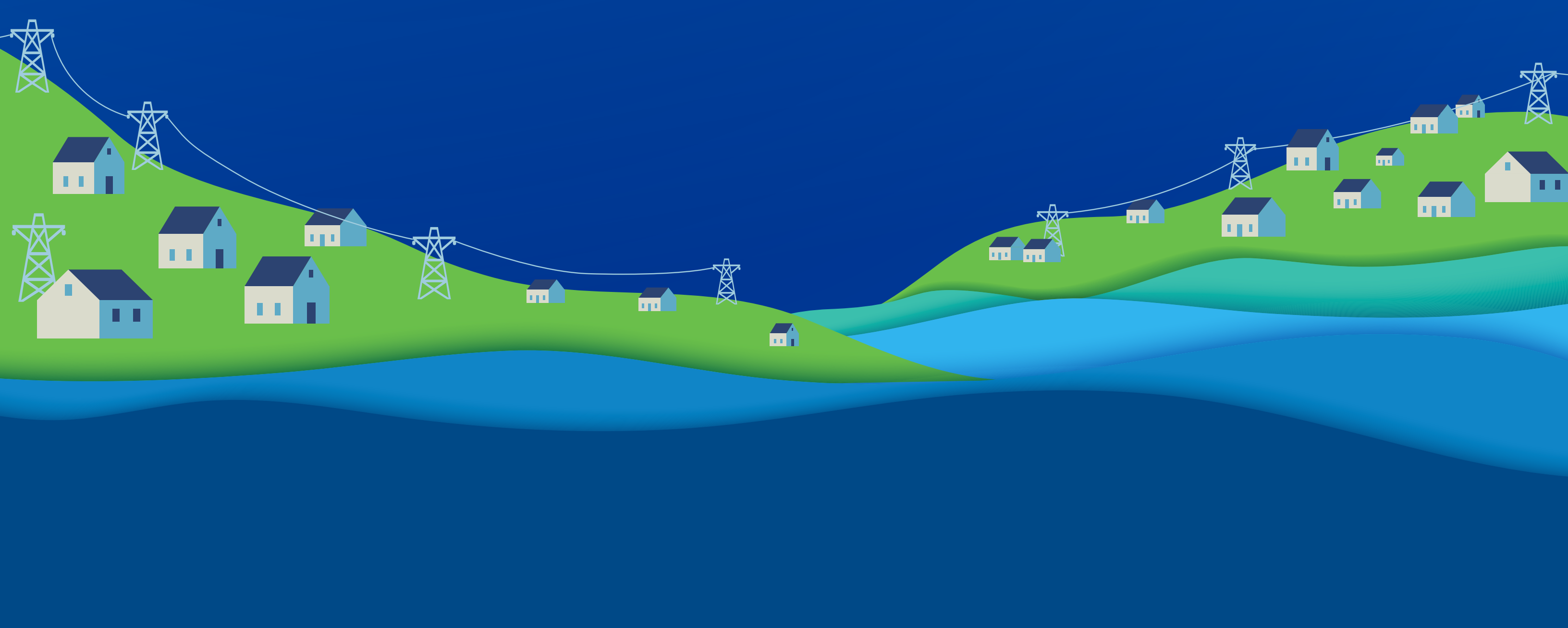
ANNUAL REPORT 2023

newfoundland labrador hydro



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NLHydro annual report 2023

MESSAGE FROM THE CHAIR AND CEO

JOHN GREEN
Chair of the Board of Directors (Acting)

JENNIFER WILLIAMS
President and CEO
Newfoundland and Labrador Hydro

Our industry continues to evolve rapidly. That's why we are planning for the future and working hard to ensure safe, reliable, sustainable and environmentally responsible electricity for Newfoundland and Labrador. It's something we all need, and we will need more.

SERVING OUR PROVINCE

First, we are excited to share with you that in 2023, we served homes and businesses across this province with electricity generated from 92% renewable energy sources — well on our way to a net zero electricity sector by 2035.

Contributing to this significant accomplishment was the commissioning of the Labrador Island Link, our newest transmission line that delivers power to the island from the Muskrat Falls Hydroelectric Generating Facility. The link had a very strong performance in 2023, as did the Muskrat Falls Hydroelectric Generating Facility which exceeded the Canadian average for availability.

As always, providing reliable electricity to all customers is a top priority for Hydro. We are so proud that customers on the Island Interconnected System experienced the lowest service interruptions since 2012, with an average of 2.33 hours in 2023.

Hydro finished the year in a strong financial position, with a net income of $619M. As a Crown corporation, our financial strength will continue to provide value for customers and for the Government of Newfoundland and Labrador. Our work with the provincial government to finalize its rate mitigation plan continues.

ENABLING SUSTAINABLE GROWTH

With our next planning update to the Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB) expected in 2024, our teams have been working with continued focus to ensure we have adequate supply to reliably meet growing customer demand into the future. Reaching net zero and meeting the rapidly increased load on our system requires further solutions, decisions and investment.

As part of our planning, we have been studying many different technologies for generating electricity, for both meeting growing demand for electricity and for backup generation. We're considering factors such as cost, reliability, and environmental responsibility to make these decisions. In 2023, we continued to gather the needed evidence to support recommended solutions, ensuring they are the right choice for our system and customers. We are committed to making well-informed and prudent decisions that benefit the people of this province and we intend to honour lessons from past decisions.

WORKING TOGETHER

Our vision for a clean energy future can only be achieved by working together. As we look for new ways to meet the future needs of our system, we are excited to work with our customers, Indigenous partners, communities, industry, the PUB, Interveners and Government to positively contribute to the sustainable, economically bright future of Newfoundland and Labrador.

When we look back on 2023, there is so much to be proud of—but these accomplishments are only made possible by the work of our incredible team. Our employees are tireless in their commitment and make a real difference in our communities. This commitment was seen throughout the year, particularly when we once again experienced significant weather events, such as wild fires in Labrador and significant icing events across the province.

We also suffered the tragic loss of our dear friend Bill Walsh in a workplace incident last year. Bill was a long-time employee and a highly valued part of our Hydro family. We continue to feel the impact of his loss across our organization and offer our condolences and ongoing support to his family, friends and colleagues.

As we forge ahead in 2024, with expertise of the Hydro team and support from our Board and government, we are taking with us lessons from the past year and decades past. As we make these decisions, we are listening to the people of Newfoundland and Labrador and keeping our customers top of mind. We know you are counting on us.

Thank you for the honour of serving you.

YEAR **IN REVIEW**

SAFETY & HEALTH

On August 10, 2023, we experienced a fatality, losing our dear friend and colleague, Bill Walsh.

