Government of Newfoundland and Labrador
Department of Industry, Energy and Technology
Office of the Minister

June 27, 2024

Ms. Kim Hawley George
Clerk of the House of Assembly
House of Assembly
P.O. Box 8700
St. John's, NL
A1B 4J6

Dear Ms. Hawley George:

In accordance with section 16 of the **Transparency and Accountability Act**, I wish to issue a statement concerning the enclosed 2023 Annual Performance Report for Newfoundland and Labrador Hydro (Hydro) and Nalcor Energy (Nalcor).

In June 2021, Government announced that Nalcor's operations would move under Hydro. While Nalcor operations have effectively moved under Hydro in a streamlined executive structure, they currently remain separate legal entities under the **Energy Corporation Act** and the **Hydro Corporation Act, 2007**, and are categorized entities in accordance with the **Transparency and Accountability Act**. In consideration of the June 2021 announcement, the Boards of Directors of Nalcor and Hydro have consolidated the performance reporting into a single report that provides full transparency into the operations of both entities now operating as a single organization.

Sincerely,

ANDREW PARSONS, KC
Minister of Industry, Energy and Technology

Newfoundland and Labrador Hydro and Nalcor Energy

Transparency and Accountability

2023 Annual Performance Report

June 2024

Message from the Boards of Directors

Honourable Andrew Parsons, K.C.
Minister of Industry, Energy and Technology
Government of Newfoundland and Labrador
P.O. Box 8700
St. John's, NL A1B 4J6

Dear Minister Parsons:

In accordance with the **Transparency and Accountability Act**, I am pleased to provide the 2023 Annual Performance Report for Newfoundland and Labrador Hydro (Hydro) and Nalcor Energy (Nalcor), on behalf of the Boards of Directors for both entities.

In June 2021, the Government of Newfoundland and Labrador (Province) announced that Nalcor's operations would move under Hydro. As such, we have consolidated our performance reporting into a single document that provides full transparency into the operations of both entities which now operate as a single organization. The previously submitted 2023-2025 Strategic Plan for Hydro and Nalcor are in line with the applicable strategic directions of the Province in relation to the energy sector, as communicated by the Minister of Industry, Energy and Technology.

This report presents performance results and accomplishments for the 2023 calendar year for both Hydro and Nalcor and is the first year under both entities' 2023-2025 Strategic Plan.

Sadly, as part of this report, Hydro reports that a workplace fatality occurred in 2023. Hydro employees lost a colleague and friend, Mr. Bill Walsh. We remember Mr. Walsh and his contributions to our organization.

As the Boards of Directors of Nalcor and Hydro, we are accountable for the preparation of this report and are accountable for the results.

John Green, K.C.
Acting Chair, Board of Directors of
Newfoundland and Labrador Hydro
Acting Chair, Board of Directors of
Nalcor Energy

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1.0 OVERVIEW

As of December 31, 2023, Newfoundland and Labrador Hydro (Hydro) and Nalcor Energy (Nalcor) are Crown Corporations that exist as Category 1 public bodies and are therefore required to submit three-year strategic plans in accordance with the **Transparency and Accountability Act**. Likewise, they are required to provide annual performance reports with respect to the three-year strategic plans. On June 23, 2021, the Government of Newfoundland and Labrador (Province) announced that Nalcor operations would move under Hydro.[1, 2] As such, this 2023 Transparency and Accountability Performance Report is being provided on behalf of both Hydro and Nalcor. Use of the Organization is in reference to the integrated company which publicly operates under the Newfoundland and Labrador Hydro brand, but is responsible for the operations of all Hydro and Nalcor entities, in accordance with the direction of the Province.

1.1 Mandates

The mandates of both Hydro and Nalcor are established in legislation. They render the Organization responsible for the provision of electricity within Newfoundland and Labrador, and the development of provincial energy resources in a manner that supports the economic prosperity of Newfoundland and Labrador. The specific mandates for each entity are further described in the sections that follow.

1.1.1 Newfoundland and Labrador Hydro

The **Hydro Corporation Act, 2007**[3] mandates Hydro to be responsible for:

- Developing and purchasing power on an economic and efficient basis;
- Engaging within the province and elsewhere in the development, generation, production, transmission, distribution, delivery, supply, sale, purchase and use of power from water, steam, gas, coal, oil, wind, hydrogen and other products used or useful in the production of power; and
- Supplying power, at rates consistent with sound financial administration, for domestic, commercial, industrial or other uses in the province and, subject to the prior approval of the Lieutenant-Governor in Council, outside of the province.

The corporation may also engage in activities that the Lieutenant-Governor in Council approves.[4]

[1] Press Release, June 23, 2021, "Premier Furey and Minister Parsons Announce Nalcor Operations Moving Under Newfoundland and Labrador Hydro."
[2] The changes are operational in nature – the Nalcor legal entity structure and all of its subsidiaries remain unchanged at this point in time pending legislative amendments.
[3] **Hydro Corporation Act, 2007**, Section 5(1).
[4] **Hydro Corporation Act, 2007**, Section 5(2).

1.1.2 Nalcor Energy

Nalcor's mandate, established under the **Energy Corporation Act**,[5] is to invest in, engage in and carry out activities in all areas of the energy sector in the province and elsewhere, in accordance with the priorities of the Province, including:

- Developing, generating, producing, transmitting, distributing, delivering, supplying, selling, exporting, purchasing and using power from wind, water, steam, gas, coal, oil, hydrogen or other products used or useful in the production of power;
- Exploring for, developing, producing, refining, marketing and transporting hydrocarbons and products from hydrocarbons;
- Manufacturing, producing, distributing and selling energy related products and services; and
- Research and development.

The corporation may also engage in activities that the Lieutenant-Governor in Council approves.[6]

1.2 Legal Structure

The Organization's legal structure at December 31, 2023 included the entities listed in Table 1.

[5] **Energy Corporation Act**, Section 5(1).
[6] **Energy Corporation Act**, Section 5(2).

Table 1: Legal Structure

Entity Name	Description of Interest
Newfoundland and Labrador Hydro	Wholly-owned subsidiary
Nalcor Energy – Oil and Gas Inc.[7]	Wholly-owned subsidiary
Nalcor Energy Marketing Corporation	Wholly-owned subsidiary
Muskrat Falls Corporation	Wholly-owned subsidiary
Labrador Transmission Corporation	Wholly-owned subsidiary
Labrador-Island Link Holding Corporation (LIL Holdco)	Wholly-owned subsidiary of LIL (2021) Limited Partnership
Labrador-Island Link Limited Partnership	Limited partnership in which Nalcor, through LIL Holdco, owns 100 per cent of the Class A Limited Units and Class C Limited Unit and, through LIL GP, the GP Unit
Labrador-Island Link General Partner Corporation (LIL GP)	Wholly-owned subsidiary
Labrador-Island Link Operating Corporation	Wholly-owned subsidiary
Lower Churchill Management Corporation	Wholly-owned subsidiary
Churchill Falls (Labrador) Corporation Limited (CF(L)Co)	65.8 per cent owned joint operation of Hydro
Gull Island Power Company Limited	Wholly-owned subsidiary (inactive)
Lower Churchill Development Corporation	51 per cent owned subsidiary of Hydro (inactive)
Labrador-Island Link General Partner (2021) Corporation (LIL (2021) GP)	Wholly-owned subsidiary
Labrador-Island Link Holding (2021) Corporation (LIL (2021) Holdco)	Wholly-owned subsidiary
LIL (2021) Limited Partnership	Limited partnership in which Nalcor, through LIL (2021) Holdco, owns 100 per cent of the Class A Limited Units and, through LIL (2021) GP, owns 100 per cent of the GP Unit
Other: Twin Falls Power Corporation Limited[8]	100 per cent owned by Churchill Falls (Labrador) Corporation Limited

1.3 Lines of Business

The Organization is the primary generator of electricity in Newfoundland and Labrador. The Organization is comprised of both regulated and non-regulated operations and includes generation, transmission and distribution assets, as well as support services. The regulated portion of the Organization is primarily responsible for the provision of safe, reliable, least-cost, environmentally responsible electricity supply for domestic residential, commercial, and industrial needs. This portion of the Organization is regulated by the Newfoundland and

[7] In 2019, a stand-alone Crown Corporation (i.e., The Oil and Gas Corporation of Newfoundland and Labrador (OilCo)) was established to work directly with the Department of Industry, Energy and Technology (IET) to accelerate growth opportunities in the petroleum industry. Nalcor Energy – Oil and Gas Inc. continues to hold ownership of existing equity interests and has transitioned to a supporting role in the management of these assets. OilCo is a Category 1 entity under the **Transparency and Accountability Act**, and is responsible for preparing strategic plans and annual reports.

[8] Corporation dissolved as of December 18, 2023.

Labrador Board of Commissioners of Public Utilities (PUB) and its electricity rates are set through periodic general rate applications.[9]

The non-regulated portion of the business is responsible for the operation and development of other provincial energy resources. This includes the Lower Churchill assets,[10] CF(L)Co,[11] the Menihek Generating Station and the Maritime Link.[12] The non-regulated portion of the business is also responsible for Nalcor's interest in the Province's oil and gas developments[13] and the energy trading activities undertaken by Nalcor Energy Marketing (NEM).

The Organization is supported by a common set of corporate services. Costs associated with these services are proportionally shared between the regulated and non-regulated components of the business (e.g., finance and accounting, corporate planning and reporting, etc.).

See Appendix A for Generation and Transmission Maps, and Appendix B for an overview of Lines of Business.

1.4 Number of Employees and Physical Location

The Organization's headquarters is located in St. John's, Newfoundland and Labrador. Appendix C provides an overview of the Organization's energy portfolio with assets located throughout the province.

In 2023, the Organization had 1,507 employees[14], 64 per cent of whom were located in rural parts of the island and Labrador. In 2023, the gender composition of the Organization's employee group was 71 per cent male and 29 per cent female. Table 2 provides an overview of the composition of the Organization's employees as of December 31, 2023.

[9] Energy sales to industrial customers in Labrador are non-regulated. Such rates are set in accordance with the Labrador Industrial Rates Policy.
[10] Includes 824 megawatts (MW) hydroelectric generating facility, Labrador Transmission Assets and LIL.
[11] Churchill Falls is one of the largest underground hydroelectric powerhouses in the world, with a rated capacity of 5,428 MW. The majority of electricity produced by the Churchill Falls Generating Station is sold to Hydro-Québec under a long-term contract; however, CF(L)Co sells 225 MW to Hydro for use in Labrador West and 300 MW of energy for use in the province. Any surplus Recapture energy (i.e. energy that is surplus to Newfoundland and Labrador's needs) which is not used by Hydro is made available to NEM for export.
[12] The Maritime Link is owned by NSP Maritime Link Inc., a wholly-owned subsidiary of Emera Newfoundland & Labrador Holdings Inc. and an affiliate of Nova Scotia Power.
[13] Nalcor Oil and Gas is an equity partner in three offshore fields: White Rose, Hibernia Southern Extension and Hebron. OilCo was created by legislation to accelerate growth opportunities in the petroleum industry and manages these interests on behalf of Nalcor Oil and Gas.
[14] Number of employees refers to how many individual people were employed at Hydro in 2023, for example some employees work a part year only. Number of employees differs from Full Time Equivalents (FTEs). Hydro had 1,480 FTEs in 2023.

Table 2: 2023 Employee Composition by Gender and Location

Gender	Rural	Urban	Total	Per cent
Female	175	256	**431**	**29**
Male	787	289	**1,076**	**71**
Total	**962**	**545**	**1,507**	
Per cent	**64**	**36**		

The Organization is executing multi-year plans to support diversity and inclusion. In addition to target setting for gender representation, the Organization continues to pursue diversity and inclusion strategies to attract, recruit, develop and retain members of designated groups including Indigenous peoples, persons with disabilities and members of visible minorities. The Organization has also reviewed its recruitment and talent management processes through a diversity and inclusion lens. Such efforts have contributed to an increase in the Organization's percentage of female employees from 22 per cent in 2011, to 29 per cent in 2023.

1.5 Boards of Directors

As Hydro and Nalcor remain separate legal entities at this time, each entity has a separate Board of Directors. The Boards of Directors are accountable to provide oversight to the Organization's policies, plans, performance, risks, and ensuring consistency with the Organization's mandates. Members of the Hydro and Nalcor Boards of Directors are appointed by the Province upon recommendation by the Independent Appointments Commission, which is an independent body established by the Province to provide merit-based recommendations for appointments. While two separate Boards of Directors exist to support the legal entity requirements of Hydro and Nalcor, both Boards of Directors work jointly to provide oversight of the entire Organization.

The composition of the Hydro and Nalcor Boards of Directors as of December 31, 2023 was as shown in Table 3.

Table 3: Board Members as of December 31, 2023

Hydro	Nalcor
Albert Williams, Chair	Albert Williams, Chair
John Green, K.C., Acting Chair[15]	John Green, K.C., Acting Chair
Bob Barnes	Geoff Goodyear
Donna Brewer	Jack Hillyard
Fraser H. Edison	Mark MacLeod
Jim Haynes	Debbie Molloy
Chris Loomis	David Oake
John Mallam	Derek Purchase
David Oake	Dr. Edna Turpin, ICD.D
Trina Troke	Jennifer Williams
Brian Walsh	
Jennifer Williams	

1.6 2023 Revenues and Expenses

1.6.1 Newfoundland and Labrador Hydro

In 2023, Hydro had revenues of $1,275 million. The majority of Hydro's revenues are from regulated energy sales to utility, rural and industrial customers, with other revenues including transmission tariff revenue, greenhouse gas performance credit sales and government grants, which were provided for the purpose of mitigating future customer rate increases to recover net supply costs. In 2023, Hydro's total profit for the year was $70 million after regulatory adjustments. This consisted of $33 million from Hydro Regulated, and $37 million from Churchill Falls.

Table 4 summarizes Hydro's 2023 consolidated revenue and expenses. The 2023 consolidated financial statements for Hydro are provided as Appendix D to this report.

[15] John Green, K.C. was appointed as Acting Chair of the Hydro and Nalcor Boards of Directors on June 22, 2023, while Albert Williams, Chair of both Boards of Directors is on leave.

Table 4: Newfoundland and Labrador Hydro Consolidated Revenue and Expenses 2023

For the year ended December 31, 2023 (millions of dollars)	$	Per cent
Energy sales	863	68
Other revenue	412	32
Revenue	**1,275**	**100**
Fuels	187	12
Power purchased	944	61
Operating costs	199	13
Transmission rental	19	1
Depreciation and amortization	99	6
Net finance expense	89	6
Other expense	10	1
Expenses	**1,547**	**100**
Loss before regulatory adjustments	**(272)**	
Regulatory adjustments[16]	(342)	
Profit for the year	**70**	

1.6.2 Nalcor Energy

In 2023, Nalcor had revenues of $1,524 million. The majority of Nalcor's revenues were generated from electricity sales, and oil and gas sales. The majority of Nalcor's expenses related to depreciation, depletion, amortization and impairment (25 per cent), operating costs (25 per cent), net finance expenses (24 per cent) and fuels (15 per cent). Table 5 summarizes the consolidated revenue and expenses of Nalcor for the year ended December 31, 2023. In 2023, Nalcor's total profit for the year was $619 million after regulatory adjustments, and this includes Newfoundland and Labrador Hydro's net income. The 2023 consolidated financial statements for Nalcor are provided as Appendix E to this report.

[16] Regulatory adjustments relate to certain costs and income that are deferred and are expected to be reflected in customer rates in future periods. This is made possible through the rate-setting process.

Table 5: Nalcor Energy Consolidated Revenue and Expenses 2023

For the year ended December 31, 2023 (millions of dollars)	$	Per cent
Energy sales	1,285	84
Other revenue	239	16
Revenue	**1,524**	**100**
Fuels	187	15
Power purchased	78	6
Operating costs	310	25
Production, marketing and transportation costs	32	3
Transmission rental	39	3
Depreciation, depletion, amortization and impairment	315	25
Net finance expense	299	24
Other income	(14)	(1)
Expenses	**1,246**	**100**
Profit for the year before regulatory adjustments	**278**	
Regulatory adjustments	(341)	
Profit for the year	**619**	

2.0 HIGHLIGHTS AND PARTNERSHIPS

The Organization works with a variety of agencies, departments and commissions to execute its mandates. During 2023, the Organization worked closely with each of the entities identified in support of the strategic directions of the Province related to the energy sector.

2.1 Department of Industry, Energy and Technology

The Organization worked with IET to support policy-related considerations for the energy sector, the Muskrat Falls Oversight Committee (including through ongoing reporting to the Chair/Executive Director), as well as specific corporate strategic issues outlined in the Organization's strategic plan.

In 2023, the Organization continued to work with the Province on the implementation of the Province's Renewable Energy Plan.[17] Hydro advanced a number of actions outlined in the plan, including: public education regarding renewable resources; seeking opportunities to support the renewable energy priorities of Indigenous Governments and Organizations; creation of an Independent Power Producer Policy for diesel-generated electricity systems in remote communities; encouraging renewable energy integration in remote communities; increasing electrification of fossil-fuel powered vehicles and space heating; expanding the province's electric vehicle fast-charger network; evaluation of new renewable energy projects; and exploring federal investment opportunities to enhance the provincial electrical system. Hydro will work with IET in a number of areas, including: identifying opportunities to increase the efficiency of the province's electricity system to maximize the use and benefit of developed renewable energy; and to encourage renewable energy integration in isolated diesel systems

[17] Maximizing our Renewable Energy Future - https://www.gov.nl.ca/iet/files/Renewable-Energy-Plan-Final.pdf

(e.g., pursuing opportunities to address 'minimum load variation' challenges). As a result of these efforts, in 2023, there was record usage at Hydro's Electric Vehicle Fast-Charging Network, with 13,350 sessions providing 320 megawatt hours (MWh) of energy, which is enough electricity for an average electric vehicle to drive more than 1.6 million kilometres.

Hydro also continues to support IET as it advances the development of the province's wind-hydrogen industry. In 2023, Hydro supported the Province through participation in its evaluation committee for bids received under the provincial Crown Lands Call for Bids for Wind Energy Projects, and through developing a System Impact Studies process for projects seeking grid connection.

On behalf of the Province, the Organization also delivered rebates to residential customers in isolated diesel systems in Labrador through a monthly credit on their electricity bills. Hydro also provided expertise on electricity rate matters including updates on the implementation of the Network Additions Policy.

2.2 Department of Finance and Treasury Board

The Organization worked with the Department of Finance, Office of the Auditor General, and the Public Accounts Committee to address matters contained in the Office of the Auditor General's "2022 Nalcor Energy Independent Audit Report" concerning discretionary expenses, conflict of interest and the use of embedded contractors, and compensation. This included officials from the Organization appearing before the Public Accounts Committee to answer questions related to matters contained in the audit reports, and its response on its action plan to address the Auditor General's recommendations.

2.3 Newfoundland and Labrador Board of Commissioners of Public Utilities

The PUB is responsible for regulatory oversight of Hydro's regulated utility activities. This responsibility covers a wide range of activities including approval of: revenue requirements and the allocation of the revenue requirements among customer classes; rates; open access transmission tariffs and policies; rate structures; collection policies; policies on customer contribution requirements for the provision of service; long-term debt financing; system planning criteria; capital expenditures including electricity system additions; and capital budget application guidelines. The role of the PUB is detailed in the **Public Utilities Act** and the **Electrical Power Control Act, 1994**. In 2023, the Province amended this legislation, to include environmentally responsible considerations in the provision of least cost, reliable electricity service. Hydro has included this new consideration in its operations going forward, including in seeking opportunities to reduce diesel generated electricity in isolated systems (e.g. via woodstoves).

In addition to a substantial volume of regular ongoing reporting, Hydro continued to provide the PUB and its consultants, regular updates on the Muskrat Falls project, which was fully commissioned on April 14, 2023. During 2023, the Organization also advanced regulatory proceedings impacting cost recovery, reliability and resource adequacy, and capital investment. From a cost recovery perspective, in 2023, the Organization received approval of adjustments to: Island Industrial Customers as it related to the Rate Stabilization Plan;[18] utility rate;[19] customer rate adjustments for the Island Interconnected system, L'Anse au Loup and Isolated Rural customers;[20] and Conservation and the Demand Management Cost Recovery Adjustment to be charged to Island Industrial Customers.[21] The Organization also received approval for interim transmission rates related to post-commissioning of the LIL.[22]

The Organization continued to advance the regulatory proceeding related to supply adequacy for the provincial electricity system, helping to inform future decisions related to system reliability, long-term supply and back-up requirements.[23] In 2023, in addition to its semi-annual near-term reliability reports, the Organization filed eight reports[24] related to the Reliability and Resource Adequacy Study (RRA), including a Combustion Turbine Study, Long-Term Battery Study, Labrador-Island Link Failure Investigation, Transmission System Constraint and Expansion Study, and Island Pumped Storage Study (for existing hydro locations).

From a capital investment perspective, in 2023, Hydro obtained approval of its 2024 Regulated Capital Budget Application.[25] Additionally, Hydro advanced work related to its long-term supply solution for the isolated Southern Labrador communities of Charlottetown and Pinsent's Arm, Mary's Harbour, Port Hope Simpson, and St. Lewis which obtain their electricity through diesel generation,[26] including through the submission of a revised application with updates to costs and schedule. The proceedings to review the $87.9 million proposal remain ongoing in 2024.

2.4 Other Departments/Public Bodies

The Organization also shared commitments with the Department of Environment and Climate Change, Department of Fisheries, Forestry and Agriculture, Department of Digital Government and Service NL, Office of Indigenous Affairs and Reconciliation, as well as the federal Departments of Fisheries and Oceans Canada and Environment and Climate Change Canada in relation to the environmental aspects of the corporation's activities.

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[18] Approved in Board Order No. P.U. 3(2023).
[19] Approved in Board Order No. P.U. 15(2023).
[20] Approved in Board Order No. P.U. 18(2023).
[21] Approved in Board Order No. P.U. 19(2023).
[22] Approved in Board Order No. P.U. 11(2023).
[23] This regulatory proceeding, the Reliability and Resource Adequacy Review, will continue through 2024.
[24] http://www.pub.nl.ca/applications/NLH2018ReliabilityAdequacy/reports.php
[25] http://www.pub.nl.ca/applications/NP2024Capital/index.php
[26] http://www.pub.nl.ca/applications/NLH2021Capital/NLH2021Capital_SUPP_Phase1SouthernLabrador/index.htm

In 2023, the Organization continued to engage with the Department of Environment and Climate Change to demonstrate compliance with the requirements of the environmental assessment releases for the Muskrat Falls hydroelectric generating project and the LIL. Provincial and federal departments were also engaged to ensure all necessary approvals and permits are in place for the new assets and for the Organization's ongoing operations. The Organization also engaged with the Climate Change Division of the Department of Environment and Climate Change to support the Province's commitment to a low-carbon economy. The Organization was also a participant in many federal level working groups with Water Power Canada and Electricity Canada that engaged with the Government of Canada on regulatory requirements, and in particular on Canada's draft Clean Electricity Regulations, which has the potential to significantly influence decisions for all utilities in Canada.

Working with the Department of Environment and Climate Change and the Department of Finance, the Organization also administered three electrification, conservation and demand management programs on behalf of the Province, including: the Low Carbon Economy Leadership Fund Program which delivered insulation and thermostat rebates to oil-heated customers; the Electric Vehicle Rebate Program which offered rebates towards the purchase of electric vehicles; and the Oil to Electric Rebate Program which offered rebates towards the cost of transitioning oil-heated homes to electricity-based heat. Building on the success from prior years, the oil to electric rebate program was expanded and is now offered under takeCHARGE by both Hydro and Newfoundland Power.

