credit exposures according to issuer type and credit rating:

	Issuer Credit Rating	Fair Value of Portfolio (%)	Issuer Credit Rating	Fair Value of Portfolio (%)
	2022		2021	
Provincially owned utilities	A- to A+	0.07%	A- to A+	100.00%
Schedule 1 Canadian Banks	A- to A+	99.93%	A- to A+	0.00%
		100.00%		100.00%

Credit exposure on derivative assets is limited by a Financial Risk Management Policy as approved by the Board, which restricts available counterparties for hedge transactions to Schedule 1 Canadian Chartered banks and Federally Chartered US banks.

Nalcor does not have any significant amounts that are past due and uncollectable, for which a provision has not been recognized as at December 31, 2022.

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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. Nalcor maintains a \$250.0 million (2021 - \$250.0 million) committed revolving term credit facility, with a maturity date of July 31, 2023. There were no amounts drawn on this facility at December 31, 2022 (2021 - \$nil). In addition, Hydro has access to a \$300.0 million promissory note program and a \$500.0 million (2021 - \$500.0 million) committed revolving term credit facility with a maturity date of July 31, 2023. There were no amounts drawn on this facility at December 31, 2022 (2021 - \$nil). Oil and Gas, Energy Marketing and Churchill Falls also maintain demand operating facilities of \$30.0 million (2021 - \$30.0 million), \$20.0 million (2021 - \$20.0 million) and \$10.0 million (2021 - \$10.0 million), respectively. In addition, Churchill Falls maintains a \$24.0 million minimum cash balance (2021 - \$24.0 million).

Liquidity risk for Muskrat Falls, Labrador Transco, and LIL LP is considered to be minimal due to the prefunded equity reserves held in the respective reserve accounts as instructed in the Project Finance Agreements as well as the equity support guarantees with the Province.

Long-term liquidity risk for Hydro is managed by the issuance of a portfolio of debentures with maturity dates ranging from 2026 to 2048. Sinking funds have been established for these issues, with the exception of the issues maturing in 2030, 2045 and 2048.

Churchill Falls long-term liquidity risk is managed by maintenance of the reserve fund in accordance with the Shareholders' Agreement and a dividend management policy that meets long-term liquidity requirements associated with Churchill Falls' capital expenditure program.

The following are contractual maturities of Nalcor's financial liabilities as at December 31, 2022:

<i>(millions of Canadian dollars)</i>	<1 Year	1-3 Years	3-5 Years	>5 Years	Total
Trade and other payables	301	-	-	-	301
Short-term borrowings	131	-	-	-	131
Long-term debt (including sinking funds, interest and guarantee fees)	535	1,068	1,142	15,538	18,283
Class B limited partnership units (including interest)	50	175	178	3,728	4,131
Long-term payables	50	2	2	35	89
	1,067	1,245	1,322	19,301	22,935

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, No. 6 fuel, diesel 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

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financing strategy whereby floating rate debt exposures and interest rate scenarios are forecasted and evaluated. A diversified portfolio of fixed and floating rate debt is maintained and managed with a view to an acceptable risk profile. Key quantitative parameters for interest rate risk management includes the percentage of floating rate debt in the total debt portfolio, coupled with an examination of the weighted average term to maturity of the entire debt portfolio. By setting clear guidelines in respect to these quantitative parameters, Nalcor attempts to minimize the likelihood of a material impact on profit or loss resulting from an unexpected change in interest rates.

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, capital purchases, USD denominated electricity sales and the sale of crude oil. For the purchase of No. 6 fuel, these risks are mitigated through the operation of regulatory mechanisms. During 2022, total energy sales denominated in USD were \$83.6 million (2021 - \$39.5 million).

Nalcor does not have significant exposure to fluctuations in foreign exchange with respect to its trade and other receivables and trade and other payables.

During 2022, total oil sales denominated in USD were \$304.4 million (2021 - \$238.2 million). To mitigate foreign exchange risk and commodity price risk on a portion of these sales, Oil and Gas used foreign currency forward contracts and fixed price commodity swaps, respectively.

On March 31, 2022 Oil and Gas entered into a series of commodity price swap contracts with a notional value of \$52.1 million USD and an average price of \$96.43 USD per barrel. On June 23, 2022, Oil and Gas entered into a series of commodity price swap contracts with a notional value of \$57.5 million USD and an average price of \$98.81 USD per barrel. On September 29, 2022, Oil and Gas entered into a series of commodity price swap contracts with a notional value of \$37.6 million USD and an average price of \$82.50 USD per barrel. Additionally, on December 19, 2022 Oil and Gas entered into a series of commodity price swap contracts with a notional value of \$35.4 million USD and an average price of \$77.88 USD per barrel.