	2023	2022
RECORDABLE INJURIES	17	15
HIGH POTENTIALS	5	3

48%
of supervisor/managers completed ***The Working Mind*** mental health training

COMMUNITY

energy from the heart COMMUNITY PROGRAM

Proudly supported
more than 90 groups and organizations
throughout the province

Supported the educational and academic achievements of students in our province by providing
over 50 scholarships and awards

$52,074
EMPLOYEE AND CORPORATE CONTRIBUTION
to Kids Eat Smart was enough to feed all students for a day

ELECTRIFICATION / RENEWABLE ENERGY

92% **RENEWABLE ENERGY GENERATED**

3x
Integrated 3 customer owned **SOLAR PROJECTS**

23 Hydro public
EV FAST CHARGING
sites in NL.

OVER 13,000 CUSTOMER USAGES, PROVIDING 330 MWH OF ENERGY -
Equivalent to electricity volume for average EV to drive 1.6 million km

APPROVAL received for **7 ULTRA-FAST EV CHARGERS**
for NL network (in partnership with federal & provincial governments)

DIVERSITY, EQUITY & INCLUSION

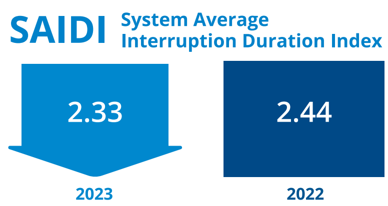
OCCUPATIONAL GROUP	2023 ACTUAL % FEMALE[1]	TARGETS
Executive	44%	30%
Management	36%	35%
Engineers (Including Engineers in Training)[2]	24%	30%
Technicians & Technologist	8%	10%
Field Supervisors	5%	6%
Skilled Trades (Including Apprentices)	5%	10%
Manual workers	20%	20%

1 Updated as of December 31, 2023.

2 Engineers Canada reported that 14.2% of total national membership was female-identifying in 2020.

INCREASED RELIABILITY

with **LOWEST** interruption duration in **OVER 10 YEARS**



FINANCIAL PERFORMANCE

PROFIT
$619 MILLION
an increase of $39 million over 2022

CAPITAL EXPENDITURES
$362 MILLION
a decrease of $94 million over 2022

COLLECTIVE AGREEMENTS

5 COLLECTIVE AGREEMENTS ratified, including three with IBEW Local 1615 and two with IBEW Local 2351

FINANCIAL STATISTICS

Years ended December 31 (millions of dollars)	**2023**	2022	2021	2020	2019
OPERATING RESULTS					
Continuing operations[1]					
Revenue					
Energy sales	**1,285**	1,327	976	913	1,016
Other revenue	**239**	32	37	17	22
	1,524	1,359	1,013	930	1,038
Expenses					
Fuels and power purchased	**265**	269	202	249	319
Operating costs	**310**	264	230	211	226
Production, marketing and transportation costs	**32**	30	31	39	36
Transmission rental	**39**	23	24	26	26
Depreciation, depletion, amortization and impairment	**315**	224	202	437	197
Exploration and evaluation	**-**	-	-	-	33
Net finance expense	**299**	225	127	109	92
Other (income) expense	**(14)**	95	157	(37)	18
Share of loss of joint arrangement	**-**	-	1	-	-
	1,246	1,130	974	1,034	947
Profit (loss) for the year before regulatory adjustments	**278**	229	39	(104)	91
Regulatory adjustments	**(341)**	(351)	(33)	(14)	(36)
Profit (loss) for the year from continuing operations	**619**	580	72	(90)	127
Discontinued operations[1]					
Loss for the year from discontinued operations	**-**	-	-	-	(1)
Profit (loss) for the year	**619**	580	72	(90)	126
SEGMENT EARNINGS[2]					
Continuing operations[1]					
Hydro Regulated	**33**	36	36	36	30
Muskrat Falls	**194**	134	(107)	(6)	(1)
LC Transmission	**192**	83	102	(25)	(13)
Churchill Falls	**37**	57	52	33	35
Energy Trading	**17**	72	26	(5)	-
Other Electric	**(77)**	22	(9)	9	4
Oil and Gas	**230**	193	(9)	(112)	96
Corporate and Inter-segment	**(7)**	(17)	(19)	(20)	(24)
Profit (loss) for the year from continuing operations	**619**	580	72	(90)	127
Discontinued operations[1]					
Bull Arm Fabrication	**-**	-	-	-	(1)
Profit (loss) for the year	**619**	580	72	(90)	126
FINANCIAL POSITION					
Assets					
Property, plant and equipment	**17,921**	17,921	17,739	17,228	16,798
Investments, including short-term	**531**	568	270	358	336
Other assets	**2,343**	2,262	1,581	1,549	2,084
Regulatory deferrals	**889**	540	184	172	123
	21,684	21,291	19,774	19,307	19,341
Liabilities and Equity					
Long-term debt, including current portion	**10,858**	10,790	9,860	9,645	9,686
Other liabilities	**3,325**	3,318	3,379	3,476	3,387
Regulatory deferrals	**43**	33	27	17	13
Shareholder's equity	**7,458**	7,150	6,508	6,169	6,255
	21,684	21,291	19,774	19,307	19,341
CAPITAL EXPENDITURES[3]	**362**	456	732	855	1,223

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

[2] The operating structure as at December 31, 2023 is comprised of eight business segments, the designation of which is based on a combination of regulatory status and management accountability.

[3] Capital expenditures includes tangible and intangible expenditures.

(listed as of December 31, 2023)

NALCOR ENERGY BOARD OF DIRECTORS

ALBERT WILLIAMS*
Chairperson, Nalcor Energy
Retired Engineering Executive

JOHN GREEN, K.C.** [1]
Acting Chairperson
Retired Lawyer, McInnes Cooper

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

JACK HILLYARD [1, 3]
Retired BMO Executive

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

JENNIFER WILLIAMS
President and Interim Chief Executive Officer, Nalcor Energy

DEBBIE MOLLOY [3, 4]
Vice President, Human Resources Eastern Health

DEREK PURCHASE [1, 2]
Corporate Director

DAVID OAKE [1, 3]
President, Invenio Consulting Inc.

EDNA TURPIN, ICD.D [2, 4]
Corporate Director

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

* On leave of absence

**Appointed acting Chairperson as of June 22, 2023

NALCOR ENERGY OFFICERS

JENNIFER WILLIAMS
President & Interim Chief Executive Officer

GERARD DUNPHY
Vice President, Churchill Falls & Muskrat Falls

ROBERT COLLETT
Vice President, Hydro Engineering & NLSO

GAIL COLLINS
Vice President, People & Corporate Affairs

SCOTT CROSBIE
Vice President, Hydro Operations

DANA POPE
Vice President, Regulatory & Stakeholder Relations (Acting)

LISA HUTCHENS
Vice President, Chief Financial Officer

MICHAEL LADHA
Vice President, Chief Legal Officer & Corporate Secretary

WALTER PARSONS
Vice President, Transmission Interconnections & Business Development

MEREDITH BAKER
Assistant Corporate Secretary

(listed as of December 31, 2023)

NEWFOUNDLAND AND LABRADOR HYDRO BOARD OF DIRECTORS

ALBERT WILLIAMS*
Chairperson
Retired Engineering Executive

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

JENNIFER WILLIAMS
President & Interim Chief Executive Officer, Nalcor Energy

DONNA BREWER [1, 2]
Retired Deputy Minister of Finance

CHRIS LOOMIS [2]
Retired Professor, Memorial University of Newfoundland

DAVID OAKE [1]
President, Invenio Consulting Inc.