The Lower Churchill Project (LCP) Impact and Benefits Agreement with Innu Nation was signed in 2011 and will remain in effect for the duration of power generation at the Muskrat Falls and Gull Island sites. In 2017, Nalcor entered into a six-year Community Development Agreement with the NunatuKavut Community Council (NCC). This agreement expired on November 30, 2023. Consideration of a new agreement is ongoing.

3.0 ISSUES

In its 2023-2025 Strategic Plan, the following issues were identified as strategic priorities for Hydro:

- Issue 1: Serving Our Province;
- Issue 2: Working Together; and
- Issue 3: Enabling Sustainable Growth.

4.0 OUTCOMES

The 2023-2025 Strategic Plan for Hydro highlighted three strategic issues/themes around which goals and objectives were established. For each strategic issue, the information provided below is reflective of work completed in 2023, the first year of the three-year planning period in relation to these issues.

4.1 Serving Our Province

As the province's Crown utility and primary generator of electricity, Hydro provides an essential service to the people of the province and brings value to the provincial economy, powering homes and businesses in Newfoundland and Labrador with energy that is safe, reliable, cost-conscious and environmentally responsible. Over the next three years, the Organization will prioritize its core function: serving the province as a Crown utility owned by, and operated for, the people of Newfoundland and Labrador. This includes making sound decisions that are aligned with good utility practice, being transparent in how it conducts its business and welcoming stakeholder feedback. Specifically, the Organization is prioritizing the following:

- Revitalizing the Organization: The Organization has undergone significant change in recent years and has unified to become Newfoundland and Labrador Hydro. We are working to instill a culture that is founded in a common understanding that Hydro is a Crown utility and, in both its regulated and non-regulated operations, we will continue to responsibly develop and deliver energy that the people of the province, and beyond, can count on.
- Delivering Reliable Electricity to Customers at the Lowest Possible Cost: The Organization uses good utility practice to plan, operate, and maintain the provincial electrical power systems and deliver reliable service – that is consistent with its environmental and legislative obligations – at the lowest possible cost.
- Recognizing Indigenous History and Strengthening Indigenous Relationships: As a Crown utility, the Organization has a vital role to play on the path towards Truth and Reconciliation. To build respectful, sincere, and meaningful relationships with Indigenous Peoples, the Organization is working to prioritize employee education, respect for Indigenous history, and engagement with Indigenous governments, organizations, and communities.
- Engaging the People and Entities that the Organization Serves: The Organization has proudly served the people of Newfoundland and Labrador for more than 60 years in more than 200 communities across the province, and now also generates renewable power consumed by customers in Atlantic Canada, Québec, Ontario, and the Northeastern United States. To ensure customer service remains at the core of its operations, the Organization continues to prioritize proactive stakeholder engagement.

Issue 1: Serving Our Province	
Goal 1 By December 31, 2025, the Organization will have revitalized its role as a Crown utility and advanced material filings and proceedings that are fundamental to its utility operations (e.g., those related to system reliability and resource adequacy, customer rates, rate mitigation, corporate governance, etc.).	
Objective By December 31, 2023, the Organization will have progressed its efforts to revitalize its role as a Crown utility and advanced material filings and proceedings that are fundamental to its utility operations.	
INDICATORS	**2023 ACCOMPLISHMENTS**
Worked with Government to advance rate mitigation efforts.	• An initial step to implement rate mitigation was completed in March 2023. To limit future customer rate increases resulting from the Muskrat Falls project, and reduce financing costs accumulating in the Supply Cost Variance Deferral Account (SCVDA), the Province paid the remaining 2022 balance of approximately $190.4 million. The deferral account records the differences between the costs to supply the Island Interconnected System and the costs currently collected from customers in electricity rates. By paying the 2022 SCVDA balance, customer rates are mitigated as it avoids having the cost recovered on their bills. • The planned LIL Holdco reorganization was completed, facilitating the first drawing on the Government of Canada convertible debenture in the amount of $144.7 million. Funding was subsequently transferred to Hydro Regulated for the purpose of rate mitigation, reducing the balance owing from customers in the SCVDA. • Hydro continued to support the Province through regular meetings with the Rate Mitigation Implementation Steering Committee to advance next steps. • Supported by the efforts undertaken in 2023, the Province announced finalization of the rate mitigation plan with Hydro on May 16, 2024. This plan applies only to island customers paying for the project. The plan will come into effect on July 1, 2024, and will ensure domestic residential rate increases are capped at 2.25 per cent annually for cost recovery associated with the Muskrat Falls project.[27]

[27] Provincial Government Announces Finalization of Rate Mitigation Plan - News Releases

Worked to support Hydro's next General Rate Application.	• Actively prepared for submission of Hydro's next General Rate Application (GRA), including progressing the preparation of evidence, including cost of service, and an updated load forecast. The next GRA is expected to be filed in 2025.
Continued advancement of the Reliability and Resource Adequacy Study to inform future provincial energy supply requirements and the role that the Holyrood Thermal Generating Station will play in supporting the provincial electrical system while the Muskrat Falls assets are integrated and proven reliable.	• Hydro provided the PUB a listing of its planned studies and schedule with respect to the RRA. • In 2023, all eight planned studies and reports were filed with the PUB, including: Combustion Turbine Feasibility Study; Battery Energy Storage Study; Pumped Storage at Existing Hydro Sites; Avalon Supply (Transmission) Study Update; and summary of findings from four investigations on the LIL. • On November 15, 2023, the "2023 Near-Term Reliability Report – November Report" was filed with the PUB which provided an in-depth view of system risks and mitigation measures to ensure customer requirements are met for the 2024-2028 study period.
Developed and implemented non-firm energy rates to facilitate in-province use of excess energy.	• On December 19, 2023, the PUB approved Hydro's application to implement a non-firm rate for the Labrador Interconnected System. Rates are to be calculated based on export market prices on the basis that non-firm energy sales will reduce the energy available for export. The PUB also approved a proposed revision to the Island Industrial Customer non-firm rate to be consistent with the Labrador Interconnected System non-firm rate and to better reflect marginal costs. • The non-firm rates will come into effect on March 1, 2024, and will remain in place until September 1, 2026, or until a further order from the PUB. Hydro will be required to file, on or before June 1, 2026, an application requesting new non-firm rates.

Advanced review of the Organization's commercial, legal, and governance structures.	• While the bill to effect the official amalgamation of Hydro and Nalcor was not passed in the House of Assembly in 2023, an internal amalgamation working group (AWG) was established in 2023 for the purpose of identifying potential issues and troubleshooting same in anticipation of the pending amalgamation.
	• The AWG consist of internal Hydro personal (representatives from communication, finance, human resources, legal, information technology, procurement, governance, and information management) as well as, third party experts and consultants who have been retained to provide guidance and support.
	• During 2023 the AWG commenced the necessary due diligence to identify key issues and create a work plan to ensure Hydro's readiness when the amalgamation legislation is passed, which included:
	  ○ The review of material contracts, commercial arrangements, legislation, and existing Orders in Counsel;
	  ○ Human resources, finance, and information management modeling;
	  ○ Identification of key dates, timelines, and notice requirements; and
	  ○ Development of a communications plan and timeline.
	• The AWG continues to work through 2024 in anticipation that the amalgamation will be completed on January 1, 2025.

2024 Objective By December 31, 2024, the Organization will have further progressed its efforts to revitalize its role as a Crown utility and advanced material filings and proceedings that are fundamental to its utility operations.	

Indicators

- Supported the amalgamation of the Organization's legal entities by reviewing our commercial, legal, and governance structures.
- Prepared for a General Rate Application reflecting Muskrat Falls project costs, rate mitigation, and necessary revisions to established regulatory mechanisms following announcement of the Province's rate mitigation plan.
- Achieved Net Income of $339 million and Operating Expenses of $308 million in 2024.
- Revised Information Management Governance Model and advanced Duty to Document legislation readiness.
- Reviewed organizational processes related to potential Code of Conduct non-compliances.
- Advanced analysis and understanding of supply options in support of the Reliability and Resource Adequacy Proceeding.
- Supported considerations for the future of Churchill Falls long-term.
- Continued support of the Province in rate mitigation and commenced implementation.

Issue 1: Serving Our Province

Goal 2

By December 31, 2025, the Organization will have continued to deliver reliable electricity to its customers at the lowest possible cost.

Objective

By December 31, 2023, Hydro will have continued to apply good utility practice to plan, operate, and maintain the provincial electrical system and continued to deliver reliable service at the lowest possible cost.

INDICATORS	2023 ACCOMPLISHMENTS
Further integrated all the Lower Churchill Project assets into the existing electricity grid.	• On April 14, 2023, project financing parties acknowledged that commissioning of the LIL occurred through issuing a Commissioning Confirmation Certificate. Together with the previously commissioned assets (the Muskrat Falls Generating Station and the Labrador Transmission Assets), commissioning of the LIL marks the successful commissioning of the LCP. The Muskrat Falls assets (including the LIL) have and continue to be used to serve customers on the Island Interconnected System (offsetting high cost thermal and standby generation) as well as providing for the energy and capacity to facilitate exports over the Maritime Link.

Advanced implementation of standard approach for capital investment across regulated and non-regulated operations.	• Worked toward a common set of principles for capital investment across regulated and non-regulated operations.
	• Successfully completed year 2 of a 3-year Capital Planning Improvement plan to implement recommendations from an internal capital planning audit.Implemented as applicable, PUB recommendations from regulated Hydro, to non-regulated Hydro, ensuring the capital investment philosophy for both areas are standardized and tightly aligned.
	  ○ Aligned Capital Budget Application development process;
	  ○ Aligned approval threshold to match PUB and Corporate recommnedations; and
	  ○ Used standardized front end engineering design alignment and proposal templates in both regulated and non-regulated Hydro.

Further strengthened the Organization's cybersecurity program with a focus on training and awareness, network segmentation, and incident response.	• Continued advancement of cybersecurity programs to protect the confidentiality, integrity and availability of our information systems and to maintain the safety and reliability of the provincial electrical grid.
	• To further strengthen the cybersecurity program, Hydro continued to collaborate with the experts in the industry and technology vendors, including:
	  ○ Received regular updates from the Canadian Centre for Cybersecurity;
	  ○ Worked with Newfoundland Power to reinforce cybersecurity of the provincial electrical grid;
	  ○ Attended Energy Sector Community Calls and quarterly sector meetings where cybersecurity information is shared;
	  ○ Participated on Electricity Canada's Technology Committee, and Cybersecurity Committee, where Hydro attended meetings with, and obtained lessons learned from, utilities accross the country; and
	  ○ Consulted with technology vendors to obtain their perspective on industry trends and specific technologies.
	• Investment continued in the following areas: cybersecurity; network access controls; intrusion detection; incident response; penetration testing; software patching; backups; and, training and awareness.

	• Hydro participated with federal and provincial emergency response entities, together with selected municipalities on the Avalon Peninsula, in conducting a regional cybersecurity tabletop exercise in November 2023. • Existing IT and OT technology environment disaster recovery plans were tested during the year. • Employee phishing awareness campaigns were conducted to raise awareness of such threats.
2024 Objective By December 31, 2024, Hydro will have continued to apply good utility practice to plan, operate, and maintain the provincial electrical system and delivered reliable service at the lowest possible cost.	
Indicators • Continued to complete post-commissioning action items for the new Lower Churchill Project assets. • Achieved project completion of 80 per cent for the 2024 regulated and non-regulated capital program. • Achieved a System Average Interruption Duration Index (SAIDI) of 2.64 outage hours per customer or less. • Achieved a System Average Interruption Frequency Index (SAIFI) of 1.10 interruptions per customer or less. • Achieved Guaranteed Winter Availability Contract (GWAC) target of 94 per cent of maximum revenue at Churchill Falls. • Continued standardization of capital investment planning and approach. • Maintained our cybersecurity program with a focus on training and awareness, network segmentation, and incident response. • Strengthened cybersecurity protection in our Operational Technology systems. • Advanced our planning and scheduling function to improve productivity and efficiency in this area. • Reviewed and begun standardization of our asset management processes companywide to further promote effective asset life-cycle activities and decision-making.	

Issue 1: Serving Our Province	
Goal 3 By December 31, 2025, the Organization will have strengthened its recognition of Indigenous history and Indigenous relationships.	
Objective By December 31, 2023, the Organization will have progressed its efforts to strengthen relationships with Indigenous governments, organizations, and communities.	
INDICATORS	**2023 ACCOMPLISHMENTS**
Engaged with Indigenous leaders for the development of the Organization's Indigenous Principles Statement.	• Ongoing discussions were held with Indigenous Governments and Organizations regarding effective and relevant means of engagement throughout 2023. For example, Hydro presented at the NunatuKavut Community Council-Nunacor Energy Forum in March 2023.
Commenced review of policies and processes to identify further opportunities to promote procurement from Indigenous suppliers and organizations.	• Hydro's Bids and Tenders page now provides the opportunity for suppliers to identify demographic considerations and this will enable indigenous companies to self-identity. • Ongoing discussion with Indigenous Governments and Organizations in the Province regarding business opportunities, with targeted supplier development sessions planned in 2024.

Commenced development of educational and training materials for employees that promote respect for Indigenous culture, history, values, and traditional knowledge.	• To honour Truth and Reconciliation Day:
	  ○ A company-wide virtual presentation on Indigenous relations and an overview of Indigenous groups in Newfoundland and Labrador was offered by Hydro's Innu Employment Training Coordinator on September 28, 2023; and
	  ○ Information was shared on September 29, 2023, with all employees about the National Day for Truth and Reconciliation, including the history of residential schools, ways to recognize the day, and additional resources.
	• Indigenous Cultural Presentations were provided to Occupational Health and Safety Nurses in February, and Senior Managers in April.
	• Indigenous Traditional Knowledge presentations were offered companywide during Environment Week.

Engaged with Indigenous Peoples regarding the development of a strategy to support communications and meaningful engagement.	• Continued engagement with Innu Nation regarding a Innu Cultural Centre, estimated future power requirements for Sheshatshiu, as well as possible support for a temporary office space. • Broadened requirements regarding Indigenous engagement for environmental and other approvals. • Participated in high school graduation ceremonies in Innu communities. • Participated in Innu Gathering at Gull Island. • Liaised with Indigenous governments and organizations to support employment opportunities and education. • Engaged with NCC in the development of a new relationship framework agreement.
Continued fulfilment of commitments made through Impacts and Impact and Benefits Agreement and Community Development Agreement.	• Hydro purchased $893.7 million in goods and services from Innu businesses during the construction phase of the Muskrat Falls project, far exceeding the $134 million target in the Impact and Benefits Agreement. • Innu employment at Muskrat Falls doubled over the past two years, increasing from 6 per cent to 12 per cent. • Impact and Benefits Agreement Training and Recruitment Coordinator continued to strengthen relationships with Innu schools and Innu community groups. • Hydro fulfilled its Community Development Agreement commitments with NCC for 2023. The agreement expired near the end of 2023. As referred above, Hydro engaged with NCC throughout 2023 to develop a new agreement.
2024 Objective By December 31, 2024, the Organization will have further progressed its efforts to strengthen relationships with Indigenous governments, organizations, and communities.	
Indicators • Advanced our engagement strategy with Indigenous governments and organizations. • Advanced commitments in the Impact and Benefits Agreement. • Continued to engage with NCC on a new agreement. • Educated our employees and promoted respect for Indigenous culture, history, values, and traditional knowledge.	

Issue 1: Serving Our Province	
Goal 4 By December 31, 2025, the Organization will have proactively engaged those it serves.	
Objective By December 31, 2023, the Organization will have advanced its efforts to understand customer needs and further evolve processes and programs to assist in meeting those needs.	
INDICATORS	**2023 ACCOMPLISHMENTS**
Proactively educated stakeholders regarding the provincial electrical system.	• Hydro continued to participate in a number of activites to educate stakeholders on the province's electricity system. This includes: ○ Providing an overview of the province's electricity system and relevant work related to wind-hydrogen and electrification during the Government of Canada's meeting with key representatives from the Province, Hydro, and Indigenous Governments and Organizations for its Newfoundland and Labrador Regional Energy and Resource Table (February). This table is a joint partnership between the federal government and Newfoundland and Labrador, in collaboration with Indigenous partners – and with input from key stakeholders – to identify and accelerate shared economic priorities for a low-carbon future in the energy and resource sectors; ○ NunatuKavut Community Council's Department of Research, Education and Culture in partnership with Nunacor Development Corporation – presented at Energy Forum (March); ○ Energy NL Conference – President and CEO participated in the panel, "Unrivalled Opportunity: Maximizing Our Energy Potential", highlighting Hydro's role in the global energy evolution (May); ○ Hydro's Annual General Meeting (June); ○ Electricity Canada – President and CEO presented an update on resource planning (June); ○ Net Zero Advisory Council – presented on Hydro's role in the path to provincial net zero (June); ○ Expo Labrador – participated in electrification panel luncheon (June); ○ Southeastern United States-Canadian Provinces

	conference – attendance by President and CEO (July); ○ CEO Énergie NB Power – President and CEO provided tour of Churchill Falls and Muskrat Falls (July); ○ Net Zero Advisory Council – presented on Hydro's electrification, and conservation and demand management initiatives (September); ○ New England Governors and Eastern Canadian Premiers Conference – attended by President and CEO (September); ○ econext conference – President and CEO participated in the panel "Achieving Net Zero by 2050" (October); ○ Hosted a technical briefing with media on LIL performance and investigation findings (October); ○ Memorial University of Newfoundland and Labrador Engineering – President and CEO presented on Sustainable and Innovative Energy in Newfoundland and Labrador: Navigating New Opportunities and Talent Retention (October); ○ Soldiers Pond tour with representatives from Department of Fisheries and Oceans National Sustainability Committee (October); ○ National Energy Round Table – President and CEO participated in panel during the eight annual conference, which included business leaders, entrepreneurs and policy makers in Toronto for discussions on: "Tranforming Canada's Energy Systems – How Fast and How Far?" (November); ○ New England-Canada Business Council Conference – attended by President and CEO (November); ○ Targeted engagement sessions throughout the year (ongoing) regarding the expiration of the Upper Churchill Contract with Hydro- Québec in 2041, in which majority of the energy from the Churchill Falls generating station is currently sold to Hydro-Québec; and ○ Community engagement sessions on reliability and resource planning for Southern Labrador (ongoing).
Reviewed customer satisfaction and reputation surveys and developed action plans as required.	• Conducted Customer Satisfaction Surveys, which indicated that approximately 86 per cent of customers were satisfied with the service they received from Hydro's customer service department. • Continued to advance annual customer service annual work plan.

Completed customer satisfaction survey for commercial customers.	• MQO conducted Hydro's annual Customer Satisfaction Survey over November and December 2023 and interviewed 284 commercial customers on a variety of questions focusing on service, reliability, programs, etc. Overall, Hydro scored very well in the following areas: ○ Overall Satisfaction – 89 per cent rated Hydro as either a good (42 per cent) or excellent (47 per cent) service provider; ○ Overall Reputation – 84 per cent rated Hydro's reputation as good or very good; ○ Service Reliability – 93 per cent were satisfied with the supply of electricity they received from Hydro; and ○ Service Delivery – 93 per cent of customers are satisfied with the customer service received from Hydro.
Commenced development of a plan to engage with communities and partners on climate change resilience to proactively prepare for severe weather events and facilitate safe and timely response to these events.	• Gathered and reviewed relevant documentation to assist in plan development, including: ○ Climate change and adaptation planning guidance from Electricity Canada; ○ Climate change data projections from the Province; and ○ Climate change action plans from other Canadian utilities. • Engaged the Province's Department of Environment and Climate Change on recommended next steps. • Examined ways to harden the electricity system to improve its response to extreme weather and climate change related outages. • Continued to enhance Hydro's preparation and responsiveness to severe weather through: ○ Monitoring the potential of significant weather events; ○ Assessing the level of preparedness required; ○ Arranging adequate electricity generation; and ○ Completing a risk assessment to ensure adequate staffing levels, equipment availability, critical spares, etc.

2024 Objective
By December 31, 2024, the Organization will have engaged with customers, partners, and communities and continued implementation of processes and programs to meet their needs.
Indicators • Collaboratively consulted with all relevant stakeholders on future changes to our provincial electricity system. • Proactively coordinated and shared annual system plans (e.g., outages, investments, etc.) with affiliated partners, stakeholders, and impacted communities. • Completed customer satisfaction surveys. • Continued to proactively mitigate our risks related to climate change through advancement of our review of our Climate Change Mitigation and Adaptation Plan.

4.2 Working Together

Whether in the field or in the office, all of the Organization's workforce are utility professionals who remain steadfast in their commitment to supporting the communities where they live and work and they operate with good utility practice.

As the energy industry evolves to support the transition from fossil fuels to clean, renewable energy, the Organization must proactively prepare its workforce and adapt to ensure the Organization can continue to reliably serve the people of the province into the future. The Organization will continue to foster a workforce that is proud to serve the province, and values keeping each other safe, diverse perspectives, listening to one another, supporting new ideas, and collaborating with respect. Specifically, the Organization is focusing on:

- Continuing to Prioritize the Safety and Health of its Employees: A safe and healthy work environment is critical. The Organization remains committed to preventing injury and illness, and supporting the safety and overall health of its employees.
- Foster Proud and Engaged Teams: As the Organization continues to unify and the complexity of the energy sector increases, it is paramount that the Organization supports a collaborative, inclusive, and engaged workforce of unionized and non-unionized employees who work together to meet the energy needs and opportunities within the province. As responsible corporate citizens, it is important for the Organization to contribute to local communities and support and encourage employees to be active members of their communities as well.
- Anticipate and Develop Workforce Requirements: The Organization is working to optimize its workforce with consideration to the changing labour market and changing energy sector. It is proactively assessing its current and future needs to ensure it has the right mix of skills and people to efficiently and effectively serve the province.

Issue 2: Working Together
Goal 5 By December 31, 2025, the Organization will have demonstrated its continued commitment to the health and safety of its employees.
Objective By December 31, 2023, the Organization will have advanced efforts to further strengthen and expand its safety culture.

On August 10, 2023, Hydro experienced a workplace fatality. This tragic event resulted in the death of a colleague and friend, Mr. Bill Walsh. Hydro remembers our colleague, Bill, and his contributions to our workplace.

INDICATORS	2023 ACCOMPLISHMENTS
Reviewed existing work methods and practices to ensure appropriateness of tools and technologies.	• A continued focus on safe job planning, hazard awareness and injury prevention through the development of improved hazard recognition, evaluation and control training, and injury prevention campaign initiatives. Implementation of a new Safe Job Planning process and revisions to Safe Work Practices and Procedures are ongoing.
Promoted improved safety reporting of workplace hazards and continued to embed fundamental safety principles into core work processes and practices.	• On September 12, 2023, Hydro hosted a Safety Pause for all staff to reflect on, and speak openly about, safety culture, what's happening, their concerns and successes. This consisted of a live online address by the President and CEO, followed by hundreds of employees gathering for 13 in-person sessions hosted by members of the executive and senior leadership teams. In 2024, a Town Hall hosted by the President and CEO will be held to address concerns raised during the Safety Pause. • Safety Leadership sessions were held for all senior leaders in the business to review their roles in creating a safe work place.
Continued to advance Hydro's mental health strategy.	• Quarterly Health and Wellness Committee meetings were held to focus on planned mental health strategic items, and health promotion initiatives. Monthly Executive Leadership Team Safety and Health meetings were completed to ensure ongoing review of corporate safety and health performance, and real time tracking of high risk actions. • Various health promotion activities took place throughout the year, including Musculoskeletal Injury Awareness and Prevention session, Osteopathy and Massage Wellness Clinics (Hydro Place), Getting a Restful Sleep webinar, and "Know Your Numbers" clinics. • The Working Mind training sessions planned for the year were completed as part of the Mental Health Strategy.