As at December 31, 2022, Oil and Gas has 60 commodity price swaps remaining, hedging 55.50% of anticipated January 2023 to December 2023 oil sales. The remaining contracts have a notional value of \$123.4 million USD, and an average fixed price of \$86.11 USD per barrel. As the contracts have been designated as hedging instruments, change in fair value has been recorded in other comprehensive income. During 2022, \$69.0 million in realized losses (2021 - \$59.0 million in realized losses) have been recorded in other expense and \$4.8 million in unrealized gains (2021 - \$12.4 million in unrealized losses) remain in other comprehensive income.

On March 31, 2022 Oil and Gas entered into a series of foreign exchange forward contracts with a notional value of \$52.1 million USD and an average fixed exchange rate of \$1.25 CAD per USD. On June 23, 2022, Oil and Gas entered into a series of foreign exchange forward contracts with a notional value of \$57.5 million USD and an average fixed exchange rate of \$1.30 CAD per USD. On September 29, 2022, Oil and Gas entered into a series of foreign exchange forward contracts with a notional value of \$37.6 million USD and an average fixed exchange rate of \$1.37 CAD per USD. Additionally, on December 20, 2022 Oil and Gas entered into a series of foreign exchange forward contracts with a notional value of \$35.4 million USD and an average fixed exchange rate of \$1.36 CAD per USD.

As at December 31, 2022, Oil and Gas has 34 foreign exchange forward contracts remaining hedging foreign exchange risk on 58.51% of anticipated USD cash flows from oil sales from January 2023 to January 2024. The remaining contracts have a notional value of \$138.3 million USD, and an average fixed exchange rate of \$1.31 CAD per USD. As the contracts have been designated as hedging instruments, changes in fair value have been recorded in other comprehensive income. During 2022, \$5.3 million in realized losses (2021 - \$4.3 million in realized gains) have been recorded in other expense and \$5.1 million in unrealized losses (2021 - \$0.2 million in unrealized losses) remain in other comprehensive income.

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During 2022, additional financial transmission rights with notional values of \$0.9 million (2021 - \$0.5 million) were purchased to mitigate risk on congestion for the remainder of 2022, 2023 and a portion of 2024. As the rights have not been designated as hedging instruments, changes in fair value have been recorded in other expense.

31. 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	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 financial statements, are summarized below:

<i>As at December 31 (millions of Canadian dollars)</i>		2022	2021
Trade and other receivables:			
Other related parties	(a)	15	17
Trade and other payables:			
The Province	(b,c)	33	21
Long-term debt:			
The Province		925	925
Shareholder contributions:			
The Province		-	250
<i>For the year ended December 31 (millions of Canadian dollars)</i>		2022	2021
Energy sales:			
Other related parties		85	66
The Province	(d)	(34)	(38)
Other revenue:			
Other related parties		-	16
Operating costs:			
Other related parties		4	4
Net finance expense:			
The Province		36	35
Other expense:			
The Province		19	9

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- (a) Included in trade and other receivables as at December 31, 2022 and 2021 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.

31.1 Key Management Personnel

Compensation for key management personnel, which Nalcor defines as its executives who have the primary authority and responsibility in planning, directing and controlling the activities of the entity, includes compensation for senior executives. Salaries and employee benefits include costs such as base salaries and contributions to employee benefit plans. Post-employment benefits include contributions to the Province's Public Service Pension Plan.

<i>For the year ended December 31 (millions of Canadian dollars)</i>	2022	2021
Salaries and employee benefits	4	6
Post-employment benefits	1	1
	5	7

32. 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 \$94.9 million as at December 31, 2022 (2021 - \$85.7 million).
- (c) Nalcor and its subsidiaries have issued 18 irrevocable letters of credit with a total value of \$33.9 million as per Note 15.1.
- (d) Oil and Gas has the following capital and operating commitments as a result of its joint venture partnerships:

<i>(millions of Canadian dollars)</i>	Total Commitments
2023	12.7
2024	5.7
2025	5.2
2026	5.3
2027	3.0
Thereafter	8.8

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(e) The Company has entered into a number of long-term power purchase agreements as follows:

Type	Rating	Effective Date	Term
Hydroelectric	6.5 MW	2021	24 years
Hydroelectric	4 MW	1998	25 years
Hydroelectric	300 MW	1998	43 years
Hydroelectric	225 MW	2015	25 years
Cogeneration	15 MW	2003	20 years
Wind	390 kW	2004	Continual
Wind	27 MW	2008	20 years
Wind	27 MW	2009	20 years
Hydroelectric	240 kW Hydro	2019	15 years
Solar	189 kW Solar	2019	15 years
Battery	334.5 kW Battery	2019	15 years
Solar	103 kW	2022	Continual
Biomass	450 kW	2018	1 year post in-service of Lower Churchill Project

Estimated payments due in each of the next five years are as follows:

<i>(millions of Canadian dollars)</i>	2023	2024	2025	2026	2027
Power purchases	44.2	39.0	39.0	39.1	39.5

- (f) In May 2021, Hydro entered into an amended Capacity Assistance Agreement with Corner Brook Pulp and Paper Limited (CBPP) for the purchase of relief power during the winter period that expires on April 30, 2023. Payment for services will be dependent on the successful provision of capacity assistance for the winter period by CBPP.
- (g) Energy Marketing has commitments for third party transmission rights as well as operational commitments totaling \$5.2 million as at December 31, 2022 (2021 - \$8.0 million).
- (h) Hydro holds firm transmission rights with Hydro-Québec TransÉnergie which conclude in 2024.

The transmission rental payments for the next two years are estimated to be as follows:

2023	\$18.9 million
2024	\$4.8 million

- (i) As part of the LIL PFA, the LIL LP has pledged its current and future assets as security to the Collateral Agent. Under the terms and conditions of the IT PFA, the LIL LP has also provided a guarantee of the IT's payment obligations to the Collateral Agent for the benefit of the LIL Funding Trust. LIL Holdco has pledged the escrow account, where pre-funded equity contributions have been deposited, as security to the Collateral Agent.
- (j) As part of the MF/LTA PFA, Muskrat Falls and Labrador Transco have pledged its present and future assets as security to the Collateral Agent.
- (k) Under the terms of the Newfoundland and Labrador Development Agreement (NLDA), LIL GP has certain responsibilities and provisions of duty with which it must comply in its role as the general partner. Any failure of LIL GP to comply with the NLDA will result in Nalcor indemnifying Emera NL for any losses sustained.

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- (l) In July 2012, Nalcor entered into the Energy and Capacity Agreement with Emera NL providing for the sale and delivery of the Nova Scotia Block, being 0.986 TWh of energy annually for a term of 35 years. In October 2015, Nalcor assigned this agreement to Muskrat Falls. As a result of this assignment, Nalcor and Muskrat Falls are jointly liable for the delivery of the Nova Scotia Block to Emera.
- (m) Under the IBA, Nalcor is required to make annual payments of the greater of \$5.0 million escalating by an annual consumer price index and 5% of after debt net cash flow, as defined by the agreement.
- (n) As at December 31, 2022, Nalcor, on behalf of Energy Marketing, has issued unconditional guarantees and sales contracts in the amount of \$22.7 million (2021 - \$20.7 million) in order to guarantee amounts under power purchase and sale contracts with bilateral counterparties and purchase and sale of transmission rights.

33. SUPPLEMENTARY CASH FLOW INFORMATION

<i>For the year ended December 31 (millions of Canadian dollars)</i>	2022	2021
Trade and other receivables	(10)	(15)
Prepayments	(1)	6
Inventories	(17)	9
Trade and other payables	(73)	(15)
Changes in non-cash working capital balances	(101)	(15)
Related to:		
Operating activities	59	(11)
Investing activities	(160)	(4)
	(101)	(15)

NALCOR ENERGY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

34. SEGMENT INFORMATION

The designation of segments is based on a combination of regulatory status and management accountability and have been updated in 2022 to reflect recent changes in reporting, leadership and focus. Previously reported segmented information has been presented to conform to the current operating structure. The following summary provides a brief overview of the nature of operations included in each of the Company's operating segments as at December 31, 2022.

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 LIL and 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.