FRASER EDISON [2]
President & CEO, Rutter Inc.

JOHN MALLAM [1]
Retired Newfoundland and Labrador Hydro Executive

BRIAN WALSH [2]
Retired FortisTCI Executive

TRINA TROKE [1]
Director, Project Delivery, Cahill Group

BOB BARNES
Retired NL Hydro Executive

JAMES HAYNES
Retired NL Hydro Executive

1 - Audit Committee, 2 – Corporate Governance Committee

* On leave of absence

**Appointed acting Chairperson as of June 22, 2023

NEWFOUNDLAND AND LABRADOR HYDRO OFFICERS

JENNIFER WILLIAMS
President & Chief Executive Officer

GERARD DUNPHY
Vice President, Churchill Falls & Muskrat Falls

ROBERT COLLETT
Vice President, Hydro Engineering & NLSO

GAIL COLLINS
Vice President, People & Corporate Affairs

SCOTT CROSBIE
Vice President, Hydro Operations

DANA POPE
Vice President, Regulatory & Stakeholder Relations (Acting)

LISA HUTCHENS
Vice President, Chief Financial Officer

MICHAEL LADHA
Vice President, Chief Legal Officer & Corporate Secretary

WALTER PARSONS
Vice President, Transmission Interconnections & Business Development

MEREDITH BAKER
Assistant Corporate Secretary

BOARD OF DIRECTORS

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

(a) developing Nalcor's approach to corporate governance;

(b) reviewing and approving the business, financial, strategic and other plans to enable Nalcor to execute its strategy;

(c) adopting processes for monitoring the company's progress toward its strategic and operational goals;

(d) approving the audited financial statements and Management's Discussion and Analysis;

(e) ensuring that Management has a process for identifying the principal business risks;

(f) overseeing the integrity of the internal control systems;

(g) ensuring that Nalcor has processes for operating within applicable laws and regulations;

(h) ensuring the company has a compensation philosophy and framework;

(i) ensuring a process is in place to measure the performance of senior executives;

(j) ensuring Management creates a culture of integrity throughout the organization; and

(k) ensuring that succession plans are in place for senior Management, including the President and CEO.

The Board also has four standing committees:

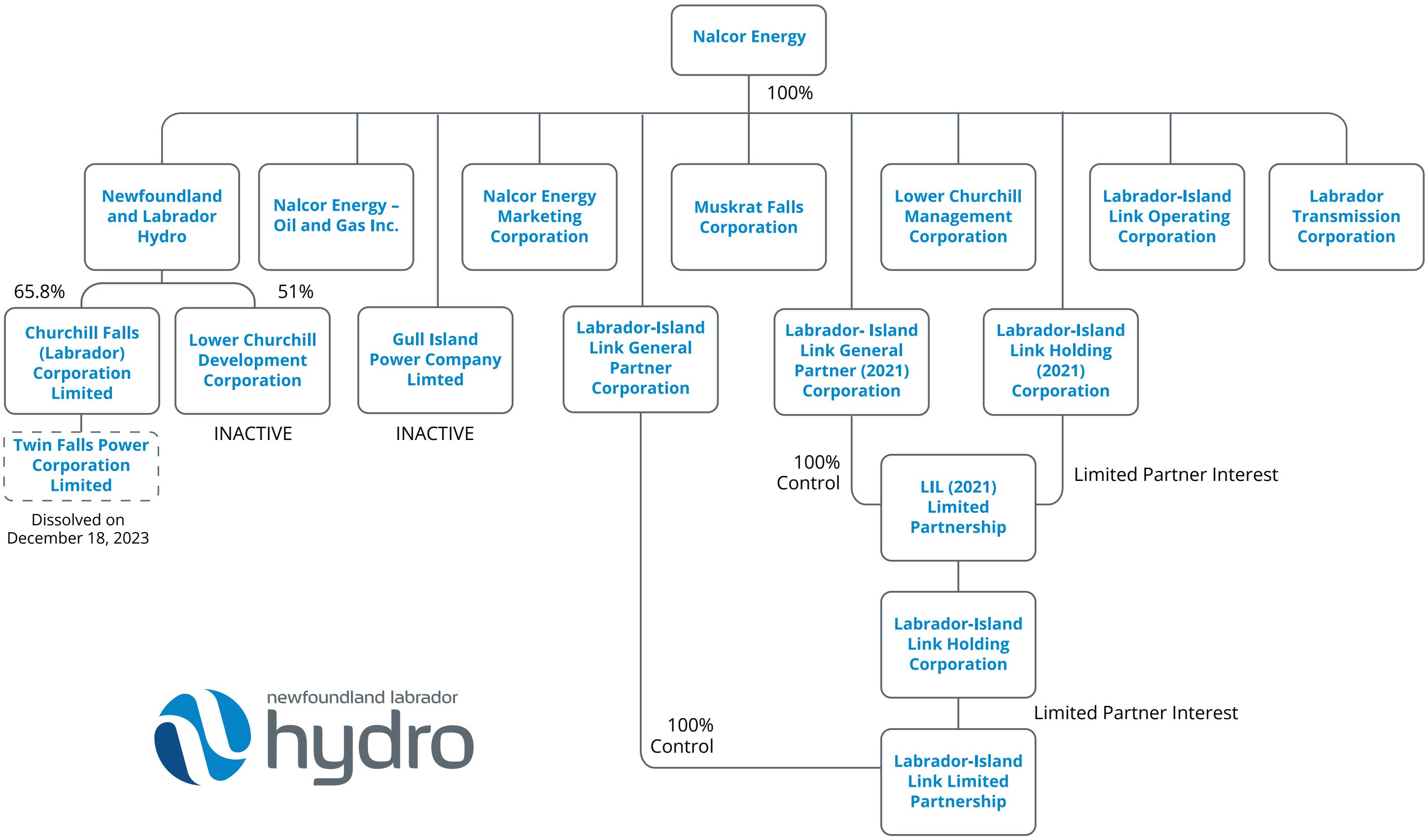
1. Audit
2. Corporate Governance
3. Human Resources and Compensation
4. Safety, Health, Environment and Community

NOTE 1 Newfoundland and Labrador Hydro has its own Audit Committee and Corporate Governance Committee. The Corporate Governance Committee also dealt with Regulatory, Human Resources and Compensation matters in 2023, but prior to year end established a separate Human Resources and Compensation Committee.