Continued to work with employees affected by injury or illness to determine the appropriate supports necessary to facilitate recovery and early and safe return to meaningful work.	• Continued supporting employee illness and long-term disability through disability case management, using internal processes with the Early & Safe Return to Work Program, and the Attendance Support Program. • A new Employee Family Assistance Program provider was implemented during the year.
2024 Objective By December 31, 2024, the Organization will have continued to advance efforts to further strengthen and expand its safety culture.	
Indicators • Achieved Total Recordable Injury Frequency Rate (TRIF) of 1.25. • Continued a risk-based review of existing practices, processes and programs to ensure foundational focus on health and safety organization wide. • Implemented safety and health lessons learned from 2023. • Continued to advance mental health initiatives, and ensure support programs and resources are in place for employees. • Supported employees in Early and Safe Return to Work with disability case management support and attendance support.	

Issue 2: Working Together
Goal 6 By December 31, 2025, the Organization will have fostered a culture that encourages and supports proud and engaged teams.
Objective By December 31, 2023, the Organization will have advanced programs, policies, and activities to nurture a collaborative, engaged workforce of proud employees.

INDICATORS	2023 ACCOMPLISHMENTS
Continued development of educational materials for employees regarding the importance of equity, diversity and inclusion.	• On October 25, 2023, Hydro held its annual Diversity and Inclusion Day, with the 2023 theme of, "Working Together for an Inclusive Workplace". This day included virtual sessions focused on: ○ Input on the preliminary direction of the next phase of Hydro's multi-year equity, diversity and inclusion strategy; ○ Principles and benefits of diversity and inclusion and how to foster an inclusive workplace; and ○ Awareness of learning disabilities and how to increase inclusivity. • Developed the next phase of Hydro's multi-year equity, diversity and inclusion strategy, which included guidance and support from local organizations whose work is in support of equity, diversity and inclusion, including equity seeking groups, as well as employees (including those with subject matter expertise, and lived experience as members of equity-seeking and diverse groups). • In December 2023, in line with the Province's **Accessibility Act**, Hydro published its multi-year Accessibility Plan which aims to improve accessibility by identifying, preventing and removing barriers that prevent persons with disabilities from participating fully in society.
Continued to promote awareness and understanding of the Organization's refreshed vision and values.	• Enhanced leadership engagement and organizational communication focused on reiterating Hydro's role as a crown utility: ○ Integration of Hydro's new vision and values inside all Hydro buildings and office locations; and ○ Refreshed Hydro's internal employee recognition programs, and community investment programs, in line with the new values. • Promoted external awareness and understanding via updating communication and branding material, including Hydro's website.
Regularly engaged IBEW union leadership to proactively understand their priorities to better support unionized employees.	• Continued focus on collective bargaining and regular, ongoing and proactive engagement with the union. • Ratification of all five collective agreements, each with four-year terms providing labour stability and certainty into 2026. • The Organization and IBEW have established a "Safety Connection" between Hydro senior leadership and IBEW Union Leadership with a focus on continuing to advance a strong safety and health culture at Hydro.

Educated employees regarding the Organization's social responsibility and opportunities for employee participation.	• Provided information to employees on a variety of socially responsible initiatives and events, and encouraged their participation in the same, through corporate-wide emails, office signage, and messaging by Executive and Senior Leadership during various in-person and virtual meetings. This resulted in participation in various events, such as the 2023 St. John's Pride Parade.
	• Hydro continued to expand its Energy from the Heart Community Program, enhancing employee information on, and opportunities for, participation and engagement in community initiatives, as well as supported over 90 charitable organizations and community partners in the province. This resulted in the following successes:
	  ○ Received the Outstanding Corporate Philanthropist Award from the Association of Fundraising Professionals, Newfoundland and Labrador, for its continued support of Ronald McDonald House Charities Newfoundland and Labrador;
	  ○ Launched the Hydro Helps charitable payroll giving program for employees, in partnership with United Way Newfoundland and Labrador;
	  ○ Employees donated over $15,000 to Kids Eat Smart Newfoundland and Labrador through our annual Energy Breakfast, for a total contribution of $52,074 combined with Hydro's corporate contribution;
	  ○ Presenting sponsor for the annual Ronald McDonald House Charities Red Shoe Crew Walk for Families;
	  ○ Returned as a sponsor for a youth Green Team with Conservation Corps Newfoundland and Labrador;
	  ○ Donated $10,000 to Community Food Sharing Association as a result of employee recognition for coworkers in Hydro's annual Cheer Challenge;
	  ○ Proudly sponsored the 2023 Labrador Winter Games, with employees attending and participating in this significant community-building event that celebrates local cultures and brings together athletes from all regions of Labrador;
	  ○ Regular volunteering at, and support for, the Jimmy Pratt Outreach Centre and Soup Kitchen;
	  ○ Continued partnership with Women in Resource Development Corporation - sponsoring their STEM for Girls program, providing employee engagement and mentorship opportunities for youth, and offering the Women in Trades and Technology Scholarship Program;

	○ Supported Home Again Furniture Bank through employee volunteering initiatives and furniture deliveries, and providing matching contributions up to $10,000 for their annual holiday campaign; and ○ Sponsored econext's Clean Growth Ideathon, where employees mentored and judged undergraduate students in a competition focused on demand management and grid optimization.
2024 Objective By December 31, 2024, the Organization will have further advanced programs, policies, and activities to nurture a collaborative, engaged workforce of proud employees.	
Indicators • Educated employees on the importance of Equity, Diversity & Inclusion. • Provided appropriate tools, resources, and targets to promote inclusive work environments. • Implemented an internal communication and engagement strategy to ensure employees are informed, consulted and heard. • Began development of a Community Renewal Plan for Churchill Falls. • Promoted awareness and understanding of our refreshed vision and values through Phase 3 of the brand roll out plan. • Engaged in proactive, meaningful, and regular communication with IBEW representatives. • Executed the next phase of the Energy from the Heart community program roll out to increase awareness and engagement.	

Issue 2: Working Together
Goal 7 By December 31, 2025, the Organization will have developed and commenced implementation of a workforce planning strategy.
Objective By December 31, 2023, the Organization will have begun developing a workforce planning strategy to further optimize Hydro's workforce with consideration to the changing labour market and the changing energy landscape.

INDICATORS	2023 ACCOMPLISHMENTS
Commenced a review of the Organization's existing workforce to identify existing skills and expertise.	• Began review of Hydro's integrated workforce planning framework, with a new/refreshed framework planned for 2024 to better enable the comparison of Hydro's existing internal skills and expertise, against current and future workforce needs. • Conducted a preliminary review of labour market data to better understand labour market availability as it relates to Hydro's existing workforce. • Issued a request for proposal for a human resources strategy related to resource requirements for future system supply additions, in order to determine Hydro's ability to meet these needs through its existing workforce and develop an approach to meet any gaps in skills and expertise. • Participated on the econext-led, Clean Energy Initiative Project Committee focusing on provincial renewable energy workforce planning, to assist in determining Hydro's ability to support these priorities with its existing workforce.
Commenced a centralized training approach to ensure a consistent methodology is applied across the organization.	• Established a centralized accountability approach to track training oversight within the People and Culture team. • Approach to management of the training budget was revised in 2023 for implementation company-wide for budget 2024. • The internal audit team began a training audit to inform immediate training priorities and continued evolution of organizational training priorities over time.
Established a plan that outlines focus areas that will provide support to front line supervisors	• Initial plan to support supervisors with efforts focused on building relationships with, and supporting, frontline supervisors. Further planning will be completed in 2024. Efforts undertaken to support supervisors in 2023 include: ○ Establishment of a Business Partner group in the People and Culture Division with purpose of supporting supervisors and business units; ○ Supervisor coaching and training implemented on various topical issues; ○ Refreshing and promoting an attendance management program across the organization; ○ Support on completion of necessary training (e.g., Code of Conduct training); ○ Increased focus of Occupational Health Nurses in supporting complex employee issues; and ○ Ongoing communication and engagement with front line supervisors to support issues management.

	• Addressed compensation concerns for front line supervisors which included amendment to supervisor differential, which was approved to be applied as pensionable earnings and paid on a bi-weekly basis.
2024 Objective By December 31, 2024, the Organization will have developed a workforce planning strategy to optimize its workforce with consideration to the changing labour market and the changing energy landscape.	
Indicators • Developed and commenced implementation of a multi-year plan that will identify the skills and expertise we will require to operate as a Crown utility and support the growth of the renewable energy industry. • Commenced review of organizational training to support the development of a training strategy and approach. • Developed Recruitment and Retention Strategy to mitigate attrition risk. • Supported employee retention through review of compensation programs and initiatives, including completion of a third party compensation review. • Ongoing engagement to identify and implement practical supports to address front line supervisor concerns and reduce workload burden where possible.	

4.3 Enabling Sustainable Growth

The energy industry is working hard to transition away from fossil fuels to meet these climate goals, including federal and provincial net-zero by 2050 targets, as well as the federal target of a net-zero electricity grid by 2035. The Organization is at the forefront of this energy transition and the Province is in an enviable position in this regard. In 2023, approximately 92 per cent of the electricity supplied was from renewable sources.[28] As the Muskrat Falls project assets are further optimized for their operation, this amount will continue to increase. Throughout this transition, the Organization will continue to optimize its use of these assets to reduce generation from the Holyrood Thermal Generating Station in favour of clean, cost-conscious energy from renewable energy resources.

Creating a sustainable, greener tomorrow for future generations of Newfoundlanders and Labradorians continues to be an organizational priority. The Organization has worked with the Province to support the development of its Renewable Energy Plan, “Maximizing Our Renewable Future,” and, as the province’s Crown utility, plays a substantial role in executing many of the energy-related initiatives outlined in the plan. The province’s rich energy resources provide tremendous opportunity – from hydro and wind electricity generation to green hydrogen production. The Organization is committed to drawing on its experiences and

[28] This calculation excludes Newfoundland Power's generation. In addition, Hydro sells Renewable Energy Certificates (RECs) to third parties for a portion of its renewable generation.

leveraging the knowledge and expertise of its people, local communities and partners to make thoughtful, balanced decisions. Specifically, the Organization is prioritizing:

- Supporting Growth of Renewable Energy Supply: The Organization is collaborating with the Province and industry stakeholders to evaluate and advance viable projects.
- Advancing Electrification and Demand Management: The Organization is advancing electrification in a prudent manner that benefits customers and the provincial electrical system and while working to minimize the impact on peak demand.
- Optimizing the Value of Provincial Energy Resources: The Organization is responsibly optimizing energy resources (i.e., extract the most value from excess energy) for the benefit of the province and continuing to ensure customers receive safe, reliable and cost-conscious energy.
- Integrating Renewable Energy Resources in Local Communities: The Organization is working with Indigenous communities and organizations to safely and responsibly integrate renewable energy resources in isolated diesel communities.

Issue 3: Enabling Sustainable Growth	
Goal 8 By December 31, 2025, the Organization will have demonstrated its commitment to optimizing provincial energy resources and supporting growth of renewable energy supply.	
Objective By December 31, 2023, the Organization will have advanced analysis, and policy development to support the optimization of provincial energy resources to contribute to sustainable economic prosperity within Newfoundland and Labrador.	
INDICATORS	**2023 ACCOMPLISHMENTS**
Commenced studies and analysis to support the feasibility assessment of potential wind, battery, or solar alternatives in the province.	• As part of the RRA proceedings Hydro filled all eight planned studies and reports were filed with the PUB, including: Combustion Turbine Feasibility Study; Battery Energy Storage Study; Pumped Storage at Existing Hydro Sites; and the Avalon Supply (Transmission) Study Update.
Worked with industry partners on potential purchases of economical renewable energy as required.	• Extended the Power Purchase Agreement with Algonquin Power for renewable energy from the Rattle Brook hydro plant to April 30, 2026. • Entered into a new three-year Power Purchase Agreement with Corner Brook Pulp and Paper for energy from its cogeneration facility. • Received approval from the PUB to enter into a new 15-year capacity assistance agreement with Corner Brook Pulp and Paper for 90 MW in the winter and 50 MW in the summer.

Supported the Province in evaluation of the impact of potential new industries, such as hydrogen, on the electrical system.	• Participated in the Province's Crown Land Call for Bids for Wind Energy Projects Evaluation Committee in its two-phase review of 24 proposed wind-hydrogen projects in the province. This work culminated in the Province issuing wind application recommendation letters to four bidders, granting the proponents the exclusive right to pursue the development of their projects through the Province's Crown land application and approval process, which includes a referral to environmental assessment. • Technical guidelines for proponents were defined in a third party Wind Integration Study that was commissioned by Hydro and completed in Q4 of 2022.Hydro continued to support integration of wind-hydrogen projects by developing a System Impact Studies process for projects seeking grid connection, and commenced related commercial and technical discussions on the same.
Supported the Province's development of public policies to manage the impact of existing industries' transitioning from fossil-fuel powered operations to clean, renewable electricity.	• Hydro supported the Province in the review of public utilities legislation, which culminated in amendments to the **Electrical Power Control Act, 1994** and the **Public Utilities Act** in May 2023. This will now provide the PUB with the ability to consider environmentally responsible decisions related to all sources and facilities for the production, transmission and distribution of power in the province.
Examined potential opportunities to further optimize existing renewable generation assets to improve performance or output.	• On October 31, 2023, Hydro submitted, "Reliability and Resource Adequacy Study Review – Pumped Storage at Existing Hydro Sites" to the PUB. Pumped storage facilities store excess non-dispatchable energy during times of high electricity supply for use during periods when energy is not readily available. This study assessed the feasibility of utilizing the infrastructure associated with Hydro's existing hydroelectric generating facilities, to develop new pumped storage projects on the Island Interconnected System. Hatch concluded that existing assets on the Island are not conducive to pumped storage in general; however, should Hydro's planning process identify a need for pumped storage technology, Hydro will pursue the specified layout options in more detail to support the appropriate supply decision for the province. Hydro's next step is to assess pumped storage options at Greenfield sites on the Island Interconnected System. Pending the outcome of this study, Hydro will evaluate pumped storage options in the context of system requirements and generation expansion.

	• Analysis of the results of efficiency testing of the newly installed runners in the Churchill Falls Generating Station as compared to the original runners is ongoing. This will confirm the absolute efficiency as well as the efficiency gain obtained from the investment in new runners. To date, two new runners have been installed, and two more are in progress with scheduled installation dates of 2024, and 2026. When completed, this investment will enable CF(L)Co to produce additional energy with the same volume of water.
2024 Objective By December 31, 2024, the Organization will have further advanced its analysis, and any related policy development required to support the optimization of provincial energy resources to contribute to sustainable economic prosperity within Newfoundland and Labrador.	
Indicators • Provided our utility expertise to identify and support viable opportunities as new industries such as hydrogen emerge. • Evaluated potential renewable energy development opportunities and proposals for integration into our provincial electricity system. • Continued to execute the Network Additions Policy and the Labrador electricity system expansion plans.	

Issue 3: Enabling Sustainable Growth	
Goal 9 By December 31, 2025, the Organization will have advanced electrification and demand management within Newfoundland and Labrador.	
Objective By December 31, 2023, the Organization will have progressed electrification and demand management programming in a manner that benefits customers and the provincial electrical system and minimizes the impact on peak demands.	
INDICATORS	**2023 ACCOMPLISHMENTS**
Collaborated with the Province and Newfoundland Power to facilitate rebates for electric vehicles and demand response programming.	• Hydro administered the provincial electric vehicle rebate on behalf of the Province. In 2023, over 700 vehicles received rebates (both fully electric and plug-in hybrid).[29] Worked jointly with Newfoundland Power on the design of electric vehicle demand management pilots to ensure optimal system benefits.

[29] Figures from Hydro's rebate program may vary from vehicle registration data as regular hybrids (i.e., non-plug-in) do not qualify, and this program requires an application post-sale.

Supported the continued expansion of the provincial DC fast-charging network (subject to federal funding approvals).	• Obtained PUB approval for the construction and installation of seven new public ultra-fast DC fast-charging electric vehicle chargers, funded by the Province. This is in addition to the existing 23 public electric vehicle fast charging sites across the province that Hydro owns and operates.
Provided customer facing programming for heating alternatives and encouraged efficient heating systems that limit the impact on system demand.	• Worked with the Province on the modification of the Oil to Electric Incentive Program to exclude standalone baseboard heat installations and provide greater incentives for heat pump conversions.
Executed approved conservation and demand management programming.	• Hydro's energy efficiency programming in 2023 achieved 1,810 MWh of energy savings for customers in Hydro's service area which represents 134 per cent of the 2023 target.
Supported efficient electrification of industrial processes in commercial industries as required.	• In 2023, there was no support required to advance the electrification of industrial processes in commercial industries. This will be reassessed in 2024.
2024 Objective By December 31, 2024, the Organization will have further progressed electrification and demand management programming in a manner that benefits customers and the provincial electrical system and minimizes the impact on peak demands.	
Indicators • Collaborated with government to facilitate rebates for electric vehicles and smart chargers. • Supported the expansion of the provincial DC fast-charging network. • Encouraged efficient heating systems which limit the impact on system peak demand. • Through the takeCHARGE Program continued to promote energy efficiency initiatives and peak demand management in partnership with Newfoundland Power. • Promoted the use of alternate sources of heat for customers in isolated diesel communities to support load management. • Provided customer education for heating alternatives.	

Issue 3: Enabling Sustainable Growth
Goal 10 By December 31, 2025, the Organization will have demonstrated its efforts to optimize the value of provincial energy resources by maximizing the value from energy sales and other opportunities.
Objective By December 31, 2023, the Organization will have pursued opportunities to maximize the value of its energy and supported industrial customer growth in a manner that is cost-conscious and consistent with environmental and legislative responsibilities.

INDICATORS	2023 ACCOMPLISHMENTS
Continued evaluation and implementation, where applicable, of potential opportunities for excess energy, including sale within the province (e.g., electrification, industrial customers, etc.) and outside of the province (e.g., export opportunities).	• Hydro continued to evaluate and pursue opportunities for the sale of excess energy that would provide the greatest value to ratepayers. This included: ○ Continued use of Muskrat Falls energy to supply Labrador customers, enabling increased exports of Recapture energy to market; ○ Continued to utilize Hydro's non-firm transmission rights to move energy into New England, resulting in a net profit of $0.9 million USD relative to selling in New York; ○ Arranged for the sale of approximately 1,170,000 Renewable Energy Credits valued at $6.8 million USD (i.e., $2.2 million to be received in 2023, and $4.6 million to be received in 2024); and ○ Negotiated the sale of 2020/2021 greenhouse gas performance credits for $22.5 million, with the revenue to offset customer costs.
Engaged existing and potential industrial customers to better understand their current and future electricity needs.	• Worked closely with mining companies in Labrador to define their near-term and longer-term power requirements from Hydro. • Advanced the technical inputs, including specific customer loads, for a 2024 Facilities Study for the largest load addition in Labrador West. This study will specify the necessary assets and estimate the costs for the required transmission upgrades. • Completed the construction of the Star Lake Terminal Station expansion and new transmission line to Marathon Gold's Valentine Lake mine site.
Continued to support OilCo in its role as manager of Nalcor Oil and Gas assets, as per the terms of the Management Services Agreement (MSA).	• Oversight is provided by Hydro management and by the Nalcor Oil and Gas Board of Directors through the discussion and regular review of operational and financial updates. • In 2023, Hydro supported the Province in working with Rothschild & Co, to complete Phase 2 of the review regarding Hydro's share of oil and gas assets.

2024 Objective
By December 31, 2024, the Organization will have continued to pursue opportunities to maximize the value of its energy and supported industrial customer growth in a manner that is cost-conscious and consistent with environmental and legislative responsibilities.
Indicators • Completed assessment of the regulatory, financial and other implications of an agreement for coordinated operation of regulated and non-regulated assets, and if this assessment concludes such an agreement is warranted, work to have one finalized and approved by the PUB. • Maximized value of exports/transmission assets and use rights. • Worked with our subsidiary companies to meet commitments under Muskrat Falls agreements and the Energy Access Agreement. • Maximized value of renewable energy attributes. • Identified additional market opportunities for Renewable Energy Credits. • Supported the Government of Newfoundland and Labrador's review of the province's current offshore oil and gas interests. • Worked with existing and potential industrial customers to better understand their needs and facilitate their integration into our provincial electrical grid in a manner that is cost-conscious and consistent with environmental and legislative responsibilities.

Issue 3: Enabling Sustainable Growth	
Goal 11 By December 31, 2025, the Organization will have demonstrated its commitment to supporting the integration of renewable energy resources in local communities.	
Objective By December 31, 2023, the Organization will have engaged with stakeholders regarding the operations and development of renewable energy resources and provided environmental supports as required.	
INDICATORS	**2023 ACCOMPLISHMENTS**
Continued engagement with communities and interested organizations to advance initiatives to increase the development of renewable resources in isolated diesel communities.	• Continued engagement with communities in Southern Labrador, as it relates to Hydro's Long-term Supply Plan for Southern Labrador and the opportunity to increase renewable generation with Hydro's proposed project. • Energized two NCC solar projects in isolated diesel systems (i.e., Black Tickle and St. Lewis). • Completed dynamic testing of renewables in the isolated diesel system of Mary's Harbour, in order to better predict how the system will respond at increased renewable penetration levels and allow for the optimization of equipment to improve the reliability of the system. • Advanced the Nain Wind Micro Grid project through the completion of a preliminary interconnection estimate, and by providing support for various engineering studies.

Provided environmental oversight, regulatory compliance, and fulfill environmental commitments and monitoring related to, or in support of, renewable energy projects.	• Provided Crown utility content expertise to support the Province's development of, "Environmental assessment Guidance for Onshore Wind Energy Generation and Green Hydrogen Production Projects".
	• Provided environmental stewardship through:
	  ○ Meeting 2023 Environmental Management System (EMS) targets; and
	  ○ Completion of all external EMS audits, with action plans accepted and initiated to address non-conformances.
	• Released from the Province's environmental assessment for Hydro's Long Lake Water Control Structure Decommissioning project.
	• Received the Provincial approval of proposed environmental oversight of Hydro's L1301 Transmission Line Decommissioning project including avoidance of caribou, and raptor nest mitigation.
	• Completed transformer (T74B) settling pond reinforcement at Churchill Falls.
	• Advanced planning and strategy with respect to the environmental assessment associated with several potential major projects currently in the feasibility stage. This includes new possible large generation sources for the province and a local supply project in Southern Labrador.