NALCOR ENERGY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

<i>(millions of Canadian dollars)</i>	Hydro Regulated	Muskat Falls	LCP Transmission	Churchill Falls	Energy Trading	Other Electric	Oil and Gas	Corporate	Inter-Segment	Total
For the year ended December 31, 2022										
Energy sales	649	416	110	118	123	131	359	-	(579)	1,327
Other revenue	31	-	-	1	5	11	-	-	(16)	32
Revenue	680	416	110	119	128	142	359	-	(595)	1,359
Fuels	188	-	-	-	-	-	-	-	-	188
Power purchased	473	-	-	-	29	54	-	-	(475)	81
Operating costs	135	29	7	40	5	27	4	16	1	264
Production, marketing and transportation costs	-	-	-	-	-	-	30	-	-	30
Transmission rental	3	114	-	-	25	4	-	-	(123)	23
Depreciation, depletion, amortization and impairment	80	-	-	24	-	35	81	5	(1)	224
Net finance expense (income)	94	120	19	(3)	(1)	-	4	(7)	(1)	225
Other expense (income)	23	19	1	6	(2)	-	47	-	1	95
Preferred dividends	-	-	-	(5)	-	-	-	-	5	-
Expenses	996	282	27	62	56	120	166	14	(593)	1,130
(Loss) profit for the year before regulatory adjustments	(316)	134	83	57	72	22	193	(14)	(2)	229
Regulatory adjustments	(352)	-	-	-	-	-	-	-	1	(351)
Profit (loss) for the year	36	134	83	57	72	22	193	(14)	(3)	580
Capital expenditures*	104	28	214	69	-	10	31	3	(3)	456
Total assets	3,237	7,648	6,853	781	136	1,929	804	520	(618)	21,366
Total debt**	1,971	4,465	5,027	-	-	-	-	-	-	11,463

*Capital expenditures (inclusive of property, plant and equipment and intangible assets) include non-cash additions of (\$1.5) million related to the Maritime Link, \$18.8 million related to the transfer of the microwave telecommunications assets from Hydro-Québec, \$57.9 million related to Class B Limited Partnership Unit accrued interest, and \$109.8 million of interest capitalized during construction.

**Total debt includes short-term borrowings, long-term debt including current portion less Hydro's sinking funds of \$201.9 million, Class B Limited Partnership Units, and lease liabilities.

NALCOR ENERGY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

<i>(millions of Canadian dollars)</i>	Hydro Regulated	Muskrat Falls	LCP Transmission	Churchill Falls	Energy Trading	Other Electric	Oil and Gas	Corporate	Inter- Segment	Total
For the year ended December 31, 2021										
Energy sales	538	59	135	99	55	56	260	-	(226)	976
Other revenue	16	-	-	16	2	9	-	1	(7)	37
Revenue	554	59	135	115	57	65	260	1	(233)	1,013
Fuels	122	-	-	-	-	-	-	-	-	122
Power purchased	123	-	-	-	4	47	-	-	(94)	80
Operating costs	129	13	8	39	5	13	10	13	-	230
Production, marketing and transportation costs	-	-	-	-	-	-	31	-	-	31
Transmission rental	-	135	-	-	26	1	-	-	(138)	24
Depreciation, depletion and amortization	84	-	-	21	-	13	80	4	-	202
Net finance expense (income)	91	14	24	(1)	-	-	4	(4)	(1)	127
Other expense (income)	2	4	1	7	(4)	-	144	-	3	157
Preferred dividends	-	-	-	(4)	-	-	-	-	4	-
Expenses	551	166	33	62	31	74	269	13	(226)	973
Share of loss of joint arrangement	-	-	-	1	-	-	-	-	-	1
Profit (loss) for the year before regulatory adjustments	3	(107)	102	52	26	(9)	(9)	(12)	(7)	39
Regulatory adjustments	(33)	-	-	-	-	-	-	-	-	(33)
Profit (loss) for the year	36	(107)	102	52	26	(9)	(9)	(12)	(7)	72
Capital expenditures*	115	307	244	48	-	(7)	24	4	(3)	732
Total assets	2,910	6,856	6,454	718	82	1,956	869	365	(436)	19,774
Total debt**	1,914	3,664	4,831	-	-	-	-	-	-	10,409

*Capital expenditures (inclusive of property, plant and equipment and intangible assets) include non-cash additions of (\$12.3) million related to the Maritime Link, \$53.4 million related to Class B Limited Partnership Unit accrued interest, and \$238.8 million of interest capitalized during construction.

**Total debt includes short-term borrowings, long-term debt including current portion less Hydro's sinking funds of \$191.7 million, Class B Limited Partnership Units, and lease liabilities.

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