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

HYDRO GROUP'S CORPORATE STRUCTURE

Information accurate as at December 31, 2023



CORPORATE GOVERNANCE

AUDIT COMMITTEE

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

a) Serve as an independent and objective party to monitor the integrity of Nalcor's financial statements, financial reporting process and systems of internal controls regarding finance, accounting and legal compliance;

b) Identify and monitor the management of the principal financial risks that could impact the financial reporting of Nalcor;

c) Recommend to the Board the appointment and compensation, and monitor the independence and performance, of Nalcor's external auditors, to the extent that the Auditor General has delegated their role as the external auditor to an independent audit firm;

d) Provide oversight over the Internal Audit function and review the appointment of the Internal Auditor;

e) Monitor the compliance by Nalcor with legal and regulatory requirements;

f) Provide an avenue of communication among the external auditors, management and the Board of Directors; and

g) Encourage continuous improvement of, and foster adherence to, Nalcor's policies, procedures and practices at all levels.

CORPORATE GOVERNANCE COMMITTEE

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

a) Provide oversight of governance principles for Nalcor and its subsidiaries that are consistent with high standards of corporate governance and review and assess on an ongoing basis Nalcor's system of corporate governance;

b) Identify and recommend candidates for appointment to Nalcor subsidiary boards in the event of a vacancy;

c) Review and recommend a process for Board assessment, as well as ensure appropriate orientation and education programs are in place for Directors;

d) Provide oversight of Enterprise Risk Management with respect to Nalcor and its subsidiaries; and

e) Provide oversight of sustainability policy, strategy and reporting with respect to Nalcor and its subsidiaries.

HUMAN RESOURCES AND COMPENSATION COMMITTEE

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

a) Establish and maintain a compensation philosophy and framework for Nalcor;

b) Consider Nalcor's approach to and policies for recruiting, developing and motivating Executives and executive compensation and human resources issues;

c) With the Chair of the Board of Directors, undertake an annual performance review of the President and CEO of Nalcor and report and/or make recommendations to the Board of Directors;

d) Review and assess annually Nalcor's succession planning policies and practices for Executives, and report and/or make recommendations to the Board of Directors;

e) Review the approach to equity, diversity and inclusion;

f) Review compliance with Nalcor's Code of Conduct; and

g) Review Nalcor's labour relations strategies and recommend to the Board of Directors negotiating mandates for collective bargaining.

SAFETY, HEALTH, ENVIRONMENT AND COMMUNITY COMMITTEE

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

a) Review and report to the Board of Directors on Nalcor's maintenance of safety, environment and health policies, procedures and practices;

b) Review with Management whether Nalcor's safety, environment and health policies are being effectively implemented and in compliance with statutory and regulatory requirements;

c) Review the findings of reports arising from internal and external audits and assessments of safety, environment and health issues, together with Management's response thereto;

d) Review with Management the impact of proposed legislation in matters of safety, environment and health on the operations of Nalcor;

e) Review and approve annually the safety and environmental audit plans by Nalcor and external auditors and review of annual Corporate safety performance and Corporate environmental report;

f) Review with Management and make recommendations to the Board of Directors as appropriate on Nalcor's safety, environment, health and community programs, policies and procedures; and

g) Meet with the Vice-President/Manager responsible at least annually to review safety, environmental, health or community matters that could have a material impact on Nalcor's reputation, business or financial position and report to the Board of Directors thereon.

DIRECTOR INDEPENDENCE POLICY

Nalcor Energy has a Director Independence Policy, consisting of:

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

POLICY ON INDEPENDENCE OF EXTERNAL AUDITORS

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

a) establishing a process for determining whether various non-audit and other services provided by the External Auditor affects its independence;

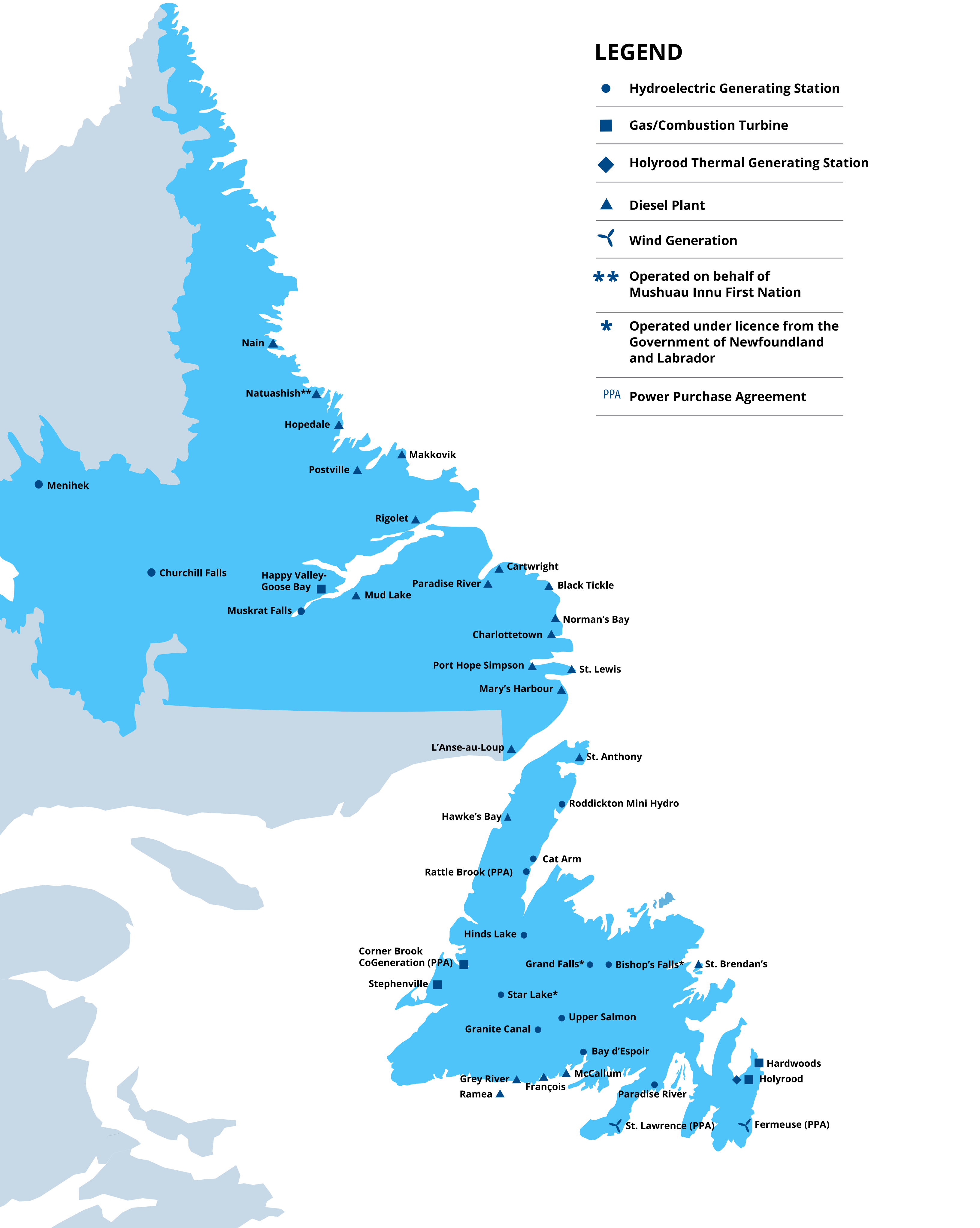
b) identifying the services that the External Auditor may and may not provide to Nalcor;

c) pre-approving all services to be provided by the External Auditor; and

d) establishing a process for hiring current or former members of the Audit Management Team of the External Auditor in a Financial Reporting Oversight Role to ensure auditor independence is maintained.