Supported Government's creation of an Independent Power Producer Policy for diesel-generated electricity systems in remote communities.	• Advanced the development of an Independent Power Producer Policy for diesel-generated electricity systems in remote communities.
2024 Objective By December 31, 2024, the Organization will have further engaged with stakeholders regarding the operations and development of renewable energy resources and provided environmental supports as required.	
Indicators • Engaged with Indigenous partners to support opportunities to further integrate renewables in isolated diesel communities. • Explored opportunities for federal or other funding to support utility operations while integrating renewables from independent power producers. • Provided environmental oversight and regulatory compliance in support of renewable energy projects. • Completed 95 per cent of Environmental Management System targets.	

5.0 OPPORTUNITIES AND CHALLENGES

Implementing priorities, as set out in the 2023-2025 Strategic Plan, requires the Organization to continue to build on its accomplishments and address future challenges and opportunities. The key opportunities and challenges outlined below, reflect the second year of the Organization's 2023-2025 strategy and support the Province's energy sector strategic directions.

5.1 Safety and Health of Our Employees

Within the electric utility business, there is high inherent risk relating to working around energized equipment, travel on highways, operating dams and dykes, and unique risks related to operating an underground powerhouse and a thermal generating station.

Hydro experienced a tragic incident on August 10, 2023, resulting in a workplace fatality. An 'All Employee Stand Down' occurred to communicate the incident. In addition, corporate-wide safety discussions were held with all employees and senior leadership to provide support. Investigation processes remain ongoing.

A continued focus remains on hazard awareness and injury prevention. The Organization will continually seek improvements to hazard recognition, evaluation and control training and tailboard and safe job planning, as well as injury prevention campaign initiatives.

5.2 Ability to Meet Future Load Growth

As a result of climate and energy policy (Net Zero 2050), the demand for clean renewable electricity has increased globally. Moreover, the Organization is experiencing unprecedented demand for its clean, renewable electricity. This can be demonstrated through the increasing demand for electric vehicles, the electrification of homes (oil to electric conversions) and local businesses. There is also growth from existing industrial customers and new customers in the wind-hydrogen industry.

The ability to have capacity available to supply this energy demand in a timely manner is a significant risk. This is due to long utility planning time frames, a lengthy regulatory approval process and stakeholder engagement and consultation requirements.

Through the RRA, Hydro is analyzing new sources of generation to meet this demand, while continuing to meet the PUB's mandate, provide cost-effective electricity rates, manage stakeholder requests and manage the integration of new customers and assets. Hydro continues to work closely with the Province and its stakeholders to ensure timelines can be met.

5.3 Attraction, Retention and Employee Engagement

In order for the Organization to achieve its goals and objectives, it must be able to attract and retain sufficient skilled, qualified and engaged employees to advance its work.

Attrition rates remain higher than historical rates experienced by the Organization, however, are on par with average voluntary turnover rates in the Atlantic utilities sector. Increased voluntary turnover rates are driven by broader market trends of increasingly competitive job markets due to growth in other sectors, changing workforce demographics and competition beyond the local market due to the emergence of remote work policies. The Organization is actively monitoring turnover trends, including in key and critical roles, and focusing on areas of the business that require increased support. In addition, the Organization performed an employee engagement survey in 2023. Actions will be taken, appropriate for a Crown utility, to ensure employee engagement can be strengthened.

5.4 Sustainable Electricity Rates

Existing contracts and legislation require Island Interconnected customers to pay the full cost of the LCP. Without mitigation, full cost residential rates would increase to approximately 23 cents per kilowatt hour upon full cost recovery of the LCP. Financial restructuring with the assistance of the Government of Canada and the Province ensures rates will not reach this level in the immediate nor near term.

Potential pressure on rates will occur in the future as additional investments are required in the provincial electricity system to support reliability and meet the demand of future load growth.

Until final decisions are made with respect to rate mitigation, uncertainty will remain regarding the quantum of cost that will be required to be recovered and the timing of regulatory processes to do so. The Organization continues to work collaboratively with the Province through the Rate Mitigation Steering Committee to resolve rate mitigation.[30]

[30] On May 16, 2024, the Province announced finalization of its rate mitigation plan with Hydro. Please see page 13 for further detail.

Appendix A
Generation and Transmission Maps

LEGEND
735 kV
315 kV
230 kV
138 kV
69 kV
LOW VOLTAGE
138kV CUSTOMER OWNED
69kV CUSTOMER OWNED
HYDRO PLANT
THERMAL PLANT
TERMINAL STATION
TERMINAL STATION & CONVERTER STATION
FREQ. CONVERTOR
NF. POWER
CORNER BROOK PULP AND PAPER
ALGONQUIN POWER
MUSHUAU 1st NATION
WIND GENERATION
OPERATED BY NALCOR
GAS TURBINE
DIESEL PLANT
DC LEGEND
±350 /± 200kV HVdc
SUBMARINE CABLE
ELECTRODE LINE
ELECTRODE STATION
TO MUSKRAT FALLS
Labrador
Quebec
Gulf of St. Lawrence
Atlantic Ocean
Newfoundland
POINT ACONI
WOODBINE
BIG LORRAINE
NOVA SCOTIA
Provincial Generation and Transmission Grid
Newfoundland
KILOMETRES
Revised: February 12, 2024

LEGEND
735 kV
315 kV
230 kV
138 kV
69 kV
LOW VOLTAGE
138kV CUSTOMER OWNED
69kV CUSTOMER OWNED
OUT OF SERVICE
HYDRO PLANT
THERMAL PLANT
TERMINAL STATION - OUT OF SERVICE
TERMINAL STATION
TERMINAL STATION & CONVERTER STATION
FREQ. CONVERTOR
NF. POWER
CORNER BROOK PULP AND PAPER
ALGONQUIN POWER
MUSHUAU 1st NATION
WIND GENERATION
OPERATED BY NALCOR
GAS TURBINE
DIESEL PLANT
DC LEGEND
+350 /+200kV HVdc
SUBMARINE CABLE
ELECTRODE LINE
ELECTRODE STATION
Atlantic Ocean
Quebec
Labrador
NAIN
NATUASHISH
HOPEDALE
MAKKOVIK
POSTVILLE
MENIHEK
RIGOLET
CHURCHILL FALLS
TWIN FALLS
LABRADOR CITY
WABUSH
L2304
L2303
L1301
L3101
L3102
SHESHATSHIU & NORTH WEST RIVER
HAPPY VALLEY GOOSE BAY
TS1
TS2
TS3
MUD LAKE
L1303
MUSKRAT FALLS
L3501
L3502
CARTWRIGHT
PARADISE RIVER
BLACK TICKLE
NORMAN BAY
CHARLOTTETOWN
PORT HOPE SIMPSON
ST. LEWIS
MARY'S HR.
RED BAY
L'ANSE AU DIABLE
L' ANSE-AU-LOUP
L' ANSE-AU-CLAIR
CB1,2&3
FORTEAU POINT
L7053
L7052
L7051
Gulf of St. Lawrence
NEWFOUNDLAND
Provincial Generation and Transmission Grid
Labrador
KILOMETRES
Revised: February 12, 2024

Generating Unit	Maximum Continuous Unit Rating (MW)
Bay D'Espoir 1	76.5
Bay D'Espoir 2	76.5
Bay D'Espoir 3	76.5
Bay D'Espoir 4	76.5
Bay D'Espoir 5	76.5
Bay D'Espoir 6	76.5
Bay D'Espoir 7	154.4
Cat Arm 1	67
Cat Arm 2	67
Hinds Lake	75
Upper Salmon	84
Granite Canal	40
Paradise River	8
All Hydraulic Units - Regulated	**954.4**
Muskrat Falls 1	206
Muskrat Falls 2	206
Muskrat Falls 3	206
Muskrat Falls 4	206
Muskrat Falls Units	**824**
Holyrood 1	170
Holyrood 2	170
Holyrood 3	150
All Thermal Units	**490**
Stephenville	50
Hardwoods	50
Happy Valley	25
Holyrood GT	123.5
All Gas Turbines	**248.5**

Appendix B
Newfoundland and Labrador Hydro - Lines of Business

Newfoundland and Labrador Hydro - Lines of Business

Newfoundland and Labrador Hydro (Hydro) delivers power to utility, industrial, residential and commercial customers in more than 200 communities in the province at the lowest possible cost consistent with safe, reliable and sustainable service.

Hydro activities can be grouped as follows:

- Electricity production – Hydro has an installed generating capacity of 1,763 megawatts (MW) which includes the operations of hydroelectric generating stations, oil-fired plant, gas turbines, and diesel plants, including isolated diesel generating and distribution systems.
- Transmission and distribution – Hydro operates and maintains approximately 6,900 kilometres of transmission lines (regulated and non-regulated) and numerous terminal stations which connect to generation and provide delivery points for Newfoundland Power on the island, industrial customers, and Hydro's rural distribution systems province-wide. Hydro also operates and maintains over 3,000 kilometres of distribution lines throughout the province.
- The Newfoundland and Labrador System Operator acts as the independent operator to manage the provincial electricity system in real-time. It also provides Open Access to the provincial transmission network, which means providing transmission service to users like Hydro and other utilities, in an open, non-discriminatory and non-preferential manner.
- Customer service activities address the electricity requirements of Newfoundland Power, industrial customers and over 38,800 direct residential and commercial customers in rural Newfoundland and Labrador, and manages the only certified metering inspection centre in the province.
- Electricity system planning involves forecasting electricity requirements in the province and advancing options to ensure adequate supply of generation resources and transmission and distribution infrastructure to reliably meet forecasted demand and future system needs.

Appendix C
Energy Portfolio

newfoundland labrador hydro
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
Makkovik
Postville
Menihek
Rigolet
Twin Falls
Churchill Falls
Happy Valley-Goose Bay
Mud Lake
Muskrat Falls
Cartwright
Paradise River
Black Tickle
Norman Bay
Charlottetown
Port Hope Simpson
St. Lewis
Mary's Harbour
L'Anse-au-Loup
St. Anthony
Roddickton Mini Hydro
Hawke's Bay
Cat Arm
Rattle Brook (PPA)
Venams Bight
Snooks Arm
Little Bay Islands
Hinds Lake
Corner Brook CoGeneration (PPA)
Grand Falls*
Bishop's Falls*
St. Brendan's
Buchans*
Stephenville
Star Lake*
Upper Salmon
Granite Canal
Bay d'Espoir
St. John's
Holyrood
White Rose
Hibernia
François
McCallum
Ramea
Grey River
Paradise River
Hebron
St. Lawrence (PPA)
Fermeuse (PPA)

Appendix D

Newfoundland and Labrador Hydro Consolidated Financial Statements

NEWFOUNDLAND AND LABRADOR HYDRO
CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023

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Independent Auditor's Report

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

Opinion

We have audited the consolidated financial statements of Newfoundland and Labrador Hydro (the "Company"), which comprise the consolidated statement of financial position as at December 31, 2023, 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 material accounting policy information (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, 2023, 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 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 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 13, 2024

NEWFOUNDLAND AND LABRADOR HYDRO
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31 (millions of Canadian dollars)	Notes	**2023**	2022
ASSETS			
Current assets			
Cash		**115**	97
Trade and other receivables	5	**130**	124
Inventories	6	**115**	112
Prepayments		**7**	8
Contract receivable	24	**13**	-
Deferred asset	7	**68**	86
Related party loan receivable	24	**-**	30
Other current assets	9	**18**	18
Total current assets		**466**	475
Non-current assets			
Property, plant and equipment	8	**2,958**	2,857
Other long-term assets	9	**247**	242
Total assets		**3,671**	3,574
Regulatory deferrals	10	**889**	540
Total assets and regulatory deferrals		**4,560**	4,114
LIABILITIES AND EQUITY			
Current liabilities			
Short-term borrowings	12	**230**	131
Trade and other payables	11	**195**	189
Current portion of contract payable	24	**274**	165
Current portion of long-term debt	12	**7**	7
Derivative liability	23	**68**	86
Other current liabilities		**8**	9
Total current liabilities		**782**	587
Non-current liabilities			
Long-term debt	12	**2,017**	2,032
Deferred contributions	13	**44**	41
Deferred credits		**17**	18
Decommissioning liabilities	14	**27**	16
Employee future benefits	16	**100**	86
Contract payable	24	**178**	-
Other long-term liabilities		**3**	4
Total liabilities		**3,168**	2,784
Shareholder's equity			
Share capital	17	**23**	23
Contributed capital	17	**148**	149
Reserves		**19**	31
Retained earnings		**1,159**	1,094
Total equity		**1,349**	1,297
Total liabilities and equity		**4,517**	4,081
Regulatory deferrals	10	**43**	33
Total liabilities, equity and regulatory deferrals		**4,560**	4,114

Commitments and contingencies (Note 25)

See accompanying notes

On behalf of the Board:

DIRECTOR

DIRECTOR

NEWFOUNDLAND AND LABRADOR HYDRO
CONSOLIDATED STATEMENT OF PROFIT AND COMPREHENSIVE INCOME

For the year ended December 31 (millions of Canadian dollars)	Notes	**2023**	2022
Energy sales		**863**	794
Other revenue	18	**412**	52
Revenue		**1,275**	846
Fuels		**187**	188
Power purchased	19	**944**	491
Operating costs	20	**199**	176
Transmission rental		**19**	19
Depreciation and amortization		**99**	104
Net finance expense	21	**89**	91
Other expense	22	**10**	29
Expenses		**1,547**	1,098
Loss before regulatory adjustments		**(272)**	(252)
Regulatory adjustments	10	**(342)**	(352)
Profit for the year		**70**	100
Other comprehensive (loss) income			
Actuarial loss on employee future benefits regulatory adjustment		**(2)**	-
Actuarial (loss) gain on employee future benefits	16	**(11)**	40
Net fair value gain (loss) on reserve fund		**1**	(3)
Other comprehensive (loss) income for the year		**(12)**	37
Total comprehensive income for the year		**58**	137

See accompanying notes

NEWFOUNDLAND AND LABRADOR HYDRO
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(millions of Canadian dollars)	Note	Share Capital	Contributed Capital	Reserves	Retained Earnings	Total
Balance at January 1, 2023		**23**	**149**	**31**	**1,094**	**1,297**
Profit for the year		**-**	**-**	**-**	**70**	**70**
Other comprehensive loss for the year		**-**	**-**	**(12)**	**-**	**(12)**
Total comprehensive income for the year		**-**	**-**	**(12)**	**70**	**58**
Regulatory adjustment	**17**	**-**	**(1)**	**-**	**-**	**(1)**
Dividends	**17**	**-**	**-**	**-**	**(5)**	**(5)**
Balance at December 31, 2023		**23**	**148**	**19**	**1,159**	**1,349**
Balance at January 1, 2022		23	150	(6)	1,015	1,182
Profit for the year		-	-	-	100	100
Other comprehensive income for the year		-	-	37	-	37
Total comprehensive income for the year		-	-	37	100	137
Regulatory adjustment	17	-	(1)	-	-	(1)
Dividends	17	-	-	-	(21)	(21)
Balance at December 31, 2022		23	149	31	1,094	1,297

See accompanying notes

NEWFOUNDLAND AND LABRADOR HYDRO
CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31 (millions of Canadian dollars)	Notes	**2023**	2022
Operating activities			
Profit for the year		**70**	100
Adjustments to reconcile profit to cash provided from operating activities:			
Depreciation and amortization		**99**	104
Regulatory adjustments	10	**(342)**	(352)
Finance income	21	**(24)**	(19)
Finance expense	21	**113**	110
Loss on disposal of property, plant, and equipment	22	**7**	19
Other		**1**	11
		(76)	(27)
Changes in non-cash working capital balances	27	**(14)**	56
Increase in contract payable	24	**287**	147
Increase in contract receivable	24	**(13)**	-
Interest received		**11**	6
Interest paid		**(113)**	(109)
Net cash provided from operating activities		**82**	73
Investing activities			
Additions to property, plant and equipment and intangibles		**(197)**	(153)
Contributions to sinking funds	9	**(7)**	(7)
Decrease in related party loan receivable	24	**30**	23
Contributions to reserve fund	9	**-**	(9)
Changes in non-cash working capital balances	27	**12**	(3)
Net cash used in investing activities		**(162)**	(149)
Financing activities			
Dividends paid		**-**	(13)
Increase in short-term borrowings	12	**99**	76
Other		**4**	11
Changes in non-cash working capital balances	27	**(5)**	(8)
Net cash provided from financing activities		**98**	66
Net increase (decrease) in cash		**18**	(10)
Cash, beginning of the year		**97**	107
Cash, end of the year		**115**	97

See accompanying notes

1. DESCRIPTION OF BUSINESS

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

Hydro holds interests in the following entities:

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

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

2. MATERIAL ACCOUNTING POLICIES

2.1 Statement of Compliance and Basis of Measurement

These 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) 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 Hydro's Board of Directors (the Board) on March 8, 2024.

2.2 Basis of Consolidation

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

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 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. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

2.5 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 Hydro's accounting policy outlined in Note 2.7. 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 are required to be replaced at intervals, Hydro 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.

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. 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 10. 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	25 to 70 years
Terminal stations	7 to 70 years
Distribution system	20 to 60 years
Other assets	3 to 70 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, penstocks 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 include the support structures, foundations, conductors and insulators associated with lines at voltages of 735, 230, 138 and 69 kilovolt (kV). 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 auxiliary systems.

Distribution system assets include poles, transformers, insulators, and conductors.

Other assets include roads, telecontrol, buildings, airport, aircraft, vehicles, 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 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 No. P.U. 30 (2019), the gains and losses are deferred on retirement of property, plant and equipment. The deferral will be recovered through future depreciation expense.

2.6 Intangible Assets

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

Intangible assets with finite useful lives are carried at cost less accumulated amortization and accumulated 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:

Feasibility studies	22 years
Computer software	7 to 10 years

2.7 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.

2.8 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, Hydro estimates the recoverable amount of the cash generating unit (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.

2.9 Investment in Joint Arrangement

A joint arrangement is an arrangement in which two or more parties have joint control. Control exists when Hydro 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. Hydro's investment in Churchill Falls is classified as a joint operation.

Hydro 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.

2.10 Employee Future Benefits

(i) <u>Pension Plan</u>

Employees participate in the Province's Public Service Pension Plan (Plan), a multi-employer defined benefit plan. Contributions by Hydro 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.

(ii) <u>Other Benefits</u>

Hydro 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 Hydro'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), Hydro recognizes the amortization of employee future benefit actuarial gains and losses in the Consolidated Statement of Profit and Comprehensive Income as a regulatory adjustment.

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

2.11 Provisions

A provision is a liability of uncertain timing or amount. A provision is recognized if Hydro 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.

2.12 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.

2.13 Revenue from Contracts with Customers

Hydro 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. Churchill Falls also recognizes revenue from contracts with customers related to the sale of electricity. In addition, Hydro recognizes revenue from the sale of Greenhouse Gas performance credits.

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

Revenue from the sale of energy is recognized when Hydro 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 export sales and sales to other certain major industrial customers are either at rates under the terms of the applicable contracts, or at market rates. Hydro recognizes revenue at the amount to which it has the right to invoice, which corresponds directly to the value of Hydro's performance to date.

Revenue from the sale of Greenhouse Gas performance credits is recognized when Hydro satisfies its performance obligation by transferring the title of Greenhouse Gas performance credits to the customer. Hydro recognizes revenue at the amount to which it has the right to invoice, which corresponds directly to the value of Hydro's performance to date.

2.14 Leasing

Lessee Accounting

Hydro assesses whether a contract is or contains a lease, at inception of a contract. Hydro 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, Hydro 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,

Hydro 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 Hydro changes its assessment of whether purchase, renewal or termination options will be exercised. Hydro 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 accumulated impairment losses.

Whenever Hydro 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 Hydro 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. Hydro has elected to apply this practical expedient.

2.15 Foreign Currencies

Transactions in currencies other than Hydro'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 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.

2.16 Income Taxes

Hydro is exempt from paying income taxes under Paragraph 149(1) (d.2) of the Income Tax Act.

2.17 Financial Instruments

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

Financial assets are classified at amortized cost, fair value through other comprehensive income (FVTOCI), FVTPL or as derivatives designated as hedging instruments in an effective hedge. Financial liabilities are classified at FVTPL, amortized cost 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.

Hydro's financial assets at amortized cost include cash, trade and other receivables, related party loan receivable and sinking 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 changes 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.

Hydro'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. Currently, Hydro has no financial assets measured at FVTPL.

Financial Liabilities at Amortized Cost
Hydro subsequently measures all financial liabilities at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the liability is derecognized.

Hydro's financial liabilities at amortized cost include trade and other payables, short-term borrowings and long-term debt.

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.

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

Derecognition of Financial Instruments
Hydro 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.

Hydro 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
Hydro 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.

Hydro always recognizes lifetime ECL for trade and other receivables. The ECL on these financial assets are estimated based on Hydro'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. Hydro 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, sinking funds and the reserve fund.

For all other financial instruments, Hydro 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, Hydro 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.

2.18 Government Grants

Government grants are recognized when there is reasonable assurance that Hydro 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 Hydro recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that Hydro should purchase, construct or otherwise acquire non-current assets are recognized as deferred revenue 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 Hydro with no future related costs are recognized in the Consolidated Statement of Profit and Comprehensive Income in the period in which they become receivable.

2.19 Regulatory Deferrals

Hydro'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 2023 and 5.4% in 2022. 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 10.

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 on-going 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) Property, Plant and Equipment

Hydro's accounting policy relating to property, plant and equipment is described in Note 2.5. 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 Hydro's property, plant and equipment.

(ii) 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.

When recognizing deferrals and related amortization of costs or credits, 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's profit or loss in the year the order is received.

(iii) Determination of CGUs

Hydro's accounting policy relating to impairment of non-financial assets is described in Note 2.8. In applying this policy, Hydro groups assets into the smallest identifiable group 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.

(iv) Discount Rates

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

(v) Consolidation of Joint Arrangements

Management exercises judgment when applying the criteria outlined in IFRS 11 to determine whether joint arrangements constitute joint ventures or joint operations. Management has determined that its interest in Churchill Falls is considered a joint operation.

(vi) 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 Hydro's assets. The useful lives of property, plant and equipment are determined by independent specialists and reviewed annually by Hydro. 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) Decommissioning Liabilities

Hydro 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.

(iii) Employee Future Benefits

Hydro 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.

(iv) Deferred Assets and Derivative Liabilities

Effective October 1, 2015, Hydro entered into a power purchase agreement (PPA) with Nalcor Energy Marketing Corporation (Energy Marketing) which allows for the purchase of available Recapture energy from Hydro for resale by Energy Marketing. Additionally, the PPA allows for the use of Hydro's transmission service rights by Energy Marketing to deliver electricity, through rights which are provided to Hydro pursuant to a Transmission Service Agreement with Hydro-Québec dated April 1, 2009. The current terms of the PPA require a 60 day termination notice by either party. Management's assumption is that the term of the PPA at December 31, 2023, will continue for at least the next 12 months.

Fair values relating to Hydro's financial instruments and derivatives that have been classified as Level 3 have been determined using inputs for the assets or liabilities that are not readily observable. Certain of these fair values are classified as Level 3 as the transactions do not occur in an active market, or the terms extend beyond the period for which a quoted price is available.

Hydro's PPA with Energy Marketing is accounted for as a derivative instrument. Where Hydro determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the derivative transactions are initially measured at fair value and the expected difference is deferred. Subsequently, the deferred difference is recognized in profit or loss on an appropriate basis over the life of the related derivative instrument but not later than when the valuation is wholly supported by observable market data or the transaction has occurred.