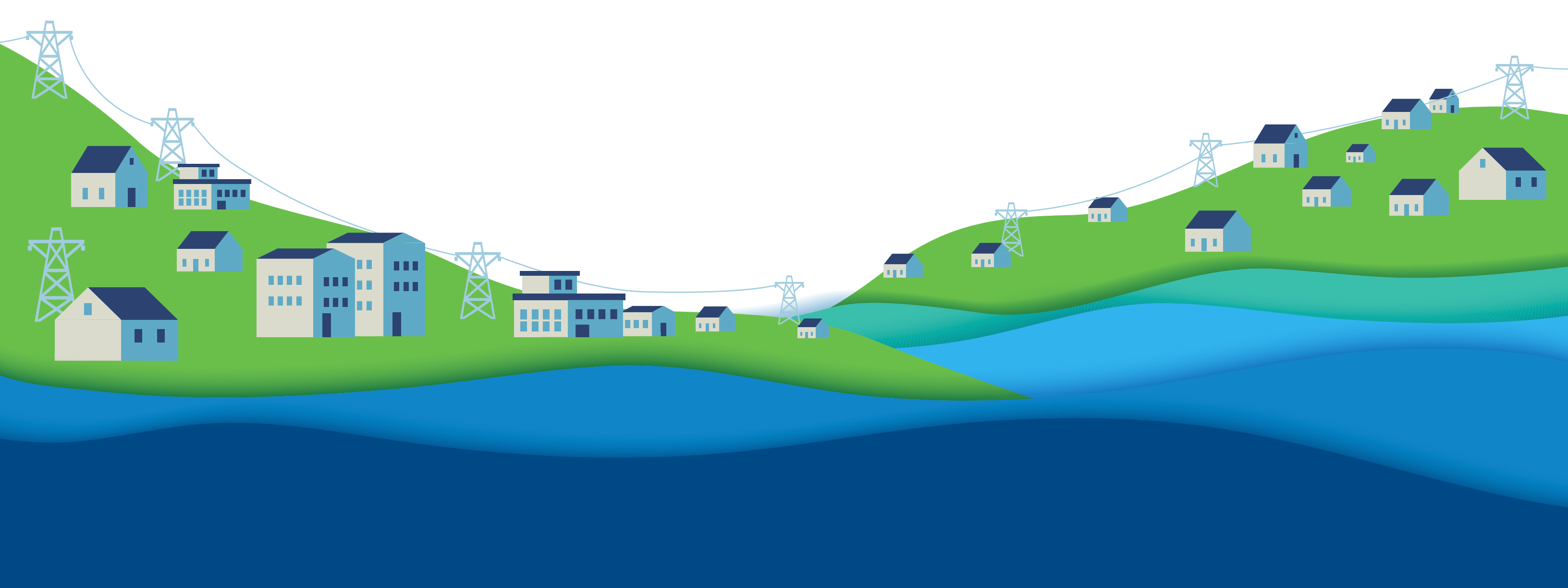
EXTERNAL AUDITOR'S FEES

The external auditor of Nalcor and its subsidiaries is Deloitte. Deloitte has been the external auditor since 2003. Professional fees incurred in 2023 in connection with audit and audit-related services were $0.9 million (2022 - $1.0 million) and fees related to non-audit services were $0.1 million (2022 - $0.1 million).


LEGEND
Hydroelectric Generating Station
Gas/Combustion Turbine
Holyrood Thermal Generating Station
Diesel Plant
Wind Generation
** 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
Cartwright
Churchill Falls
Happy Valley-Goose Bay
Paradise River
Black Tickle
Mud Lake
Muskrat Falls
Norman's 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)
Hinds Lake
Corner Brook CoGeneration (PPA)
Grand Falls*
Bishop's Falls*
St. Brendan's
Stephenville
Star Lake*
Upper Salmon
Granite Canal
Bay d'Espoir
Hardwoods
Holyrood
Grey River
McCallum
François
Ramea
Paradise River
St. Lawrence (PPA)
Fermeuse (PPA)

APPENDIX 1

MANAGEMENT DISCUSSION AND ANALYSIS



CONTENTS

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MANAGEMENT DISCUSSION & ANALYSIS

This Management Discussion and Analysis (MD&A) should be read in conjunction with the annual audited consolidated financial statements (financial statements) of Nalcor Energy (Nalcor) for the year ended December 31, 2023. Unless otherwise noted, all financial information has been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board and reported in Canadian dollars (CAD).

The following discussion and analysis includes results as of December 31, 2023, with subsequent events and outlook information updated to March 8, 2024. The MD&A is the responsibility of Management, and the Board of Directors carries out its responsibility for review of this disclosure principally through its Audit Committee. This MD&A was reviewed by the Audit Committee and subsequently approved by the Board of Directors on March 8, 2024.

Certain statements in this MD&A contain forward-looking information and reflect Management's expectations regarding future growth, results of operations and performance. By their nature, forward-looking statements require Management to make assumptions and are subject to important unknown risks and uncertainties, which may cause actual results in future periods to differ materially from forecasted results. While Management considers these assumptions reasonable and appropriate based on information currently available, there is a risk that they may not be accurate.

OUR COMPANY

The Newfoundland and Labrador Hydro group of companies (the Company or Hydro) is comprised of corporations established in the Province of Newfoundland and Labrador (the Province). Our business includes the development, generation, transmission and sale of electricity including energy trading; and the development, production and sale of oil and gas.

Hydro consists of both regulated and unregulated operations across the Province with major power generation assets in Churchill Falls, Muskrat Falls, Bay d'Espoir and Holyrood. In addition, our transmission system spans thousands of kilometers and connects our power generation facilities in Labrador to Québec and to the island of Newfoundland (the Island) through the Labrador-Island Link (LIL) and the Labrador Transmission Assets (LTA). Hydro's generation and transmission assets are also connected to Atlantic Canada and North American markets through the Maritime Link.

We are the people's Crown utility. For more than 50 years Hydro has provided safe, cost-effective electricity to customers in over 200 communities throughout the Province. In our time serving the people of our province, we've seen a world of changes, including the focus on creating a safe and sustainable environment. We deliver more than 92 per cent renewable energy to the people of Newfoundland and Labrador. We are a proud, diverse energy company whose people are committed to continuing to harness energy opportunities to benefit the people of the Province.

Hydro's profitability can be impacted by seasonal weather patterns and events along with the timing of application and approval of regulatory deferrals and rate orders. In addition, Hydro has experienced variability in earnings as a result of the commissioning of the Lower Churchill Project (LCP) assets. The implementation of rate mitigation strategies could also cause fluctuations in financial results. Profitability is also impacted by oil price and sales volumes, along with electricity export price and volumes.

In 2021, the Government of Newfoundland and Labrador announced that all Nalcor operations would be moving under Newfoundland and Labrador Hydro. This decision resulted in a change in reporting throughout the organization as well as new leadership and focus. The Company is reviewing the existing corporate and governance structure and contractual arrangements and is working with the Province towards any policy or legislative changes required. Throughout this MD&A, "Company" and "Hydro" refer to the Newfoundland and Labrador Hydro group of companies (formerly Nalcor), references to "Nalcor" refer to the Nalcor legal entity and references to "NL Hydro" refer to the Newfoundland and Labrador Hydro legal entity.

The operating segments are based on a combination of regulatory status and management accountability. The following summary provides a brief overview of the nature of operations included in each of Hydro's operating segments as at December 31, 2023.

Hydro Regulated activities encompass sales of electricity to customers within the Province that are regulated by the Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB).

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

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.

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

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

Other Electric includes revenues and expenditures associated with the delivery of the Nova Scotia Block (NS Block) of energy to Emera Inc. (Emera), expenditures associated with the Maritime Link (which is owned and managed by Emera, but consolidated by Nalcor), NL Hydro's sales of electricity to mining operations in Labrador West, 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 and Hibernia South Extension (HSE) fields.

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

MANAGEMENT DISCUSSION & ANALYSIS

AT A GLANCE

For the periods ended December 31 (millions of Canadian dollars)	**Three months ended**		**Twelve months ended**	
	2023	2022	**2023**	2022
Profit	**306**	37	**619**	580
Operating profit[1]	**246**	137	**559**	562
Revenue	**364**	335	**1,524**	1,359
Operating costs	**78**	71	**310**	264
Cash (used in) provided from operations	**(63)**	100	**496**	348
Capital expenditures	**92**	124	**362**	456
Electricity sales (GWh)	**12,359**	11,082	**43,921**	42,175
Oil sales volume (thousands of bbls)	**550**	720	**2,466**	3,034
Realized oil price (CAD/bbl)	**109**	102	**109**	105

[1] Operating profit is a non-GAAP financial measure that encompasses profit excluding extraordinary items that are not indicative of Hydro's future financial performance.

Profit

The Company's profit for the three months ended December 31, 2023 was $306 million, an increase of $269 million compared to the same period in 2022. The quarterly variance was driven by the net impacts of commissioning of the LCP assets as well as the reversal of impairment of oil and gas assets recorded in the quarter compared to an impairment expense recorded in the same quarter of 2022. These non-cash impairments and reversals are not uncommon in the oil and gas industry.

The Company's profit for the year ended December 31, 2023 was $619 million, an increase of $39 million compared to the same period in 2022. The key drivers of the increase relate to the net impacts of commissioning of the LCP assets and reversal of impairment relating to oil and gas assets, partially offset by lower export sales primarily due to price and lower net oil revenue primarily due to reduced volume. The variance for the year was also impacted by rate mitigation funding from the first drawing of the federal convertible debt, which reduced both net income and future amounts owing from customers.

RECENT DEVELOPMENTS

HYDRO REGULATED

Future General Rate Application (GRA) and the Recovery of LCP Costs
The LIL was successfully commissioned in April 2023 and Hydro Regulated is continuing to work with the Province to finalize the remaining details of its Rate Mitigation Plan in order to proceed with the GRA process. Hydro expects to file its next GRA in 2025.

Cost increases associated with the contractual requirements related to the LCP have been addressed through Hydro Regulated's regulatory deferral accounts that defer LCP payments, rate mitigation funding, LCP cost recovery from customers, other supply cost variances, as well as variances in depreciation expenses related to the Holyrood Thermal Generating Station (Holyrood TGS). The deferral of these amounts results in no material impact on Hydro Regulated's net income and recovery from customers will be addressed through a separate application at the conclusion of the GRA.

On March 31, 2023, as one of the steps to implement rate mitigation, the Province announced the provision of $190 million of rate mitigation funding to offset increases in supply costs primarily associated with the LCP. In August 2023, the first drawing on the convertible debenture of $145 million was received by LIL (2021) Limited Partnership (LIL (2021) LP), and the funds were transferred to Hydro for the purpose of rate mitigation. In total, these amounts have reduced the balance due from customers in the Supply Cost Variance Deferral Account (SCVDA) by $335 million. As at December 31, 2023, the balance of the SCVDA was $271 million.

Customer Rate Changes

Hydro Regulated is designing rates and regulatory mechanisms to ensure a smooth transition from current rates to incorporating recovery of Muskrat Falls costs, while avoiding rate shock to its customers. As an interim measure before it files its next GRA, Hydro Regulated has implemented a Project Cost Recovery Rider to commence partial recovery of Muskrat Falls costs.

Rates for Island Industrial customers are normally revised annually on January 1. In January 2023, the PUB approved a rate increase for Island Industrial customers of 15.4%, effective January 1, 2023, which included the recovery of the remaining balance of fuel costs owing from 2022 in the Rate Stabilization Plan (RSP) Account. Given this billing impact for 2023, Hydro did not propose the implementation of a Project Cost Recovery Rider for the Island Industrial Customers at that time. On January 16, 2024, Hydro submitted its application for Island Industrial Customer Rates Effective January 1, 2024 proposing to maintain rates at current levels, including the commencement of the Project Cost Recovery Rider as planned, offset by the decrease in the balance for recovery of the RSP Account. The Island Industrial Customers supported the application and it was approved by the PUB on January 30, 2024.

On June 1, 2023, the PUB approved Hydro Regulated's wholesale rate increase to Newfoundland Power which resulted in an increase of approximately 3.9% to end-consumers effective July 1, 2023. When combined with Newfoundland Power's rate adjustment, the overall end-customer rate increase was approximately 6.9%. As a result, Hydro Regulated's Project Cost Recovery Rider remains in effect and unchanged. The PUB also approved Hydro's Rural Rates application in Order No. P.U. 18(2023), which mirrors the rate increase to Newfoundland Power rates of 6.9%.

Rates to recover the generation costs from Labrador Industrial customers are generally updated annually effective January 1 using a formula-based methodology that has been in effect since 2015. The rates to recover generation costs are non-regulated and include a market based component. It is the policy of the Government of Newfoundland and Labrador that rates charged for the supply of power should promote the development of industrial activity in Labrador by ensuring that industrial rates remain competitive with other jurisdictions. Effective January 1, 2023 and January 1, 2024, the customer rate impact was approximately 9.4% and 0.6%, respectively; even with these increases, rates charged to Labrador Industrial customers remain one of the lowest in the country.