Hydro has elected to defer the difference between the fair value of the power purchase derivative liability upon initial recognition and the transaction price of the power purchase derivative liability and to amortize the deferred asset on a straight-line basis over its effective term (Note 7). These methods, when compared with alternatives, were determined by Management to most accurately reflect the nature and substance of the transactions.

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, 2023, as specified.

- *Amendments to IAS 1 – Presentation of Financial Statements– Disclosure of Accounting Policies*[1]
- *Amendments to IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Accounting Estimates*[1]
- *Amendments to IAS 1 – Presentation of Financial Statements – Classification of Liabilities as Current or Non-Current and Non-Current Liabilities with Covenants* [2]

[1] Effective for annual periods beginning on or after January 1, 2023.
[2] Effective for annual periods beginning on or after January 1, 2024, with earlier application permitted.

4.1 Amendments to IAS 1 – Presentation of Financial Statements– Disclosure of Accounting Policies

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. This change did not have a material impact on Hydro's financial statements.

4.2 Amendments to IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Accounting Estimates

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 did not have an impact on Hydro's financial statements.

4.3 Amendments to IAS 1 – Presentation of Financial Statements – Classification of Liabilities as Current or Non-Current and Non-Current Liabilities with Covenants

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 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 the financial statements to understand the risk that non-current liabilities with covenants could become repayable within 12 months. The amendments are applied retrospectively upon adoption. The application of these amendments is not expected to have a material impact on Hydro's financial statements.

5. TRADE AND OTHER RECEIVABLES

As at December 31 (millions of Canadian dollars)	Note	**2023**	2022
Trade receivables		**126**	116
Due from related parties	24	**15**	15
Other receivables		**12**	12
Loss allowance		**(23)**	(19)
		130	124

As at December 31 (millions of Canadian dollars)	**2023**	2022
0-60 days	**128**	124
60+ days	**2**	-
	130	124

As at December 31 (millions of Canadian dollars)	**2023**	2022
Loss allowance, beginning of the year	**(19)**	(17)
Change in balance during the year	**(4)**	(2)
Loss allowance, end of the year	**(23)**	(19)

6. INVENTORIES

As at December 31 (millions of Canadian dollars)	**2023**	2022
Fuel	**59**	59
Materials and other	**56**	53
	115	112

Fuel inventory includes No. 6 fuel in the amount of $41.0 million (2022 - $42.1 million). The cost of inventories recognized as an expense during the year is $192.5 million (2022 - $192.3 million) and is included in operating costs and fuels.

7. DEFERRED ASSET

The deferred asset related to Hydro's PPA with Energy Marketing is amortized into income on a straight-line basis over the assumed twelve month term of the contract, which commenced on January 1, 2023. In December 2023, Management assessed the anticipated contract term and determined that a new deferred asset and derivative liability was required. This resulted in a deferred asset addition of $68.1 million to be amortized into income on a straight-line basis over the assumed twelve month term, commencing on January 1, 2024. The components of change are as follows:

As at December 31 (millions of Canadian dollars)	**2023**	2022
Deferred asset, beginning of the year	**86**	56
Additions	**68**	86
Amortization	**(86)**	(56)
Deferred asset, end of the year	**68**	86

8. PROPERTY, PLANT AND EQUIPMENT

(millions of Canadian dollars)	Generation Plant	Transmission and Distribution	Other	Assets Under Development	Total
Cost					
Balance at January 1, 2022	2,108	1,481	324	38	3,951
Additions	-	-	19	153	172
Disposals	(16)	(15)	(3)	-	(34)
Transfers	55	59	29	(143)	-
Balance at December 31, 2022	2,147	1,525	369	48	4,089
Additions	**-**	**-**	**-**	**199**	**199**
Disposals	**(10)**	**(2)**	**(8)**	**-**	**(20)**
Transfers	**64**	**64**	**21**	**(149)**	**-**
Decommissioning liabilities and revisions	**9**	**-**	**-**	**-**	**9**
Other adjustments	**(1)**	**-**	**-**	**(2)**	**(3)**
Balance at December 31, 2023	**2,209**	**1,587**	**382**	**96**	**4,274**
Depreciation					
Balance at January 1, 2022	707	302	136	-	1,145
Depreciation	53	35	15	-	103
Disposals	(9)	(5)	(2)	-	(16)
Balance at December 31, 2022	751	332	149	-	1,232
Depreciation	**45**	**36**	**16**	**-**	**97**
Disposals	**(5)**	**(1)**	**(7)**	**-**	**(13)**
Balance at December 31, 2023	**791**	**367**	**158**	**-**	**1,316**
Carrying value					
Balance at January 1, 2022	1,401	1,179	188	38	2,806
Balance at December 31, 2022	1,396	1,193	220	48	2,857
Balance at December 31, 2023	**1,418**	**1,220**	**224**	**96**	**2,958**

Capitalized interest for the year ended December 31, 2023 was $1.9 million (2022 - $0.9 million) related to assets under development.

9. OTHER LONG-TERM ASSETS

As at December 31 (millions of Canadian dollars)		**2023**	2022
Sinking funds	(a)	**206**	202
Reserve fund	(b)	**50**	49
Intangible assets		**7**	7
Right-of-use assets		**2**	2
		265	260
Less: current portion		**(18)**	(18)
		247	242

(a) As at December 31, 2023, sinking funds include $205.9 million (2022 - $201.9 million) related to repayment of Hydro's long-term debt. Sinking fund investments consist of bonds, debentures, short-term borrowings and coupons issued by, or guaranteed by, the Government of Canada, provincial governments or Schedule 1 banks, and have maturity dates ranging from 2024 to 2033.

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% (2022 – 1.42% to 6.82%).

The movement in sinking funds for the year is as follows:

As at December 31 (millions of Canadian dollars)	**2023**	2022
Sinking funds, beginning of the year	**202**	192
Contributions	**7**	7
Change in sinking fund investments in own debentures	**(17)**	(10)
Earnings	**14**	13
Sinking funds, end of the year	**206**	202
Less: sinking fund investments maturing within one year	**(7)**	(9)
	199	193

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

(millions of Canadian dollars)	2024	2025	2026	2027	2028
Sinking fund instalments	7	7	4	4	4

(b) In 2007 Churchill Falls commenced the creation of a $75.0 million segregated reserve fund pursuant to the terms of the Shareholders' Agreement to contribute towards the funding of capital expenditures related to Churchill Falls' existing facilities and their replacement. In 2023, $0.9 million was withdrawn from the reserve fund (2022 - $13.1 million invested into the reserve fund) to maintain the $75.0 million in accordance with the Shareholder's Agreement.

This 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 Hydro's proportionate share of the reserve fund for the year is as follows:

As at December 31 (millions of Canadian dollars)	**2023**	2022
Reserve fund, beginning of the year	**49**	43
Principal contributions	**-**	9
Mark-to-market adjustment	**1**	(3)
Reserve fund, end of the year	**50**	49
Less: current portion	**(11)**	(9)
	39	40

10. REGULATORY DEFERRALS

(millions of Canadian dollars)		January 1 2023	Reclass & Disposition	Regulatory Activity	**December 31 2023**	Remaining Recovery Settlement Period (years)
Regulatory asset deferrals						
Power purchase expense recognition	(a)	166	-	275	**441**	n/a
Supply cost variance deferral account	(b)	190	-	81	**271**	n/a
Rate stabilization plan (RSP)	(c)	52	9	(14)	**47**	n/a
Foreign exchange losses	(d)	42	-	(2)	**40**	18.0
Retirement asset pool	(e)	35	-	5	**40**	n/a
Muskrat Falls PPA monetization	(f)	26	-	(13)	**13**	n/a
Supply deferral	(g)	9	(9)	12	**12**	n/a
Business system transformation program	(h)	8	-	1	**9**	n/a
Deferred energy conservation costs	(i)	7	-	-	**7**	n/a
Muskrat Falls PPA sustaining capital	(j)	1	-	4	**5**	n/a
Other		4	-	-	**4**	n/a
		540	-	349	**889**	
Regulatory liability deferrals						
Removal provision	(k)	(22)	-	(1)	**(23)**	n/a
Holyrood thermal generating station (TGS) accelerated depreciation deferral account	(l)	-	-	(10)	**(10)**	n/a
Insurance amortization and proceeds	(m)	(4)	-	-	**(4)**	n/a
Other		(7)	-	1	**(6)**	n/a
		(33)	-	(10)	**(43)**	

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

For the year ended December 31 (millions of Canadian dollars)		**2023**	2022
RSP amortization		**17**	19
RSP interest		**(3)**	(3)
Total RSP activity	(c)	**14**	16
Power purchase expense recognition	(a)	**(275)**	(148)
Supply cost variance deferrals	(b)	**(81)**	(172)
Muskrat Falls PPA monetization	(f)	**13**	(26)
Supply deferral	(g)	**(12)**	(9)
Holyrood TGS accelerated depreciation deferral account	(l)	**10**	-
Loss on disposal	(e)	**(5)**	(16)
Muskrat Falls PPA sustaining capital	(j)	**(4)**	-
Removal provision	(k)	**1**	5
Other	(d,h)	**(3)**	(2)
		(342)	(352)

The following section describes Hydro'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 2023 would have decreased by $342.4 million (2022 - $352.0 million).

10.(a) Power Purchase Expense Recognition

In Board Order No's. P.U. 9 (2021) and P.U. 33 (2021), the PUB approved Hydro's proposal to deviate from IFRS to allow recognition of expenses related to the purchase of energy in accordance with the commercial terms of the Muskrat Falls Power Purchase Agreement and Labrador-Island Link Transmission Funding Agreement (TFA). For the year ended December 31, 2023, IFRS power purchase expenses were $274.9 million (2022 - $148.2 million) higher than commercial payments which resulted in a total regulatory asset of $440.7 million (2022 - $165.8 million).

10.(b) Supply Cost Variance Deferral Account

In Board Order No's. P.U. 33 (2021) and P.U. 4 (2022), the PUB approved Hydro's proposal to establish an account to defer payments under the Muskrat Falls Project agreements, rate mitigation funding, project cost recovery from customers and supply cost variances. The deferral commenced activity on November 1, 2021. On March 31, 2023, as the next step to implement rate mitigation, the Province announced the provision of $190.4 million of rate mitigation funding to offset increases in supply costs primarily associated with the Lower Churchill Project. In August 2023, the first drawing on the convertible debenture of $144.7 million was received by LIL (2021) Limited Partnership, and the funds were transferred to Hydro for the purpose of mitigating projected future customer rate increases that would be required to recover net supply costs. Both sources of rate mitigation, offset by the normal activity of the supply cost variance deferral account of $416.0 million (2022 - $172.1 million) resulted in a net increase in the account of $80.9 million (2022 - $172.1 million). The total balance owing from customers for year ended December 31, 2023 is $271.3 million (2022 - $190.4 million).

10.(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 2023, Hydro recovered $16.5 million (2022 - $19.1 million) from customers; which was partially offset by Board Order No. P.U. 7 (2023) which approved the recovery of the 2022 Isolated Systems Supply Cost Variance Deferral from the RSP Current Plan of $8.7 million. This activity and associated interest and other adjustments in 2023 resulted in a remaining balance for future recovery from customers of $47.4 million (2022 - $52.3 million).

10.(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 2023, amortization expense of $2.2 million (2022 - $2.2 million) was recorded.

10.(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 2023, Hydro deferred $4.8 million (2022 - $16.1 million) of retirement asset activity resulting in a total balance of $40.2 million (2022 - $35.4 million).

10.(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 2023, Hydro reversed the prior year estimate upon actual monetization of the 2022 undelivered Schedule II energy and recorded an estimate of the monetization of 2023 undelivered Schedule II energy of $13.3 million (2022 - $25.8 million).

10.(g) Supply Deferral

Pursuant to Board Order No. P.U. 22 (2017), the Board approved supply cost deferrals using three specific deferral accounts: the Energy Supply, Holyrood Conversion and Isolated Systems Supply cost deferrals. As per Board Order No. P.U. 33 (2021) and Hydro's compliance application, the Energy Supply and Holyrood Conversion deferrals were discontinued with the account maintained to provide for a timely recovery of the remaining balance. There was no change to the Isolated Systems Supply Cost Variance Deferral in Board Order No. P.U. 33 (2021). During 2023, Hydro recorded a net increase in the supply deferral asset of $3.4 million (2022 - $3.4 million decrease) resulting in a balance from customers of $12.3 million (2022 - $8.9 million). The increase in the supply deferral asset is primarily due to the normal operation of the supply deferral of $12.4 million (2022 - $9.0 million), with recovery to be determined through an annual application process, and the recovery of the 2022 supply cost variance deferral of $9.0 million as per Board Order No. P.U. 7 (2023).

10.(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 $1.5 million (2022 - $3.1 million), resulting in a total deferral of $9.2 million (2022 - $7.7 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.

10.(i) Deferred Energy Conservation Costs

In 2023, Hydro deferred $1.4 million (2022 - $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 $1.6 million (2022 - $1.9 million) of the balance through a rate rider which resulted in a total deferred balance of $7.3 million (2022 - $7.5 million)

10.(j) Muskrat Falls PPA Sustaining Capital

In Board Order No. P.U. 33 (2021), the PUB approved Hydro's proposal to defer contributions required to be made by Hydro for sustaining capital investments pursuant to the Muskrat Falls PPA with recovery to be addressed in Hydro's next general rate application. In 2023, Hydro has deferred $4.4 million (2022 - $0.5 million) in contribution activity resulting in a total balance of $4.9 million (2022 - $0.5 million).

10.(k) 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 2023 activity of $0.8 million (2022 - $5.0 million) resulting in a total balance of $22.8 million (2022 - $21.9 million). The increase was driven by removal depreciation of $5.5 million (2022 - $5.5 million) which was partially offset by removal costs of $4.7 million (2022 - $0.5 million).

10.(l) Holyrood TGS Accelerated Depreciation 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, for future recovery, any difference in excess of ±$2.5 million, between the accelerated depreciation expense for Holyrood TGS in 2022 and 2023 and the accelerated depreciation expense included in the approved 2019 Test Year. For the year ended December 31, 2023, the Holyrood accelerated depreciation expense was $12.3 million lower (2022 - $0.2 million lower) than the 2019 Test Year depreciation resulting in a regulatory liability of $9.8 million (2022 - $nil). The disposition of the balance of this account is subject to a further Board Order from the PUB.

10.(m) 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 2023, Hydro recorded a net decrease of $0.1 million (2022 - $2.8 million) to the regulatory liability. The decrease was driven by insurance amortization of $0.1 million (2022 - $0.2 million).

11. TRADE AND OTHER PAYABLES

As at December 31 (millions of Canadian dollars)	Note	**2023**	2022
Trade payables		**117**	103
Due to related parties	24	**32**	40
Accrued interest payable		**17**	17
Other payables		**29**	29
		195	189

12. DEBT

12.1 Short-term Borrowings

Hydro utilized its $300.0 million government guaranteed promissory note program to fulfil its short-term funding requirements. As at December 31, 2023, there were two promissory notes outstanding for a total of $230.0 million with a maturity date of January 2, 2024 bearing interest rates ranging from 5.15% to 5.17% (2022 - $131.0 million maturing January 3, 2023 bearing interest at 4.27%). Upon maturity, the promissory notes were reissued.

Hydro maintains a $500.0 million CAD or USD equivalent committed revolving term facility with a maturity date of July 31, 2024. As at December 31, 2023, there were no amounts drawn on the facility (2022 - $nil). Borrowings in CAD may take the form of Prime Rate Advances, Bankers' Acceptances (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, Secured Overnight Financing Rate (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.

12.2 Long-term Debt

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

As at December 31 (millions of Canadian dollars)	Face Value	Coupon Rate %	Year of Issue	Year of Maturity	**2023**	2022
Hydro						
Y*	300	8.40	1996	2026	**298**	298
AB*	300	6.65	2001	2031	**304**	304
AD*	125	5.70	2003	2033	**124**	124
AF	500	3.60	2014/2017	2045	**483**	482
1A	600	3.70	2017/2018	2048	**636**	637
2A	300	1.75	2021	2030	**290**	288
Total	2,125				**2,135**	2,133
Less: Sinking fund investments in own debentures					**111**	94
					2,024	2,039
Less: Sinking fund payments due within one year					**7**	7
					2,017	2,032

*Sinking funds have been 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 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, 2023 was $8.8 million (2022 - $8.7 million).

13. DEFERRED CONTRIBUTIONS

Hydro 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.

As at December 31 (millions of Canadian dollars)	**2023**	2022
Deferred contributions, beginning of the year	**42**	31
Additions	**5**	11
Amortization	**(2)**	-
Deferred contributions, end of the year	**45**	42
Less: current portion	**(1)**	(1)
	44	41

14. DECOMMISSIONING LIABILITIES

Hydro has recognized liabilities associated with the retirement of portions of the Holyrood TGS and the disposal of Polychlorinated Biphenyls (PCB).

The reconciliation of the beginning and ending carrying amounts of decommissioning liabilities for December 31, 2023 and 2022 are as follows:

As at December 31 (millions of Canadian dollars)	**2023**	2022
Decommissioning liabilities, beginning of the year	**20**	15
Liabilities settled	**(1)**	-
Accretion	**1**	-
Revisions	**9**	5
Decommissioning liabilities, end of the year	**29**	20
Less: current portion	**(2)**	(4)
	27	16

The total estimated undiscounted cash flows required to settle the Holyrood TGS obligations at December 31, 2023 are $34.8 million (2022 - $25.0 million). Payments to settle the liability are expected to occur between 2027 and 2033. The fair value of the decommissioning liabilities was determined using the present value of future cash flows discounted at Hydro's credit adjusted risk free rate of 3.8% (2022 - 4.3%). Hydro has recorded $26.4 million (2022 - $17.0 million) related to Holyrood TGS obligations.

The total estimated undiscounted cash flows required to settle the PCB obligations at December 31, 2023 are $0.3 million (2022 - $0.2 million). Payments to settle the liability are expected to occur between 2024 and 2025. The fair value of the decommissioning liabilities was determined using the present value of future cash flows discounted at Hydro's credit adjusted risk free rate of 4.2% (2022 - 4.3%). Hydro has recorded $0.2 million (2022 - $0.2 million) related to PCB obligations.

Churchill Falls has recognized liabilities associated with the disposal of PCB. The total estimated undiscounted cash flows required to settle the PCB obligations at December 31, 2023 are $1.6 million (2022 - $2.6 million). The fair value of the decommissioning liabilities was determined using the present value of future cash flows discounted at the Company's credit adjusted risk free rate of 5.1% (2022 - 5.5%). Payments to settle the liabilities are expected to occur between 2024 and 2025. The current portion relates to estimated settlements within the next twelve months.

Hydro'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 Hydro'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 Hydro is required to remove, a decommissioning liability for those assets will be recognized at that time.

15. LEASES

Amounts Recognized in the Consolidated Statement of Profit and Comprehensive Income

For the year ended December 31 (millions of Canadian dollars)		**2023**	2022
Variable lease payments not included in the measurement of leases	(a)	**30**	29

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

The total cash outflow for leases for the year ended December 31, 2023 amount to $29.8 million (2022 - $28.8 million).

16. EMPLOYEE FUTURE BENEFITS

16.1 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, 2023 of $9.9 million (2022 - $9.7 million) are expensed as incurred.

16.2 Other Benefits

Hydro 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 2023, cash payments to beneficiaries for its unfunded other employee future benefits were $3.5 million (2022 - $3.5 million). An actuarial valuation was performed as at December 31, 2023.

As at December 31 (millions of Canadian dollars)	**2023**	2022
Accrued benefit obligation, beginning of the year	**86**	120
Current service cost	**2**	5
Interest cost	**5**	4
Benefits paid	**(4)**	(4)
Actuarial loss (gain) (a)	**11**	(40)
Transfers (b)	**-**	1
Accrued benefit obligation, end of the year	**100**	86

(a) Pursuant to Board Order No. P.U. 36 (2015), Hydro recorded $2.0 million (2022 - $nil) of employee future benefits losses as a regulatory adjustment to decrease other comprehensive income and recognize the amount in profit or loss.

(b) When an employee transfers to a related party, the associated accrued benefit obligation is allocated to each respective party based on years of service.

For the year ended December 31 (millions of Canadian dollars)	**2023**	2022
Component of benefit cost		
Current service cost	**2**	5
Interest cost	**5**	4
Total benefit expense for the year	**7**	9

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

	2023	2022
Discount rate - benefit cost	**5.20%**	3.35%
Discount rate - accrued benefit obligation	**4.65%**	5.20%
Rate of compensation increase	**3.50%**	3.50%

Assumed healthcare trend rates:

	2023	2022
Initial health care expense trend rate	**6.00%**	5.42%
Cost trend decline to	**3.60%**	3.60%

Current rate 6.00%, reducing linearly to 3.6% in 2040 and thereafter.

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

Increase (millions of Canadian dollars)	**2023**	2022
Current service and interest cost	**1**	2
Accrued benefit obligation	**13**	10

Decrease (millions of Canadian dollars)	**2023**	2022
Current service and interest cost	**(1)**	(1)
Accrued benefit obligation	**(10)**	(8)

17. SHAREHOLDER'S EQUITY

17.1 Share Capital

As at December 31 (millions of Canadian dollars)	**2023**	2022
Common shares of par value of $1 each		
Authorized - 25,000,000		
Issued, paid and outstanding - 22,503,942	**23**	23

17.2 Contributed Capital

As at December 31 (millions of Canadian dollars)	**2023**	2022
Contributed capital for the year	**155**	155
Regulatory adjustment, beginning of the year	**(6)**	(5)
Amortization recognized as a regulatory adjustment	**(1)**	(1)
	148	149

During 2023, Lower Churchill Management Corporation (LCMC) contributed $0.2 million (2022 - $0.2 million) in additions to property, plant and equipment. Pursuant to Board Order No. P.U. 1 (2017), Hydro recognized $1.2 million (2022 - $1.2 million) in amortization as a regulatory adjustment.

17.3 Dividends

For the year ended December 31 (millions of Canadian dollars)	**2023**	2022
Declared during the year		
Final dividend for prior year: $nil per share (2022 - $0.04)	**-**	1
Dividend for current year: $0.24 per share (2022 - $0.91)	**5**	20
	5	21

18. OTHER REVENUE

For the year ended December 31 (millions of Canadian dollars)		**2023**	2022
Government grant	(a)	**335**	-
Transmission tariff revenue		**36**	25
Greenhouse Gas performance credit sales		**23**	9
Recovery of supply power		**9**	7
Other		**9**	11
		412	52

(a) The Province provided a grant of $190.4 million for the purpose of mitigating future customer rate increases to recover net supply costs incurred to the end of 2022. For the year ended December 31, 2023, Hydro recognized other revenue relating to the grant of $190.4 million (2022 - $nil). This grant is recognized in the Supply Cost Variance Deferral account as described in Note 10.

In August 2023, the first drawing on the convertible debenture of $144.7 million was received by LIL (2021) Limited Partnership, and the funds were transferred to Hydro for the purpose of mitigating projected future customer rate increases that would be required to recover net supply costs. For the year ended December 31, 2023, Hydro recognized other revenue relating to the grant of $144.7 million (2022 - $nil). This grant is recognized in the Supply Cost Variance Deferral account as described in Note 10.

19. POWER PURCHASED

The supply period and contractual payments of the PPA with Muskrat Falls, the PPA for Labrador Residual Block Use and the Labrador-Island Link TFA commenced in November 2021, February 2022 and April 2023, respectively. For the year ended December 31, 2023, Hydro recognized power purchase expense of $866.3 million (2022 - $411.6 million) associated with these agreements. These power purchase expenses are deferred in either the Supply Cost Variance Deferral account or the Power Purchase Expense Recognition account as described in Note 10.

20. OPERATING COSTS

For the year ended December 31 (millions of Canadian dollars)	**2023**	2022
Salaries and benefits	**117**	113
Maintenance and materials	**41**	29
Professional services	**13**	11
Insurance	**8**	8
Travel and transportation	**8**	7
Bad debt expense	**5**	-
Other operating costs	**7**	8
	199	176

21. NET FINANCE EXPENSE

For the year ended December 31 (millions of Canadian dollars)	**2023**	2022
Finance income		
Sinking fund	**14**	14
Reserve fund	**1**	1
Other	**9**	4
	24	19
Finance expense		
Long-term debt	**98**	98
Debt guarantee fee	**9**	9
Other	**8**	4
	115	111
Interest capitalized during construction	**(2)**	(1)
	113	110
Net finance expense	**89**	91

22. OTHER EXPENSE

For the year ended December 31 (millions of Canadian dollars)	**2023**	2022
Loss on disposal of property, plant and equipment	**7**	19
Rent and royalties	**4**	6
Insurance proceeds	**(4)**	-
Other	**3**	4
	10	29

23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

23.1 Fair Value

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

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

Establishing Fair Value

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

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

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

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

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

	Level	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
As at (millions of Canadian dollars)		**December 31, 2023**		December 31, 2022	
Financial assets					
Sinking funds - investments in Hydro debt issue	**2**	**111**	**111**	94	93
Sinking funds - other investments	**2**	**206**	**214**	202	209
Reserve fund	**2**	**50**	**50**	49	49
Financial liabilities					
Derivative liability	**3**	**68**	**68**	86	86
Long-term debt (including amount due within one year before sinking funds)	**2**	**2,135**	**2,066**	2,133	2,017

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

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

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

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

(millions of Canadian dollars)	Carrying Value	Valuation Techniques	Significant Unobservable Input(s)	Range
Derivative liability (PPA)	68	Modelled pricing	Volumes (MWh)	37-42% of available generation

The derivative liability arising under the PPA is designated as a Level 3 instrument as certain forward market prices and related volumes are not readily determinable to estimate a portion of the fair value of the derivative liability. Hence, fair value measurement of this instrument is based upon a combination of internal and external pricing and volume estimates. As at December 31, 2023, the effect of using reasonably possible alternative assumptions for volume inputs to valuation techniques may have resulted in a +$1.0 million to +$4.8 million change in the carrying value of the derivative liability.

The components of the change impacting the carrying value of the derivative liability for the years ended December 31, 2023 and 2022 are as follows:

(millions of Canadian dollars)	**Level 3**
Balance at January 1, 2023	**(86)**
Purchases	**(68)**
Changes in profit or loss	
Mark-to-market	**23**
Settlements	**63**
Total	**86**
Balance at December 31, 2023	**(68)**

(millions of Canadian dollars)	Level 3
Balance at January 1, 2022	(56)
Purchases	(86)
Changes in profit or loss	
Mark-to-market	(34)
Settlements	90
Total	56
Balance at December 31, 2022	(86)

23.2 Risk Management

Hydro is exposed to certain credit, liquidity and market risks through its operating, investing and financing activities. Financial risk is managed in accordance with Hydro's Board approved Financial Risk Management Policy, which outlines the objectives and strategies for the management of financial risk, including the use of derivative contracts. Permitted financial risk management strategies are aimed at minimizing the volatility of Hydro's expected future cash flows.

Credit Risk

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

Credit risk on cash is minimal, as Hydro's cash deposits are held by a Schedule 1 Canadian Chartered Bank with a rating of A+ (Standard and Poor's).

Credit exposure on Hydro'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 funds portfolio:

	Issuer Credit Rating	**Fair Value of Portfolio (%)**	**Issuer Credit Rating**	**Fair Value of Portfolio (%)**
	2023		2022	
Provincial Governments	**AA- to AAA**	**14.09%**	AA- to AAA	16.03%
Provincial Governments	**A- to A+**	**24.27%**	A- to A+	25.41%
Provincially owned utilities	**AA- to AAA**	**24.13%**	AA- to AAA	24.28%
Provincially owned utilities	**A- to A+**	**37.51%**	A- to A+	34.28%
		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. Investment 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 Government of Canada, holdings of any one issuer are limited to 10% of the total principal amount of the portfolio. The following credit risk table provides information on credit exposure 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 (%)**
	2023		2022	
Government of Canada	**AAA**	**0.00%**	AAA	2.56%
Provincial Governments	**AA- to AAA**	**24.05%**	AA- to AAA	16.37%
Provincial Governments	**A- to A+**	**35.60%**	A- to A+	39.26%
Provincially owned utilities	**AA- to AAA**	**6.07%**	AA- to AAA	4.14%
Provincially owned utilities	**A- to A+**	**1.74%**	A- to A+	2.31%
Schedule 1 Canadian banks	**AA- to AAA**	**9.30%**	AA- to AAA	12.95%
Schedule 1 Canadian banks	**A- to A+**	**23.24%**	A- to A+	22.41%
		100.0%		100.0%

Hydro's exposure to credit risk on its energy sales and associated accounts receivable is determined by the credit quality of its customers. Hydro's three largest customers account for 80.8% (2022 - 78.9%) of total energy sales and 64.3% (2022 – 68.5%) of accounts receivable. Churchill Falls' exposure to credit risk on energy sales is limited, as Churchill Falls' main customer, Hydro-Québec is an investment grade utility.

Liquidity Risk

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

Short-term liquidity is mainly provided through cash on hand, funds from operations, and a $300.0 million promissory note program. In addition, Hydro maintains a $500.0 million (2022 - $500.0 million) committed revolving term credit facility with a maturity date of July 31, 2024. Churchill Falls also maintains a $25.0 million (2022 - $24.0 million) minimum cash balance, business interruption insurance, as well as a $10.0 million (2022 - $10.0 million) unsecured credit facility with its banker.

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.

For 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 the contractual maturities of Hydro's financial liabilities, including principal and interest, as at December 31, 2023:

(millions of Canadian dollars)	<1 Year	1-3 Years	3-5 Years	> 5 Years	Total
Trade and other payables	195	-	-	-	195
Short-term borrowings	230	-	-	-	230
Derivative liability	68	-	-	-	68
Debt guarantee fee	9	18	16	120	163
Long-term debt including sinking funds	7	129	8	1,601	1,745
Interest	98	183	145	853	1,279
	607	330	169	2,574	3,680

Market Risk

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

The derivative liability relates to the PPA with Energy Marketing and represents the future value provided to Energy Marketing through the contract. On September 14, 2016, the terms of the PPA were amended. Under the amendment, the PPA can be terminated by either party with notice provided 60 days prior to the intended termination date.

Interest Rates

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

Changes in prevailing interest rates will impact the fair value of financial assets classified as FVTOCI, which includes Churchill Falls' reserve fund. Expected cash flows from these assets are also impacted in certain circumstances, such as when reserve fund securities are sold prior to maturity.

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

24. RELATED PARTY TRANSACTIONS

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

Related parties with which Hydro transacts are as follows:

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

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

As at December 31 (millions of Canadian dollars)	Notes	**2023**	2022
Trade and other receivables:			
Other related parties	5	**15**	15
Related party loan receivable:			
Other related parties	(a)	**-**	30
Contract receivable:			
Other related parties	(b)	**13**	-
Trade and other payables:	11		
Parent		**7**	5
Joint operation		**1**	1
The Province		**9**	9
Other related parties		**15**	25
Contract payable (including current portion):			
Other related parties	(c)	**452**	165
Other current liabilities:			
The Province	(d)	**4**	6
Long-term debt (including current portion):			
The Province		**926**	925

For the year ended December 31 (millions of Canadian dollars)		**2023**	2022
Energy sales:			
Other related parties		**84**	110
Other revenue:			
The Province		**190**	-
Parent		**153**	6
Other related parties		**37**	25
Power purchased:			
Joint operation		**18**	17
Parent		**30**	29
Other related parties		**866**	412
Net operating recoveries:			
Parent		**23**	20
Net finance expense:			
The Province		**36**	36
Other expense:			
The Province	(d)	**4**	6

(a) Hydro had a related party loan receivable from Muskrat Falls which included interest charged at 5.43%. The balance of the loan was repaid in 2023.

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

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

(d) 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.

24.1 Key Management Personnel Compensation

Compensation for key management personnel, which Hydro 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.

For the year ended December 31 (millions of Canadian dollars)	**2023**	2022
Salaries and employee benefits	**2**	2

25. COMMITMENTS AND CONTINGENCIES

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

(b) Outstanding commitments for capital projects total approximately $67.3 million as at December 31, 2023 (2022 - $53.9 million).

(c) Hydro 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	2023	3 years
Hydroelectric	300 MW	1998	43 years
Hydroelectric	225 MW	2015	25 years
Hydroelectric	824 MW	2021	50 years
Cogeneration	15 MW	2023	10 years
Wind	390 kW	2004	Continual
Wind	27 MW	2008	20 years
Wind	27 MW	2009	20 years
Hydroelectric, Solar, Battery	240 kW Hydro 189 kW Solar 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:

(millions of Canadian dollars)	2024	2025	2026	2027	2028
Power purchases	783	796	811	823	836

(d) Through a power purchase agreement signed October 1, 2015, with Energy Marketing, Hydro maintains the transmission services contract it entered into with Hydro-Québec TransÉnergie which concludes in 2029.

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

(millions of Canadian dollars)	2024	2025	2026	2027	2028
Transmission rental payments	19	19	19	19	20

(e) In May 2021, Hydro entered into an amended Capacity Assistance Agreement with Corner Brook Pulp and Paper (CBPP) for the purchase of relief power during the winter period. Hydro and CBPP have agreed to extend the terms of that agreement until a new agreement is executed. Payment for services will be dependent on the successful provision of capacity assistance for the winter period by CBPP.

(f) The Water Management Agreement between Churchill Falls and Muskrat Falls provides for coordinated production for the efficient use of water on the Churchill River system by ensuring that water is available to meet delivery requirements and contractual commitments for both Churchill Falls and Muskrat Falls, while maximizing the energy produced from the water resource. As at December 31, 2022, Muskrat Falls has stored the equivalent of approximately 2.0 TWh (2022 - 1.5 TWh) of energy in the Churchill Falls reservoir.

26. CAPITAL MANAGEMENT

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).

A summary of the capital structure is outlined below:

(millions of Canadian dollars)	**2023**		2022	
Debt				
Sinking funds	**(206)**		(202)	
Short-term borrowings	**230**		131	
Current portion of long-term debt	**7**		7	
Long-term debt	**2,017**		2,032	
	2,048	**60.3%**	1,968	60.3%
Equity				
Share capital	**23**		23	
Contributed capital	**148**		149	
Reserves	**19**		31	
Retained earnings	**1,159**		1,094	
	1,349	**39.7%**	1,297	39.7%
Total Debt and Equity	**3,397**	**100.0%**	3,265	100.0%

26.1 Hydro

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, 2023 and 2022, 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 December 15, 2023, the Lieutenant-Governor in Council issued Order in Council OC2023-272 to increase the level of short-term borrowings permitted by Hydro to $700.0 million, effective until January 1, 2026 at which time the level will decrease to $500.0 million. As at December 31, 2023 there were two promissory notes outstanding for a total of $230.0 million.

The Hydro Corporation Act, 2007 (the 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.

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

26.2 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 common 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.

Churchill Falls maintains a $10.0 million Canadian or US equivalent unsecured operating credit facility with its banker. Advances may take the form of a Prime Rate advance or the issuance of a Bankers' Acceptance (BA) with interest calculated at the Prime Rate or prevailing Government BA Fee. 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, 2023 (2022 - $nil).

Churchill Falls has issued three irrevocable letters of credit totaling $2.0 million (2022 - $2.0 million), $1.0 million of which does not impact the borrowing limit of the operating credit facility (2022 - $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.

27. SUPPLEMENTARY CASH FLOW INFORMATION

For the year ended December 31 (millions of Canadian dollars)	**2023**	2022
Trade and other receivables	**(6)**	13
Inventories	**(3)**	(15)
Prepayments	**1**	1
Trade and other payables	**1**	46
Changes in non-cash working capital balances	**(7)**	45
Related to:		
Operating activities	**(14)**	56
Investing activities	**12**	(3)
Financing activities	**(5)**	(8)
	(7)	45

28. SEGMENT INFORMATION

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

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

	Hydro Regulated	Churchill Falls	Energy Marketing	Non-Regulated Activities	Inter-Segment	Total
(millions of Canadian dollars)			For the year ended December 31, 2023			
Energy sales	**740**	**100**	**5**	**52**	**(34)**	**863**
Other revenue	**388**	**3**	**19**	**-**	**2**	**412**
Revenue	**1,128**	**103**	**24**	**52**	**(32)**	**1,275**
Fuels	**187**	**-**	**-**	**-**	**-**	**187**
Power purchased	**926**	**-**	**5**	**47**	**(34)**	**944**
Operating costs	**148**	**47**	**-**	**4**	**-**	**199**
Transmission rental	**-**	**-**	**19**	**-**	**-**	**19**
Depreciation and amortization	**73**	**26**	**-**	**-**	**-**	**99**
Net finance expense (income)	**94**	**(6)**	**-**	**1**	**-**	**89**
Other expense	**9**	**1**	**-**	**-**	**-**	**10**
Expenses	**1,437**	**68**	**24**	**52**	**(34)**	**1,547**
Preferred dividends	**-**	**(2)**	**-**	**-**	**2**	**-**
(Loss) profit for the year before regulatory adjustments	**(309)**	**37**	**-**	**-**	**-**	**(272)**
Regulatory adjustments	**(342)**	**-**	**-**	**-**	**-**	**(342)**
Profit for the year	**33**	**37**	**-**	**-**	**-**	**70**
Capital expenditures*	**150**	**49**	**-**	**-**	**-**	**199**
Total assets	**3,659**	**812**	**72**	**17**	**-**	**4,560**

***Capital expenditures include non-cash additions of $0.2 million contributed by Lower Churchill Management Corporation and $1.9 million of interest capitalized during construction.**

(millions of Canadian dollars)	Hydro Regulated	Churchill Falls	Energy Marketing	Non-Regulated Activities	Inter-Segment	Total
	For the year ended December 31, 2022					
Energy sales	649	118	4	56	(33)	794
Other revenue	31	1	16	-	4	52
Revenue	680	119	20	56	(29)	846
Fuels	188	-	-	-	-	188
Power purchased	473	-	4	47	(33)	491
Operating costs	135	40	-	1	-	176
Transmission rental	3	-	16	-	-	19
Depreciation and amortization	80	24	-	-	-	104
Net finance expense (income)	94	(3)	-	-	-	91
Other expense (income)	23	6	-	1	(1)	29
Expenses	996	67	20	49	(34)	1,098
Preferred dividends	-	(5)	-	-	5	-
(Loss) profit for the year before regulatory adjustments	(316)	57	-	7	-	(252)
Regulatory adjustments	(352)	-	-	-	-	(352)
Profit for the year	36	57	-	7	-	100
Capital expenditures*	104	69	-	-	-	173
Total assets	3,237	781	92	4	-	4,114

*Capital expenditures include non-cash additions of $0.2 million contributed by Lower Churchill Management Corporation, $18.8 million of upgrades to microwave telecommunications equipment in Churchill Falls and $0.9 million of interest capitalized during construction.

Appendix E
Nalcor Energy Consolidated Financial Statements

NALCOR ENERGY
CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023

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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, 2023, 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 material accounting policy information (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, 2023, 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 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 13, 2024

NALCOR ENERGY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31 (millions of Canadian dollars)	Notes	**2023**	2022
ASSETS			(Note 35)
Current assets			
Cash and cash equivalents	5	**694**	566
Restricted cash		**1,224**	1,307
Short-term investments	11	**62**	61
Trade and other receivables	6	**184**	187
Inventories	7	**139**	132
Other current assets	8	**22**	30
Total current assets		**2,325**	2,283
Non-current assets			
Property, plant and equipment	9	**17,921**	17,880
Intangible assets	10	**75**	76
Investments	11	**469**	507
Other long-term assets		**5**	5
Total assets		**20,795**	20,751
Regulatory deferrals	12	**889**	540
Total assets and regulatory deferrals		**21,684**	21,291
LIABILITIES AND EQUITY			
Current liabilities			
Short-term borrowings	15	**230**	131
Trade and other payables	13	**306**	301
Current portion of long-term debt	15	**70**	69
Current portion of Class B limited partnership units	16	**88**	-
Current portion of deferred credits	17	**99**	130
Other current liabilities	14	**35**	88
Total current liabilities		**828**	719
Non-current liabilities			
Long-term debt	15	**10,788**	10,721
Class B limited partnership units	16	**669**	739
Deferred credits	17	**1,598**	1,654
Decommissioning liabilities	18	**100**	96
Employee future benefits	19	**116**	98
Other long-term liabilities	20	**84**	81
Total liabilities		**14,183**	14,108
Shareholder's equity			
Share capital	22	**123**	123
Shareholder contributions		**4,859**	4,859
Reserves		**(30)**	(19)
Retained earnings		**2,506**	2,187
Total equity		**7,458**	7,150
Total liabilities and equity		**21,641**	21,258
Regulatory deferrals	12	**43**	33
Total liabilities, equity and regulatory deferrals		**21,684**	21,291

Commitments and contingencies (Note 32)

See accompanying notes

On behalf of the Board:

DIRECTOR

DIRECTOR

NALCOR ENERGY
CONSOLIDATED STATEMENT OF PROFIT AND COMPREHENSIVE INCOME

For the year ended December 31 (millions of Canadian dollars)	Notes	**2023**	2022
Energy sales	24	**1,285**	1,327
Other revenue	25	**239**	32
Revenue		**1,524**	1,359
Fuels		**187**	188
Power purchased		**78**	81
Operating costs	26	**310**	264
Production, marketing and transportation costs	27	**32**	30
Transmission rental		**39**	23
Depreciation, depletion, amortization and impairment		**315**	224
Net finance expense	28	**299**	225
Other (income) expense	29	**(14)**	95
Expenses		**1,246**	1,130
Profit for the year before regulatory adjustments		**278**	229
Regulatory adjustments	12	**(341)**	(351)
Profit for the year		**619**	580
Other comprehensive (loss) income			
Total items that may or have been reclassified to profit or loss:			
Actuarial loss on employee future benefits regulatory adjustment		**(2)**	-
Actuarial (loss) gain on employee future benefits	19	**(14)**	48
Net fair value gain (loss) on reserve fund	11	**1**	(3)
Net fair value gain (loss) on cash flow hedges		**4**	(62)
Reclassification adjustments related to:			
Cash flow hedges recognized in profit or loss		**-**	79
Other comprehensive (loss) income for the year		**(11)**	62
Total comprehensive income for the year		**608**	642

See accompanying notes

NALCOR ENERGY
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(millions of Canadian dollars)	Note	Share Capital	Shareholder Contributions	Fair Value Reserve	Employee Benefit Reserve	Retained Earnings	Total
Balance at January 1, 2023		**123**	**4,859**	**(55)**	**36**	**2,187**	**7,150**
Profit for the year		**-**	**-**	**-**	**-**	**619**	**619**
Other comprehensive loss		**-**	**-**	**5**	**(16)**	**-**	**(11)**
Total comprehensive income for the year		**-**	**-**	**5**	**(16)**	**619**	**608**
Dividends	**22**	**-**	**-**	**-**	**-**	**(300)**	**(300)**
Balance at December 31, 2023		**123**	**4,859**	**(50)**	**20**	**2,506**	**7,458**
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

See accompanying notes

NALCOR ENERGY
CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31 (millions of Canadian dollars)	Notes	**2023**	2022
Operating activities			
Profit for the year		**619**	580
Adjustments to reconcile profit to cash provided from operating activities:			
Depreciation, depletion, amortization and impairment		**315**	224
Amortization of deferred credits	17	**(121)**	(77)
Hibernia South Extension (HSE) Redetermination re-balancing adjustment	29	**(46)**	(22)
Loss on disposal of property, plant and equipment	29	**9**	19
Maritime Link operating costs		**19**	20
Regulatory adjustments	12	**(341)**	(351)
Finance income	28	**(135)**	(67)
Finance expense	28	**434**	292
Other		**25**	23
		778	641
Changes in non-cash working capital balances	33	**10**	59
Interest received		**120**	48
Interest paid		**(412)**	(400)
Net cash provided from operating activities		**496**	348
Investing activities			
Additions to property, plant and equipment and intangible assets	34	**(310)**	(271)
Decrease (increase) in investments		**21**	(311)
Other		**-**	5
Changes in non-cash working capital balances	33	**(14)**	(160)
Net cash used in investing activities		**(303)**	(737)
Financing activities			
Proceeds from long-term debt	15	**145**	1,000
Repayment of long-term debt		**(61)**	(60)
Decrease (increase) in restricted cash		**83**	(494)
Increase in deferred credits		**14**	13
Increase in short-term borrowings		**99**	76
Dividends	22	**(300)**	-
Distribution of Class B limited partnership units	16	**(45)**	-
Other		**-**	13
Net cash (used in) provided from financing activities		**(65)**	548
Net increase in cash and cash equivalents		**128**	159
Cash and cash equivalents, beginning of the year		**566**	407
Cash and cash equivalents, end of the year		**694**	566

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 manage Nalcor's participation in extra-provincial electricity markets.

A 100% interest in Muskrat Falls Corporation (Muskrat Falls), whose principal activity is to operate the Muskrat Falls hydroelectric generating facility (MF Plant) on the lower Churchill River.

A 100% interest in Labrador Transmission Corporation (Labrador Transco), whose principal activity is to operate and maintain the Labrador Transmission Assets (LTA), which includes transmission lines connecting the MF Plant with the Labrador-Island Link (LIL), the Churchill Falls hydroelectric generating facility and Hydro's Labrador transmission assets.

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

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

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 holds the common shares of Labrador-Island Link Holding Corporation (LIL Holdco) and is administering a Federal Government of Canada investment in the LIL that is a component of the Province's Rate Mitigation Plan.

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

A limited partnership interest in LIL LP, created to develop, construct and finance the assets and property constituting the LIL, a transmission link constructed between the MF 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 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. As of November 1, 2022, Churchill Falls held a 100% interest in Twin Falls Power Corporation Limited (Twin Falls). Effective December 18, 2023, Twin Falls was dissolved.

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. Upon commissioning of the LIL on April 14, 2023, the IT assigned all indebtedness, rights, titles and interest under the IT PFA to the LIL Funding Trust and was later terminated on December 22, 2023. 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. MATERIAL 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 8, 2024.

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, financing, operating, maintenance and sustaining costs related to the LIL, LTA and MF Plant, including reserve accounts required under the Labrador-Island Link Project Finance Agreement (LIL PFA) and MF/LTA Project Finance Agreement (MF/LTA PFA). Restricted cash also includes 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.

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.

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	25 to 70 years
Terminal stations	7 to 70 years
Distribution system	20 to 65 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 (income) 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.

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, 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	7 to 10 years

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.

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.

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 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.

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 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 (income) 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.

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 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.