In December 2023, the PUB approved Hydro Regulated's application for a non-firm rate on the Labrador Interconnected system and an update to the non-firm rates available to Island Industrial customers. As a result, the proposed non-firm rates were approved effective March 1, 2024 and will remain in place until a further order of the PUB or, in the case of the Labrador Interconnected system, no later than September 1, 2026. Hydro will be required to file an application for new non-firm rates on the Labrador Interconnected system by June 1, 2026. BlockLab Corporation Labrador has filed an appeal of the PUB's decision. The approval of the non-firm rates application enables Hydro to service customers on the Labrador Interconnected system using available surplus energy at forecasted market export prices without requiring additional system investments.

2024 Capital Budget and Supplemental Applications

On December 21, 2023, the PUB fully approved Hydro Regulated's $96.5 million 2024 Capital Budget Application. The application reflected Hydro's ongoing objective and responsibility as the Province's Crown Utility to minimize costs while maintaining safe and reliable operations in an environmentally responsible manner.

Hydro's recommendation for the long-term supply plan for Southern Labrador consists of a regional diesel generating station with immediate interconnection of four currently isolated systems in the region. The current estimate for this project is now $87.9 million with project completion anticipated in 2028. The regulatory proceeding is in the final stages.

Hydro Regulated submitted its final reply on December 18, 2023, proposing that the PUB provide approval of the full project and all proposed expenditures based on the evidence provided, under the condition that the construction stage of the project will not proceed prior to Hydro Regulated meeting requirements related to the duty to consult and environmental approval. On January 12, 2024 and February 13, 2024, Hydro Regulated responded to requests for additional information from the PUB related to the proposed conditional approval driven by the duty to consult. Hydro continues to be confident that its application meets its mandate under the amended Public Utilities Act and the **Electrical Power Control Act, 1994**.

Resource Adequacy

The Reliability and Resource Adequacy (RRA) Study outlines Hydro's long-term approach to providing cost-conscious, reliable service. The regulatory process on the RRA Study is ongoing.

Societal shifts towards net-zero energy sources are significant and are expected to have major impacts on electricity grids. All Canadian utilities, including Hydro, are working to navigate the uncertainty while planning system additions that are required to respond to the massive increase in decarbonization efforts given our country's goal of net-zero by 2050 and a net-zero electrical grid by 2035. Hydro is faced with a great deal of uncertainty as it plans to service its customers with reliable, cost-conscious electricity, now and into the future. Therefore, Hydro has recommended an incremental approach to required generation expansion and will continue to progress the required studies.

In the fall of 2023, Hydro Regulated submitted eight filings as part of the RRA proceeding, including four reports on overhead line investigations on the LIL, a Combustion Turbine Feasibility Study, a Battery Energy Storage Study, a Pumped Storage at Existing Hydro Sites Study and Avalon Supply (Transmission) Study Update. On November 15, 2023, Hydro Regulated filed its annual Near-term Reliability Report. Hydro Regulated will submit its Resource Adequacy Plan, including its generation expansion plan, in the second quarter of 2024. A technical conference with the PUB and parties will follow.

The outcomes of the RRA Study and related proceedings will inform and support application(s) for additional generation, enabling new supply decisions. In the fourth quarter of 2024, Hydro Regulated plans to file an application(s) for approval to construct additional generation.

LOWER CHURCHILL

Since the commissioning of the LIL on April 14, 2023, the LCP has moved into a full operation mode with all assets in service and a total final project cost of $13.5 billion.

With the LCP commissioned, the Maritime Link is now able to operate up to its full rating of 500 MW. Delivery of final LIL software and execution of a 900MW pole overload test remains. As part of the Reliability and Resource Adequacy Study Review proceeding, Hydro established the assumption that the equivalent forced outage rate for the LIL over the long term would be in the range of 1% to 10%. The equivalent forced outage rate for the LIL from January 1 to December 31, 2023 was approximately 4%, which was well within the assumed long-term range.

For the Muskrat Falls Plant, its 2023 year-end performance exceeded expectations. The plant ended the year with a 2.49% unavailability compared against a Canadian average of 5.82% unavailability; performing better than the Canadian average. Also, in December, LIL LP paid its first distributions to its Limited A and B partners totaling $145 million.

Rate Mitigation and Financial Restructuring of the LCP

In 2022, as part of the Province's Rate Mitigation Plan, Hydro, the Province and the Government of Canada signed term sheets for a $1 billion federal loan guarantee and capital restructuring of Muskrat Falls and Labrador Transmission Corporation (Labrador Transco) which were completed in 2022. The third component was a $1 billion investment by the Government of Canada in the LIL in the form of a convertible debenture, and the first installment of the $1 billion investment by the Government of Canada was received in August 2023. These arrangements will provide rate relief to Island customers, lower financing costs and maintain ownership of the Muskrat Falls and LTA as well as control of the LIL, all of which generate long-term benefits.

ENERGY TRADING

On September 1, 2023, delivery of energy to Nova Scotia Power under the Energy Access Agreement (EAA) commenced. The EAA was signed in 2015 between Nalcor and Emera as part of the 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. Hydro 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 of December 31, 2023, 103 GWh of energy was delivered to Emera under the terms of the EAA.

OIL AND GAS

On March 17, 2023, the Province announced that it is proceeding with Phase II of the review of the Province's current offshore oil and gas interests, which are held by Oil and Gas.

On January 9, 2024, the Government of Newfoundland and Labrador initiated Phase III of the review. As part of this phase, Rothschild & Co. presented the province's portfolio of oil and gas assets to potential buyers in order to gauge interest. This exercise does not bind government or Hydro to any subsequent action but enables an informed decision on whether to proceed to detailed negotiations to sell those assets.

OTHER RECENT EVENTS

On February 28, 2023 the Province announced the assembly of an expert team to lead high-level preliminary discussions with Hydro-Québec to assess whether there are meaningful opportunities for future negotiations that will ensure the best value from the Churchill Falls plant and the Churchill River for the people of the Province.

Effective December 18, 2023. Twin Falls Power Corporation Limited, 100% owned by Churchill Falls, was dissolved. Any remaining liabilities have transferred and are now the responsibility of Churchill Falls per the dissolution agreement signed November 1, 2023.

In December 2023, the Company paid $300 million of dividends to the Province. This is the first dividend payment Hydro has paid to the Province since 2006.

CONSOLIDATED FINANCIAL RESULTS

Consolidated financial results of the Company are outlined below along with explanations for significant variances in categories of revenue and expenditures.