The effective portion of the gain or loss on a cash flow hedging instrument is recognized directly in Other comprehensive (loss) income, while any ineffective portion is recognized immediately in the Consolidated Statement of Profit and Comprehensive Income for the period in Other (income) 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 2023 and 5.4% in 2022. 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 on-going 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 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 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 and Intangible Assets
Amounts recorded for depreciation and amortization are based on the useful lives of Nalcor's assets. The useful lives of property, plant and equipment and intangible assets 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 and amortization 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.

(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 standards/interpretations that have been issued and are effective for accounting periods commencing on or after January 1, 2023, as specified.

- *Amendments to IAS 1 – Presentation of Financial Statements– Disclosure of Accounting Policies*[1]
- *Amendments to IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Accounting Estimates*[1]
- *Amendments to IAS 1 – Presentation of Financial Statements – Classification of Liabilities as Current or Non-Current and Non-Current Liabilities with Covenants* [2]

[1] Effective for annual periods beginning on or after January 1, 2023.
[2] Effective for annual periods beginning on or after January 1, 2024, with earlier application permitted.

4.1 Amendments to IAS 1 – Presentation of Financial Statements– Disclosure of Accounting Policies

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. This change did not have a material impact on Nalcor's financial statements.

4.2 Amendments to IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Accounting Estimates

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 did not have an impact on Nalcor's financial statements.

4.3 Amendments to IAS 1 – Presentation of Financial Statements – Classification of Liabilities as Current or Non-Current and Non-Current Liabilities with Covenants

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 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 the financial statements to understand the risk that non-current liabilities with covenants could become repayable within 12 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, 2023 and 2022, cash and cash equivalents consisted entirely of cash.

6. TRADE AND OTHER RECEIVABLES

As at December 31 (millions of Canadian dollars)		**2023**	2022
Trade receivables		**185**	189
Other receivables	(a)	**28**	23
Loss allowance		**(29)**	(25)
		184	187

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

As at December 31 (millions of Canadian dollars)	**2023**	2022
0-60 days	**169**	176
60+ days	**15**	11
	184	187

As at December 31 (millions of Canadian dollars)	**2023**	2022
Loss allowance, beginning of the year	**(25)**	(23)
Change in balance during the year	**(4)**	(2)
Loss allowance, end of the year	**(29)**	(25)

7. INVENTORIES

As at December 31 (millions of Canadian dollars)	**2023**	2022
Materials and other	**78**	70
Fuel	**59**	59
Crude oil	**2**	3
	139	132

The amount of inventory recognized as an expense during the year was $192.5 million (2022 - $192.3 million) and is included in fuels and operating costs.

8. OTHER CURRENT ASSETS

As at December 31 (millions of Canadian dollars)	**2023**	2022
Prepayments	**22**	22
Derivative assets	**-**	8
	22	30

9. PROPERTY, PLANT AND EQUIPMENT

(millions of Canadian dollars)	Generation Plant	Transmission and Distribution	Petroleum and Natural Gas Properties	Other	Assets Under Development	Total
						(Note 35)
Cost						
Balance as at January 1, 2022	2,135	3,275	1,607	562	12,222	19,801
Additions	-	-	31	23	399	453
Disposals	(17)	(15)	-	(3)	-	(35)
Transfers	71	44	-	11	(126)	-
Decommissioning liabilities and revisions	2	-	(36)	-	-	(34)
Balance as at December 31, 2022	2,191	3,304	1,602	593	12,495	20,185
Additions	**-**	**-**	**58**	**(5)**	**304**	**357**
Disposals	**(10)**	**(2)**	**-**	**(10)**	**-**	**(22)**
Transfers	**6,470**	**6,057**	**-**	**91**	**(12,618)**	**-**
Decommissioning liabilities and revisions	**9**	**-**	**(10)**	**-**	**-**	**(1)**
Other adjustments	**(1)**	**-**	**-**	**-**	**(3)**	**(4)**
Balance as at December 31, 2023	**8,659**	**9,359**	**1,650**	**669**	**178**	**20,515**
Depreciation, depletion and impairment						
Balance as at January 1, 2022	709	317	802	219	55	2,102
Depreciation and depletion	54	70	99	14	-	237
Disposals	(9)	(5)	-	(2)	-	(16)
Impairment reversal	-	-	(18)	-	-	(18)
Balance as at December 31, 2022	754	382	883	231	55	2,305
Depreciation and depletion	**108**	**151**	**84**	**19**	**-**	**362**
Disposals	**(5)**	**(1)**	**-**	**(7)**	**-**	**(13)**
Impairment reversal	**-**	**-**	**(60)**	**-**	**-**	**(60)**
Balance as at December 31, 2023	**857**	**532**	**907**	**243**	**55**	**2,594**
Carrying value						
Balance as at January 1, 2022	1,426	2,958	805	343	12,167	17,699
Balance as at December 31, 2022	1,437	2,922	719	362	12,440	17,880
Balance as at December 31, 2023	**7,802**	**8,827**	**743**	**426**	**123**	**17,921**

Capitalized interest for the year ended December 31, 2023 was $51.1 million (2022 - $167.7 million) related to Assets Under Development.

On April 14, 2023, commissioning of the LIL was approved by all required stakeholders resulting in full commissioning of all components of the LCP. These assets have been transferred from Assets Under Development to their respective categories and are being depreciated over their estimated useful lives.

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, forecasted remaining 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, 2023, the Company recognized reversals of previously recorded impairments of $59.6 million (2022 – net reversal of $18.4 million). The reversals are directly related to cash flow improvements from revised costs estimates and improved reserves as the petroleum and natural gas properties field lives mature.

10. INTANGIBLE ASSETS

(millions of Canadian dollars)	Computer Software	Assets Under Development	Total
			(Note 35)
Cost			
Balance as at January 1, 2022	53	51	104
Additions	-	3	3
Transfers	4	(4)	-
Balance as at December 31, 2022	57	50	107
Additions	**-**	**5**	**5**
Transfers	**45**	**(45)**	**-**
Other adjustments	**-**	**2**	**2**
Balance as at December 31, 2023	**102**	**12**	**114**
Amortization			
Balance as at January 1, 2022	26	-	26
Amortization	5	-	5
Balance as at December 31, 2022	31	-	31
Amortization	**8**	**-**	**8**
Balance as at December 31, 2023	**39**	**-**	**39**
Carrying value			
Balance as at January 1, 2022	27	51	78
Balance as at December 31, 2022	26	50	76
Balance as at December 31, 2023	**63**	**12**	**75**

11. INVESTMENTS

As at December 31 (millions of Canadian dollars)		**2023**	2022
Investments	(a)	**241**	282
Sinking Funds	(b)	**240**	237
Reserve Fund	(c)	**50**	49
Total investments		**531**	568
Less: amounts maturing within the next year, classified as short-term		**(62)**	(61)
		469	507

(a)

As at December 31 (millions of Canadian dollars)	Year of Maturity	**2023**	2022
Muskrat Falls/Labrador Transco			
Amortizing Fixed Rate Deposit Notes with interest paid at a rate of 3.745% per annum.	2024-2029	**241**	282
Less: redemptions to be received within the next year, classified as short-term		**(42)**	(41)
		199	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, 2023, sinking funds include $205.9 million (2022 - $201.9 million) related to repayment of Hydro's long-term debt and $34.3 million (2022 - $35.0 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 2024 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% (2022 - 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 Muskrat Falls and Labrador Transco's Tranche A 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.

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

As at December 31 (millions of Canadian dollars)	**2023**	2022
Sinking funds, beginning of the year	**237**	227
Contributions	**6**	7
Earnings	**16**	15
Disposals and maturities	**(2)**	(2)
Change in sinking fund investments in own debentures	**(17)**	(10)
Sinking funds, end of the year	**240**	237
Less: amounts classified as short-term	**(9)**	(11)
	231	226

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

(millions of Canadian dollars)	2024	2025	2026	2027	2028
Sinking fund instalments	70	70	67	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. There were no amounts withdrawn from the fund in order to fund capital investments during 2023.

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:

As at December 31 (millions of Canadian dollars)	**2023**	2022
Reserve fund, beginning of the year	**49**	43
Principal contributions	**-**	9
Mark-to-market adjustment	**1**	(3)
Reserve fund, end of the year	**50**	49
Less: amounts classified as short-term	**(11)**	(9)
	39	40

12. REGULATORY DEFERRALS

(millions of Canadian dollars)		January 1 2023	Reclass and Disposition	Regulatory Activity	**December 31 2023**	Remaining Recovery Settlement Period (years)
Regulatory asset deferrals						
Power purchase expense recognition	(a)	166	-	275	**441**	n/a
Supply cost variance deferral account	(b)	190	-	81	**271**	n/a
Rate stabilization plan (RSP)	(c)	52	9	(14)	**47**	n/a
Foreign exchange losses	(d)	42	-	(2)	**40**	18.0
Retirement asset pool	(e)	35	-	5	**40**	n/a
Muskrat Falls Power Purchase Agreement (PPA) monetization	(f)	26	-	(13)	**13**	n/a
Supply deferral	(g)	9	(9)	12	**12**	n/a
Business system transformation program	(h)	8	-	1	**9**	n/a
Deferred energy conservation costs	(i)	7	-	-	**7**	n/a
Muskrat Falls PPA sustaining capital	(j)	1	-	4	**5**	n/a
Other		4	-	-	**4**	n/a
		540	-	349	**889**	
Regulatory liability deferrals						
Removal provision	(k)	(22)	-	(1)	**(23)**	n/a
Holyrood thermal generating station (TGS) accelerated depreciation deferral account	(l)	-	-	(10)	**(10)**	n/a
Insurance amortization and proceeds	(m)	(4)	-	-	**(4)**	n/a
Other		(7)	-	1	**(6)**	n/a
		(33)	-	(10)	**(43)**	

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

For the year ended December 31 (millions of Canadian dollars)		**2023**	2022
RSP amortization		**17**	19
RSP interest		**(3)**	(3)
Total RSP activity	(c)	**14**	16
Power purchase expense recognition	(a)	**(275)**	(148)
Supply cost variance deferrals	(b)	**(81)**	(172)
Muskrat Falls PPA monetization	(f)	**13**	(26)
Supply deferral	(g)	**(12)**	(9)
Holyrood TGS accelerated depreciation deferral account	(l)	**10**	-
Loss on disposal	(e)	**(5)**	(16)
Muskrat Falls PPA sustaining capital	(j)	**(4)**	-
Removal provision	(k)	**1**	5
Other	(d,h)	**(2)**	(1)
		(341)	(351)

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, 2023 would have decreased by $341.2 million (2022 - $350.8 million).

(a) Power Purchase Expense Recognition

In Board Order No's. P.U. 9 (2021) and P.U. 33 (2021), the PUB approved Hydro's proposal to deviate from IFRS to allow recognition of expenses related to the purchase of energy in accordance with the commercial terms of the Muskrat Falls PPA and Labrador-Island Link Transmission Funding Agreement (TFA). For the year ended December 31, 2023, IFRS power purchase expenses were $274.9 million (2022 - $148.2 million) higher than commercial payments which resulted in a total regulatory asset of $440.7 million (2022 - $165.8 million).

(b) Supply Cost Variance Deferral Account

In Board Order No's. P.U. 33 (2021) and P.U. 4 (2022), the PUB approved Hydro's proposal to establish an account to defer payments under the Muskrat Falls Project agreements, rate mitigation funding, project cost recovery from customers and supply cost variances. The deferral commenced activity on November 1, 2021. On March 31, 2023, as the next step to implement rate mitigation, the Province announced the provision of $190.4 million of rate mitigation funding to offset increases in supply costs primarily associated with the LCP. In August 2023, the first drawing on the convertible debenture of $144.7 million was received by LIL (2021) LP, and the funds were transferred to Hydro for the purpose of mitigating projected future customer rate increases that would be required to recover net supply costs. Both sources of rate mitigation, offset by the normal activity of the supply cost variance deferral account of $416.0 million (2022 - $172.1 million) resulted in a net increase in the account of $80.9 million (2022 - $172.1 million). The total balance owing from customers for year ended December 31, 2023 is $271.3 million (2022 - $190.4 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 2023, Hydro recovered $16.5 million (2022 - $19.1 million) from customers; which was partially offset by Board Order No. P.U. 7 (2023) which approved the recovery of the 2022 Isolated Systems Supply Cost Variance Deferral from the RSP Current Plan of $8.7 million. This activity and associated interest and other adjustments in 2023 resulted in a remaining balance for future recovery from customers of $47.4 million (2022 - $52.3 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 2023, amortization expense of $2.2 million (2022 - $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 2023, Hydro deferred $4.8 million (2022 - $16.1 million) of retirement asset activity resulting in a total balance of $40.2 million (2022 - $35.4 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 2023, Hydro reversed the prior year estimate upon actual monetization of the 2022 undelivered Schedule II energy and recorded an estimate of the monetization of 2023 undelivered Schedule II energy of $13.3 million (2022 - $25.8 million).

(g) Supply Deferral

Pursuant to Board Order No. P.U. 22 (2017), the Board approved supply cost deferrals using three specific deferral accounts: the Energy Supply, Holyrood Conversion and Isolated Systems Supply cost deferrals. As per Board Order No. P.U. 33 (2021) and Hydro's compliance application, the Energy Supply and Holyrood Conversion deferrals were discontinued with the account maintained to provide for a timely recovery of the remaining balance. There was no change to the Isolated Systems Supply Cost Variance Deferral in Board Order No. P.U. 33 (2021). During 2023, Hydro recorded a net increase in the supply deferral asset of $3.4 million (2022 - $3.4 million decrease) resulting in a balance from customers of $12.3 million (2022 - $8.9 million). The increase in the supply deferral asset is primarily due to the normal operation of the supply deferral of $12.4 million (2022 - $9.0 million), with recovery to be determined through an annual application process, and the recovery of the 2022 supply cost variance deferral of $9.0 million as per Board Order No. P.U. 7 (2023).

(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 $1.5 million (2022 - $3.1 million), resulting in a total deferral of $9.2 million (2022 - $7.7 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 2023, Hydro deferred $1.4 million (2022 - $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 $1.6 million (2022 - $1.9 million) of the balance through a rate rider which resulted in a total deferred balance of $7.3 million (2022 - $7.5 million)

(j) Muskrat Falls PPA Sustaining Capital

In Board Order No. P.U. 33 (2021), the PUB approved Hydro's proposal to defer contributions required to be made by Hydro for sustaining capital investments pursuant to the Muskrat Falls PPA with recovery to be addressed in Hydro's next general rate application. In 2023, Hydro has deferred $4.4 million (2022 - $0.5 million) in contribution activity resulting in a total balance of $4.9 million (2022 - $0.5 million).

(k) 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 2023 activity of $0.8 million (2022 - $5.0 million) resulting in a total balance of $22.8 million (2022 - $21.9 million). The increase was driven by removal depreciation of $5.5 million (2022 - $5.5 million) which was partially offset by removal costs of $4.7 million (2022 - $0.5 million).

(l) Holyrood TGS Accelerated Depreciation 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, for future recovery, any difference in excess of ±$2.5 million, between the accelerated depreciation expense for Holyrood TGS in 2022 and 2023 and the accelerated depreciation expense included in the approved 2019 Test Year. For the year ended December 31, 2023, the Holyrood accelerated depreciation expense was $12.3 million lower (2022 - $0.2 million lower) than the 2019 Test Year depreciation resulting in a regulatory liability of $9.8 million (2022 - $nil). The disposition of the balance of this account is subject to a further Board Order from the PUB.

(m) 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 2023, Hydro recorded a net decrease of $0.1 million (2022 - $2.8 million) to the regulatory liability. The decrease was driven by insurance amortization of $0.1 million (2022 - $0.2 million).

13. TRADE AND OTHER PAYABLES

As at December 31 (millions of Canadian dollars)	**2023**	2022
Trade payables and accruals	**184**	183
Other payables	**72**	68
Accrued interest payable	**50**	50
	306	301

14. OTHER CURRENT LIABILITIES

As at December 31 (millions of Canadian dollars)	Notes	**2023**	2022
Current portion of long-term payables	20(b)	**24**	53
Derivative liabilities	(a)	**8**	30
Current portion of decommissioning liabilities	18	**2**	4
Current portion of deferred contributions	20(a)	**1**	1
		35	88

(a) Included in derivative liabilities as at December 31, 2023 is $8.2 million (2022 – $25.2 million) related to an embedded derivative associated with the HSE Redetermination re-balancing liability which is recorded in current portion of 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 gain or loss is recorded in Other (income) expense disclosed in Note 29.

15. DEBT

15.1 Short-term Borrowings

Nalcor maintains a $240.0 million CAD or USD equivalent committed revolving term credit facility with its banker with a maturity date of July 31, 2024. The committed facility was reduced by $10.0 million from $250.0 million to $240.0 million in July 2023. There were no amounts drawn on this facility as at December 31, 2023 (2022 - $nil), however $6.1 million of the borrowing limit has been used to issue eight irrevocable letters of credit (2022 - $6.2 million to issue eight letters of credit). 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 $300.0 million government guaranteed promissory note program to fulfil its short-term funding requirements. As at December 31, 2023, there were two promissory notes outstanding for a total of $230.0 million with a maturity date of January 2, 2024 bearing interest rates ranging from 5.15% to 5.17% (2022 - $131.0 million maturing January 3, 2023 bearing interest at 4.27%). Upon maturity, the promissory notes were issued.

Hydro maintains a $500.0 million CAD or USD equivalent committed revolving term credit facility with a maturity date of July 31, 2024. As at December 31, 2023, there were no amounts drawn on the facility (2022 - $nil). 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. 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 Prime Rate Advances, 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, 2023 (2022 - $nil)

Churchill Falls has issued three irrevocable letters of credit totaling $2.0 million (2022 - $2.0 million), $1.0 million of which does not impact the borrowing limit of the operating facility (2022- $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 $40.0 million CAD or USD equivalent unsecured credit facility with its banker. In April 2023, Oil and Gas increased the limit of this credit facility by $10.0 million from $30.0 million to $40.0 million CAD equivalent. As at December 31, 2023, there were no amounts drawn on this facility (2022 - $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. $33.5 million of the borrowing limit has been used to issue three irrevocable letters of credit (2022 - $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, 2023, there were no amounts drawn on this facility (2022 - $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 and letters of credit. $10.7 million CAD equivalent of the borrowing limit has been used to issue seven irrevocable letters of credit (2022 - $4.8 million CAD equivalent to issue five 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.

15.2 Long-term Debt

As at December 31 (millions of Canadian dollars)	Face Value	Coupon Rate %	Year of Issue	Year of Maturity	**2023**	2022
Hydro						
Y*	300	8.40	1996	2026	**298**	298
AB*	300	6.65	2001	2031	**304**	304
AD*	125	5.70	2003	2033	**124**	124
AF	500	3.60	2014/2017	2045	**483**	482
1A	600	3.70	2017/2018	2048	**636**	637
2A	300	1.75	2021	2030	**290**	288
LIL LP						
Tranche A*	725	3.76	2013	2033	**725**	725
Tranche B*	600	3.86	2013	2045	**600**	600
Tranche C*	1,075	3.85	2013	2053	**1,075**	1,075
Tranche 8-10	32	1.62-1.75	2017	2024-2025	**32**	53
Tranche 11-20	105	1.84-2.37	2017	2025-2030	**105**	105
Tranche 21-30	105	2.41-2.64	2017	2030-2035	**105**	105
Tranche 31-40	105	2.66-2.80	2017	2035-2040	**105**	105
Tranche 41-50	105	2.81-2.86	2017	2040-2045	**105**	105
Tranche 51-60	105	2.84-2.86	2017	2045-2050	**105**	105
Tranche 61-70	105	2.85	2017	2050-2055	**105**	105
Tranche 71-74	315	2.85	2017	2055-2057	**316**	316
Labrador Transco/Muskrat Falls						
Tranche A	650	3.63	2013	2029	**650**	650
Tranche B*	675	3.83	2013	2037	**675**	675
Tranche C*	1,275	3.86	2013	2048	**1,275**	1,275
Tranche 8-10	63	1.62-1.75	2017	2024-2025	**63**	105
Tranche 11-20	224	1.84-2.37	2017	2025-2030	**224**	224
Tranche 21-30	253	2.41-2.64	2017	2030-2035	**253**	253
Tranche 31-40	288	2.66-2.80	2017	2035-2040	**289**	289
Tranche 41-50	331	2.81-2.86	2017	2040-2045	**331**	331
Tranche 51-60	381	2.84-2.86	2017	2045-2050	**382**	382
Tranche 61-64	168	2.85	2017	2050-2052	**168**	168
Tranche A-T	500	3.35-3.38	2022	2037-2047	**500**	500
Tranche U*	500	3.38	2022	2057	**500**	500
LIL (2021) LP						
Convertible debenture	145	3.03	2023	2071	**146**	-
Total	10,955				**10,969**	10,884
Less: sinking fund investments in own debentures					**(111)**	(94)
					10,858	10,790
Less: repayment of debt due within one year					**(70)**	(69)
					10,788	10,721

*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 the exception of Series 1A and 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 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 for the year ended December 31, 2023 was $8.8 million (2022 - $8.7 million).

In July 2023, LIL (2021) LP and the Federal Government of Canada executed an agreement which allows LIL (2021) LP access to a $1.0 billion unsecured convertible debenture with compounding interest at 3.03%, maturing on December 31, 2071, with payments of principal and accrued interest starting in January 2042. Under the terms of the agreement, the debenture is convertible into Class B Limited partnership units of LIL (2021) LP at the option of the holder at the earlier of the date in which the debentures are fully drawn and December 31, 2041. The first drawing on the convertible debenture of $144.7 million was received in August 2023.

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 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 ENL Island Link Incorporated's (Emera NL) 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 prior to commissioning of the LIL on April 14, 2023 were capitalized.

As at (millions of Canadian dollars)	**Units**	**2023**	Units	2022
Class B limited partnership units, beginning of the year	**25**	**739**	25	681
Distribution of Class B limited partnership units	**-**	**(45)**	-	-
Accrued interest	**-**	**63**	-	58
Class B limited partnership units, end of the year	**25**	**757**	25	739
Less: Maturities within one year		**(88)**		-
		669		739

17. DEFERRED CREDITS

Deferred credits consist of deferred energy sales to Emera Inc. (Emera), 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.

As at December 31, 2023 (millions of Canadian dollars)	Deferred Energy Sales	Deferred Lease Revenue	Other	Total
Deferred credits, beginning of the year	1,713	51	20	1,784
Additions	20	13	1	34
Amortization	(118)	(1)	(2)	(121)
Deferred credits, end of the year	1,615	63	19	1,697
Less: current portion	(95)	(2)	(2)	(99)
	1,520	**61**	**17**	**1,598**

Nalcor has recorded deferred energy sales of $1,614.5 million (2022 - $1,713.0 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.

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.

18. DECOMMISSIONING LIABILITIES

Nalcor has recognized liabilities associated with the retirement of portions of the Holyrood TGS, 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, 2023 and 2022 are as follows:

As at December 31 (millions of Canadian dollars)	Notes	**2023**	2022
Decommissioning liabilities, beginning of the year		**100**	128
Accretion		**5**	4
Additions		**-**	2
Liabilities settled		**(2)**	-
Revisions		**(1)**	(34)
Decommissioning liabilities, end of the year		**102**	100
Less: current portion	14	**(2)**	(4)
		100	96

The total estimated undiscounted cash flows required to settle the Holyrood TGS obligations at December 31, 2023 are $34.8 million (2022 - $25.0 million). Payments to settle the liability are expected to occur between 2027 and 2033. The fair value of the decommissioning liabilities was determined using the present value of future cash flows discounted at Hydro's credit adjusted risk free rate of 3.8% (2022 - 4.3%).

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, including a

rate of inflation of 2%, at December 31, 2023 are $165.4 million (2022 - $199.8 million). Payments to settle the liabilities are expected to occur between 2037 and 2041. The fair value of the decommissioning liabilities was determined using the present value of future cash flows discounted at rates ranging from 5.3% to 5.4% (2021 – 5.6% to 5.8%).

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, 2023 of $13.1 million (2022 - $12.8 million) are expensed as incurred.

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 2023, cash payments to beneficiaries for its unfunded other employee future benefits were $3.8 million (2022 - $3.8 million). An actuarial valuation was performed as at December 31, 2023.

As at December 31 (millions of Canadian dollars)		**2023**	2022
Accrued benefit obligation, beginning of the year		**98**	139
Current service cost		**3**	6
Interest cost		**5**	5
Benefits paid		**(4)**	(4)
Actuarial loss (gain)	(a)	**14**	(48)
Accrued benefit obligation, end of the year		**116**	98

(a) In addition, pursuant to Board Order No. P.U. 36 (2015), Hydro recorded $2.0 million (2022 - $nil) of employee future benefits losses as a regulatory adjustment to decrease other comprehensive income and recognize the amount in profit or loss.

For the year ended December 31 (millions of Canadian dollars)	**2023**	2022
Component of benefit cost		
Current service cost	**3**	6
Interest cost	**5**	5
Total benefit expense for the year	**8**	11

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

	2023	2022
Discount rate - benefit cost	**5.20%**	3.35%
Discount rate - accrued benefit obligation	**4.65%**	5.20%
Rate of compensation increase	**3.50%**	3.50%

Assumed healthcare trend rates:

	2023	2022
Initial health care expense trend rate	**6.00%**	5.42%
Cost trend decline to	**3.60%**	3.60%

Current rate 6.00%, reducing linearly to 3.6% in 2040 and thereafter.

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

Increase (millions of Canadian dollars)	**2023**	2022
Current service and interest cost	**1.2**	2.3
Accrued benefit obligation	**15.0**	12.0

Decrease (millions of Canadian dollars)	**2023**	2022
Current service and interest cost	**(0.9)**	(1.6)
Accrued benefit obligation	**(11.9)**	(9.6)

20. OTHER LONG-TERM LIABILITIES

As at December 31 (millions of Canadian dollars)		**2023**	2022
Deferred contributions	(a)	**43**	40
Long-term payables	(b)	**36**	36
Non-current lease liabilities		**5**	5
		84	81

(a) Deferred contributions:

As at December 31 (millions of Canadian dollars)	Notes	**2023**	2022
Deferred contributions, beginning of the year		**41**	31
Additions		**4**	11
Amortization		**(1)**	(1)
Deferred contributions, end of the year		**44**	41
Less: current portion	14	**(1)**	(1)
		43	40

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:

As at December 31 (millions of Canadian dollars)	Notes	**2023**	2022
Long-term payables, beginning of the year		**89**	114
Settlements		**(30)**	(33)
Accretion		**2**	3
Revisions		**(1)**	5
Long-term payables, end of the year		**60**	89
Less: current portion	14	**(24)**	(53)
		36	36

As at December 31, 2023, long-term payables consist of a payable to the Innu Nation under the UCRA 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, 2023, $2.8 million (2022 - $2.7 million) of the amount is current and is recorded in Other current liabilities. Nalcor has sinking funds in the amount of $34.3 million (2022 - $35.0 million) to fund these future obligations. The present value of the remaining payments using a discount rate of 5.0% (2022 - 5.6%) is $37.3 million (2022 - $38.1 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 is being settled by a clawback of a pre-determined percentage of entitled production. The balance of the liability as at December 31, 2023 is $14.9 million (2022 - $43.3 million) of which $14.9 million (2022 - $43.3 million) is recorded as current and included in Other current liabilities.

21. LEASES

Amounts recognized in the Consolidated Statement of Profit and Comprehensive Income

For the year ended December 31 (millions of Canadian dollars)		**2023**	2022
Variable lease payments not included in the measurement of leases	(a)	**30**	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, 2023 amount to $30.2 million (2022 - $29.0 million).

22. SHAREHOLDER'S EQUITY

22.1 Share Capital

As at December 31 (millions of Canadian dollars)	**2023**	2022
Common shares of par value $1 each		
Authorized – unlimited		
Issued and outstanding – 122,500,000	**123**	123

22.2 Dividends

For the year ended December 31 (millions of Canadian dollars)	**2023**	2022
Declared and paid during the year		
Common dividend for current year	**300**	-

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).

A summary of the consolidated capital structure is outlined below:

As at December 31 (millions of Canadian dollars)	**2023**		2022	
Debt				
Sinking funds (Hydro portion only)	**(206)**		(202)	
Short-term borrowings	**230**		131	
Current portion of long-term debt	**70**		69	
Long-term debt	**10,788**		10,721	
Current portion of Class B limited partnership units	**88**		-	
Class B limited partnership units	**669**		739	
Lease liabilities	**5**		5	
	11,644	**61%**	11,463	62%
Equity				
Share capital	**123**		123	
Shareholder contributions	**4,859**		4,859	
Reserves	**(30)**		(19)	
Retained earnings	**2,506**		2,187	
	7,458	**39%**	7,150	38%
	19,102	**100%**	18,613	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, 2023 and 2022, 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, 2023 and 2022 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 December 15, 2023, the Lieutenant-Governor in Council issued Order in Council

OC2023-272 to increase the level of short-term borrowings permitted by Hydro to $700.0 million, effective until January 1, 2026 at which time the level will decrease to $500.0 million. As at December 31, 2023, there were two promissory notes outstanding for a total of $230.0.

The Hydro Corporation Act, 2007 (the 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.

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 will require 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 LIL LP is comprised of partner capital 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 ongoing sustaining capital requirements of the LIL while providing its partners a required return. The Partnership's requirements for capital in the future are expected to increase, coincident with sustaining the LIL. The focus of capital management 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 sustain the LIL.

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 the 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 LTA.

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.

The capital structure of LIL (2021) LP is comprised of Class A limited partnership units, long-term debt, a related party promissory note and Class B limited partnership units. The capital structure is adjusted through the amount of distributions paid to the partners as well as capital contributions. LIL (2021) LP'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 while providing its partners a required return. Partner contributions will be sufficient to ensure the availability of funding to sustain the LIL.

The capital structure of LIL Holdco (2021) includes share capital, long-term debt, a related party promissory note and Class B limited partnership units. LIL Holdco (2021)'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. Partner contributions will be sufficient to ensure the availability of funding to sustain the LIL.

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). In addition, Churchill Falls maintains a $10.0 million Canadian or US equivalent unsecured operating credit facility with its banker. The capital structure is adjusted through the amount of dividends paid to shareholders.

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 its ability to fund operating costs and expenditures related to development and production assets, on a timely basis. Oil and Gas maintains a $40.0 million unsecured demand credit facility, which is used to finance operations in the short-term. Long-term capital includes share capital and shareholder contributions. Additional requirements will be funded through Oil and Gas' credit facility.

24. ENERGY SALES

For the year ended December 31 (millions of Canadian dollars)	**2023**	2022
Electricity sales	**1,034**	968
Petroleum and natural gas sales	**266**	393
Royalty expense	**(15)**	(34)
Total energy sales	**1,285**	1,327

25. OTHER REVENUE

For the year ended December 31 (millions of Canadian dollars)		**2023**	2022
Government grant	(a)	**190**	-
Greenhouse Gas performance credit sales		**23**	9
Lease revenue		**11**	10
Other		**15**	13
Total other revenue		**239**	32

(a) The Province provided a grant of $190.4 million for the purpose of mitigating future customer rate increases to recover net supply costs incurred to the end of 2022. For the year ended December 31, 2023, Nalcor recognized Other revenue relating to the grant of $190.4 million (2022 - $nil). This grant is recognized in the Supply Cost Variance Deferral account as described in Note 12(b).

26. OPERATING COSTS

For the year ended December 31 (millions of Canadian dollars)	**2023**	2022
Salaries and benefits	**157**	143
Maintenance and materials	**86**	62
Professional services	**37**	36
Insurance	**14**	12
Travel and transportation	**10**	8
Other operating costs	**6**	3
Total operating costs	**310**	264

27. PRODUCTION, MARKETING AND TRANSPORTATION COSTS

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

For the year ended December 31 (millions of Canadian dollars)	**2023**	2022
Project operating costs	**24**	21
Transportation and transshipment	**7**	7
Processing and marketing	**1**	2
Total production, marketing and transportation costs	**32**	30

28. NET FINANCE EXPENSE

For the year ended December 31 (millions of Canadian dollars)	**2023**	2022
Finance income		
Interest on restricted cash	**70**	29
Interest on investments	**27**	26
Other interest income	**38**	12
	135	67
Finance expense		
Interest on long-term debt	**396**	387
Interest on Class B limited partnership units	**63**	58
Debt guarantee fee	**9**	-
Other	**17**	15
	485	460
Interest capitalized during construction	**(51)**	(168)
	434	292
Net finance expense	**299**	225

29. OTHER (INCOME) EXPENSE

For the year ended December 31 (millions of Canadian dollars)	**2023**	2022
HSE Redetermination re-balancing adjustment	**(46)**	(22)
Settlement of commodity price swap contracts	**(9)**	69
Rental and royalty	**17**	19
Loss on disposal of property, plant and equipment	**9**	19
Other	**15**	10
Total other (income) expense	**(14)**	95

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

30.1 Fair Value

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

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

Establishing Fair Value

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

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

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

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

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

As at (millions of Canadian dollars)	Level	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
		December 31, 2023		December 31, 2022	
Financial assets					
Derivative assets	**2**	**-**	**-**	8	8
Sinking funds - investments in Hydro debt issue	**2**	**111**	**111**	94	93
Sinking funds - other investments	**2**	**240**	**248**	237	243
Investments, including short-term	**2**	**241**	**236**	282	264
Reserve fund	**2**	**50**	**50**	49	49
Financial liabilities					
Derivative liabilities	**2**	**8**	**8**	30	30
Long-term debt, including amount due within one year (before sinking funds)	**2**	**10,969**	**10,366**	10,884	9,910
Class B limited partnership units, including amount due within one year	**3**	**757**	**757**	739	739
Long-term payables, including amount due within one year	**2**	**60**	**68**	89	115

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

The fair values of Level 2 financial instruments are determined using quoted prices in active markets, which in some cases are adjusted for factors specific to the asset or liability. Level 2 derivative instruments are valued based on observable commodity future curves, broker quotes or other publicly available data. Level 2 fair values of other risk management assets and liabilities and long-term debt are determined using observable inputs other than unadjusted quoted prices, such as interest rate yield curves 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% (2022 – 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:

(millions of Canadian dollars)	1% Increase	1% Decrease
Class B limited partnership units	(63.5)	59.2

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 Schedule 1 or 2 Canadian bank exceeding 30% of the total principal amount of all investments on a consolidated basis.

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 (%)
	2023		2022	
Provincial governments	AA- to AAA	15.03%	AA- to AAA	16.88%
Provincial governments	A- to A+	23.88%	A- to A+	25.17%
Provincially owned utilities	AA- to AAA	26.58%	AA- to AAA	26.57%
Provincially owned utilities	A- to A+	34.51%	A- to A+	31.38%
		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 (%)
	2023		2022	
Government of Canada	AAA	0.00%	AAA	2.56%
Provincial governments	AA- to AAA	24.05%	AA- to AAA-	16.37%
Provincially owned utilities	AA- to AAA	6.07%	AA- to AAA-	4.14%
Provincial governments	A- to A+	35.60%	A- to A+	39.26%
Provincially owned utilities	A- to A+	1.74%	A- to A+	2.31%
Schedule 1 Canadian banks	AA- to AAA-	9.30%	AA- to AAA-	12.95%
Schedule 1 Canadian banks	A- to A+	23.24%	A- to A+	22.41%
		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 (%)
	2023		2022	
Provincially owned utilities	A- to A+	0.08%	A- to A+	0.07%
Schedule 1 Canadian Banks	A- to A+	99.92%	A- to A+	99.93%
		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, 2023.

Liquidity Risk

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

Short-term liquidity for Nalcor and its subsidiaries is mainly provided through cash and cash equivalents on hand, funds from operations, an operating credit facility which Nalcor maintains with its banker, and shareholder contributions. Nalcor maintains a $240.0 million (2022 - $250.0 million) committed revolving term credit facility, with a maturity date of July 31, 2024. There were no amounts drawn on this facility at December 31, 2023 (2022 - $nil). Borrowings are restricted by legislation that currently limits Nalcor's short-term borrowings to $300 million and total borrowings by Nalcor and its subsidiaries, excluding Newfoundland and Labrador Hydro and the Muskrat Falls Project, to $600 million.

Hydro has access to a $300.0 million promissory note program and a $500.0 million (2022 - $500.0 million) revolving term credit facility, with a maturity date of July 31, 2024. There were no amounts drawn on this facility at December 31, 2023 (2022 - $nil). Oil and Gas, Energy Marketing and Churchill Falls also maintain demand operating facilities of $40.0 million (2022 - $30.0 million), $20.0 million (2022 - $20.0 million) and $10.0 million (2022 - $10.0 million), respectively. Churchill Falls maintains a $25.0 million minimum cash balance (2022 - $24.0 million).

Liquidity risk for Muskrat Falls, Labrador Transco, and LIL LP is considered to be minimal due to the reserve accounts held as instructed in the MF/LTA PFA as well as their commercial arrangements with related parties, which ultimately require Hydro to make payments which are absolute, unconditional and irrevocable until the financing has been paid in full.

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.

Most recently, long-term liquidity is further supported through funding from Canada in the form of a $1 billion convertible debenture for rate mitigation.

The following are contractual maturities of Nalcor's financial liabilities as at December 31, 2023:

(millions of Canadian dollars)	<1 Year	1-3 Years	3-5 Years	>5 Years	Total
Trade and other payables	306	-	-	-	306
Short-term borrowings	230	-	-	-	230
Long-term debt (including sinking funds, interest and guarantee fees)	535	1,171	1,010	15,356	18,072
Class B limited partnership units (including interest)	89	191	189	5,131	5,600
Long-term payables	22	2	2	34	60
	1,182	1,364	1,201	20,521	24,268

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 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 include 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 Holyrood TGS, 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. For the year ended December 31, 2023, total energy and renewable energy credit sales denominated in USD were $70.3 million (2022 - $84.4 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 2023, total oil sales denominated in USD were $196.7 million (2022 - $304.4 million). Historically, commodity price exposure on USD denominated oil sales was mitigated through the use of fixed price commodity swaps and foreign exchange exposure on sales was partially offset by USD denominated capital expenditures and foreign exchange forward contracts. The Company has not entered into any new commodity price swaps of foreign exchange forward contracts in 2023. Remaining contracts were entered into prior to December 31, 2022 and are set to mature by January 2024.

As at December 31, 2023, Oil and Gas has no commodity price swaps remaining. As the contracts were designated as hedging instruments, changes in fair value have been recorded in Other comprehensive (loss) income. During 2023, $8.8 million in realized gains (2022 – $69.0 million in realized losses) have been recorded in Other (income) expense and no unrealized gains or losses (2022 - $4.8 million in unrealized gains) remain in Other comprehensive (loss) income.

As at December 31, 2023, Oil and Gas has one foreign exchange forward contract remaining hedging foreign exchange risk on 55.95% of anticipated USD cash flows from December 2023 oil sales that will settle in January 2024. The remaining contract has a notional value of $8.3 million USD, and an average fixed rate of $1.35 CAD per USD. As the contracts have been designated as hedging instruments, changes in fair value have been recorded in Other comprehensive (loss) income. During 2023, $5.0 million in realized losses (2022 - $5.3 million in realized losses) have been recorded in Other (income) expense and $0.3 million in unrealized gains (2022 - $5.1 million in unrealized losses) remain in Other comprehensive (loss) income.

During 2023, additional financial transmission rights with notional values of $0.2 million (2022 - $0.9 million) were purchased to mitigate risk on congestion for the remainder of 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 (income) 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 normally within 30 days.

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
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:

As at December 31 (millions of Canadian dollars)		**2023**	2022
Trade and other receivables:			
Other related parties	(a)	**18**	15
Trade and other payables:			
The Province	(b, c, d)	**44**	45
Long-term debt (including current portion):			
The Province		**926**	925

For the year ended December 31 (millions of Canadian dollars)		**2023**	2022
Energy sales:			
Other related parties		**66**	85
The Province	(e)	**(14)**	(33)
Other revenue:			
The Province		**190**	-
Other related parties		**1**	-
Power purchased:			
The Province	(d)	**30**	29
Operating costs (recoveries):			
Other related parties		**4**	4
The Province	(d)	**(23)**	(20)
Net finance expense:			
The Province		**36**	36
Other expense:			
The Province	(b, c)	**17**	19
Dividends paid:			
The Province		**300**	-

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

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

(c) Muskrat Falls is required to pay the Province a water 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) Nalcor, as the operator of the Exploits assets, has a net payable to the Province which is included in Trade and other payables. Nalcor operates these assets on behalf of the Province on a cost recovery basis.

(e) 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.

For the year ended December 31 (millions of Canadian dollars)	**2023**	2022
Salaries and employee benefits	**4**	4
Post-employment benefits	**-**	1
	4	5

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 $91.6 million as at December 31, 2023 (2022 - $94.9 million).

(c) Nalcor and its subsidiaries have issued 21 irrevocable letters of credit with a total value of $52.3 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:

(millions of Canadian dollars)	Total Commitments
2024	13.1
2025	7.5
2025	6.9
2027	3.2
2028	1.1
Thereafter	7.9

(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	2023	3 years
Hydroelectric	300 MW	1998	43 years
Hydroelectric	225 MW	2015	25 years
Cogeneration	15 MW	2023	10 years
Wind	390 kW	2004	Continual
Wind	27 MW	2008	20 years
Wind	27 MW	2009	20 years
Hydroelectric, Solar, Battery	240 kW Hydro 189 kW Solar 334.5 kW Battery	2019	15 years
Solar	103 kW	2022	Continual
Biomass	450 kW	2018	1 year post in-service of the LCP

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

(millions of Canadian dollars)	**2024**	**2025**	**2026**	**2027**	**2028**
Power purchases	49	49	49	49	49

(f) In May 2021, Hydro entered into an amended Capacity Assistance Agreement with Corner Brook Pulp and Paper (CBPP) for the purchase of relief power during the winter period. Hydro and CBPP have agreed to extend the terms of that agreement until a new agreement is executed. 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 totaling $10.5 million as at December 31, 2023.

(h) Hydro holds firm transmission rights with Hydro-Québec TransÉnergie which conclude in 2029.

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

(millions of Canadian dollars)	**2024**	**2025**	**2026**	**2027**	**2028**
Transmission rental payments	19	19	19	19	20

(i) As part of the LIL PFA, the LIL LP has pledged its current and future assets 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) LIL LP is required to make mandatory distributions as determined by LIL GP in accordance with the LIL LPA.

(l) 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.

(m) In July 2012, Nalcor entered into the Energy and Capacity Agreement with Emera 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.

(n) As at December 31, 2023, Nalcor, on behalf of Energy Marketing, has issued unconditional guarantees and sales contracts in the amount of $22.5 million CAD equivalent (2022 - $22.7 million CAD), in order to guarantee amounts under power purchase and sale contracts with bilateral counterparties and sale of transmission rights.

(o) In 2015, the Energy Access Agreement (EAA) was signed between Nalcor and Emera as part of collective contracts associated with the LCP and future delivery of Muskrat Falls energy to Emera. The purpose of the EAA is to offer additional market priced available energy to Emera on an annual basis between 1.2 TWh to 1.8 TWh for each contract year following full operation. Nalcor proposed a total delivery of approximately 1,588 GWh of energy between September 1, 2023 to September 1, 2024 to Emera, which was accepted and is at a market price. As at December 31, 2023, 103 GWh of energy was delivered to Emera under the terms of the EAA with the remainder to be delivered in 2024.

33. SUPPLEMENTARY CASH FLOW INFORMATION

For the year ended December 31 (millions of Canadian dollars)	**2023**	2022
Trade and other receivables	**3**	(10)
Prepayments	**-**	(1)
Inventories	**(12)**	(17)
Trade and other payables	**5**	(73)
Changes in non-cash working capital balances	**(4)**	(101)
Related to:		
Operating activities	**10**	59
Investing activities	**(14)**	(160)
	(4)	(101)

34. SEGMENT INFORMATION

The following summary provides a brief overview of the nature of operations included in each of the Company's operating segments as at December 31, 2023.

Hydro Regulated activities encompass sales of electricity to customers within the Province that are regulated by the PUB.

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

LC Transmission includes the 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 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, 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, rate mitigation transactions 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 HSE fields.

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

(millions of Canadian dollars)	Hydro Regulated	Muskrat Falls	LC Transmission	Churchill Falls	Energy Trading	Other Electric	Oil and Gas	Corporate	Inter-Segment	Total
	For the year ended December 31, 2023									
Energy sales	740	521	113	100	95	170	251	-	(705)	1,285
Other revenue	388	-	323	3	5	11	-	-	(491)	239
Revenue	1,128	521	436	103	100	181	251	-	(1,196)	1,524
Fuels	187	-	-	-	-	-	-	-	-	187
Power purchased	926	-	-	-	21	54	-	-	(923)	78
Operating costs	148	24	34	47	5	25	5	23	(1)	310
Production, marketing and transportation costs	-	-	-	-	-	-	32	-	-	32
Transmission rental	-	113	-	-	55	-	-	-	(129)	39
Depreciation, depletion, amortization and impairment	73	67	82	26	-	33	30	5	(1)	315
Net finance expense (income)	94	103	132	(6)	(1)	-	2	(25)	-	299
Other expense (income)	9	20	(4)	1	3	146	(48)	1	(142)	(14)
Preferred dividends	-	-	-	(2)	-	-	-	-	2	-
Expenses	1,437	327	244	66	83	258	21	4	(1,194)	1,246
(Loss) profit for the year before regulatory adjustments	(309)	194	192	37	17	(77)	230	(4)	(2)	278
Regulatory adjustments	(342)	-	-	-	-	-	-	-	1	(341)
Profit (loss) for the year	33	194	192	37	17	(77)	230	(4)	(3)	619
Capital expenditures*	150	5	83	49	-	14	58	4	(1)	362
Total assets	3,659	7,766	6,985	812	116	1,922	815	1,385	(1,776)	21,684
Total debt**	2,051	4,430	5,163	-	-	-	-	-	-	11,644

*Capital expenditures (inclusive of property, plant and equipment and intangible assets) include non-cash additions of $1.0 million related to the Maritime Link, $17.4 million related to Class B limited partnership unit accrued interest and $33.7 million of interest capitalized during construction.
**Total debt includes short-term borrowings, long-term debt including current portion less Hydro's sinking funds of $205.9 million, Class B limited partnership units, and lease liabilities.

(millions of Canadian dollars)	Hydro Regulated	Muskrat Falls	LC 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	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	(617)	21,291
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 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.

35. PRIOR PERIOD ADJUSTMENT

The December 31, 2022 comparative figures have been adjusted to conform with the current period's presentation, incorporating a $41 million reclassification from Property, plant and equipment to Intangible assets.