CONSOLIDATED STATEMENT OF PROFIT HIGHLIGHTS

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2023**	2022	Variance	**2023**	2022	Variance
Revenue	**364**	335	29	**1,524**	1,359	165
Fuels	**54**	66	(12)	**187**	188	(1)
Power purchased	**20**	20	-	**78**	81	(3)
Operating costs	**78**	71	7	**310**	264	46
Production, marketing and transportation costs	**6**	6	-	**32**	30	2
Transmission rental	**12**	6	6	**39**	23	16
Depreciation, depletion, amortization and impairment	**43**	163	(120)	**315**	224	91
Net finance expense	**85**	51	34	**299**	225	74
Other expense (income)	**9**	24	(15)	**(14)**	95	(109)
Profit (loss) for the period before regulatory adjustments	**57**	(72)	129	**278**	229	49
Regulatory adjustments	**(249)**	(109)	(140)	**(341)**	(351)	10
Profit for the period	**306**	37	269	**619**	580	39

Non-GAAP Operating Profit Disclosure

Reconciliation of the Company's profit to operating profit for the three months and year ended December 31, 2023 and 2022 is as follows:

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2023**	2022	Variance	**2023**	2022	Variance
Profit for the period	**306**	37	269	**619**	580	39
(Reversal of impairment) Impairment expense	**(60)**	100	(160)	**(60)**	(18)	(42)
Operating profit for the period	**246**	137	109	**559**	562	(3)

Revenue

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2023**	2022	Variance	**2023**	2022	Variance
Electricity sales	**297**	252	45	**1,034**	968	66
Petroleum and natural gas sales, net of royalty expense	**59**	75	(16)	**251**	359	(108)
Other revenue	**8**	8	-	**239**	32	207
Total revenue	**364**	335	29	**1,524**	1,359	165

Electricity sales

Electricity sales for the three months ended December 31, 2023 were $297 million, an increase of $45 million compared to the same period in 2022. Electricity sales for the year ended December 31, 2023 were $1,034 million, an increase of $66 million compared to the same period in 2022. The increase for the quarter and year was due to higher Regulated, Other export and NS Block sales volumes, partially offset by a decrease in export electricity prices. The increase for the year is also partially offset by no excess energy sales to Hydro-Québec in 2023. Certain variances in revenue are offset in the regulatory adjustments line.

Electricity sales volume is summarized in the table below:

	Three months ended		Twelve months ended	
For the periods ended December 31 (GWh)	**2023**	2022	**2023**	2022
Regulated	**1,999**	1,897	**7,370**	7,087
Hydro-Québec - Churchill Falls	**8,753**	7,750	**30,772**	30,033
Emera - NS Block	**546**	376	**1,562**	989
Other export	**577**	554	**2,419**	2,105
Other domestic	**484**	505	**1,798**	1,961
	12,359	11,082	**43,921**	42,175

Prices for Other export sales are summarized in the table below:

	Three months ended		Twelve months ended	
For the periods ended December 31	**2023**	2022	**2023**	2022
Average Export Electricity Price (USD/MWh)[1]	**32**	44	**29**	52
Realized Export Electricity Price (USD/MWh)[2]	**31**	43	**29**	53
Realized Export Electricity Price (CAD/MWh)[3]	**43**	59	**39**	68

[1]The Average Export Electricity Price reflects actual market prices achieved for all Other exports.
[2]The Realized Export Electricity Price (USD) includes the impact of financial transmission rights for all periods.
[3]The Realized Export Electricity Price (CAD) includes the impact of financial transmission rights for all periods and foreign exchange.

Average and realized USD export electricity prices for the three months and year ended December 31, 2023 were lower compared to the same period in 2022 due to the impacts of lower natural gas prices on electricity markets as a result of natural gas storage levels in Eastern United States increasing above the historic average in 2023.

Petroleum and natural gas sales, net of royalty expense
Petroleum and natural gas sales, net of royalty expense for the three months ended December 31, 2023 was $59 million, a decrease of $16 million compared to the same period in 2022. The decrease for the quarter was primarily due to decrease in oil sales volume. Petroleum and natural gas sales, net of royalty expense for the year ended December 31, 2023 was $251 million, a decrease of $108 million compared to the same period in 2022. The decrease for the year was due to lower average dated Brent price per barrel and a decrease in oil sales volume, partially offset by decreased royalties.

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

	Three months ended		Twelve months ended	
For the periods ended December 31	**2023**	2022	**2023**	2022
Average Dated Brent Price (USD/bbl)[1]	**83**	83	**80**	100
Realized Price (USD/bbl)[2]	**80**	78	**82**	83
Realized Price (CAD/bbl)[3]	**109**	102	**109**	105
Oil Sales Volume (thousands of bbls)	**550**	720	**2,466**	3,034

[1]The Average Dated Brent Price reflects prices available in the market adjusted for any premium or discount.
[2]The Realized Price (USD) includes the impact of oil commodity price hedges.
[3]The Realized Price (CAD) includes the impact of oil commodity price and foreign exchange hedges.

Other revenue
Other revenue for the three months ended December 31, 2023 was comparable to the same period in 2022. Other revenue for the year ended December 31, 2023 was $239 million, an increase of $207 million compared to the same period in 2022. The increase for the year was primarily due to rate mitigation funding received from the Province that was used to reduce the balance in the SCVDA, and is therefore offset through regulatory mechanisms in the regulatory adjustments line.

Fuels

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2023**	2022	Variance	**2023**	2022	Variance
No. 6 fuel and other	**46**	59	(13)	**149**	163	(14)
Diesel fuel	**7**	7	-	**29**	24	5
Gas Turbine fuel	**1**	-	1	**9**	1	8
Total fuels	**54**	66	(12)	**187**	188	(1)

Fuel costs for the three months ended December 31, 2023 were $54 million, a decrease of $12 million compared to the same period in 2022. The decrease for the quarter was due to lower price and volume of No. 6 fuel. Fuel costs for the year ended December 31, 2023 were comparable to the same period in 2022. Certain variances in fuel are offset through regulatory mechanisms in the regulatory adjustments line.

Power purchased
Power purchased for the three months and year ended December 31, 2023 was comparable to the same period in 2022.

Operating costs

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2023**	2022	Variance	**2023**	2022	Variance
Salaries and benefits	**36**	34	2	**157**	143	14
Maintenance and materials	**26**	17	9	**86**	62	24
Professional services	**11**	14	(3)	**37**	36	1
Insurance	**4**	3	1	**14**	12	2
Travel and transportation	**3**	1	2	**10**	8	2
Other operating costs	**(2)**	2	(4)	**6**	3	3
Total operating costs	**78**	71	7	**310**	264	46

Operating costs for the three months ended December 31, 2023 were $78 million, an increase of $7 million compared to the same period in 2022. Operating costs for the year ended December 31, 2023 were $310 million, an increase of $46 million compared to the same period in 2022. The increase for the quarter and the year is primarily due to LIL commissioning resulting in certain LIL costs no longer being capitalized, and higher maintenance costs. Also contributing to the variance for the year is an increase in salaries and benefits resulting from union and non-union salary increases and increased other salary related costs.

Production, marketing and transportation costs
Production, marketing and transportation costs for the three months and year ended December 31, 2023 were comparable to the same periods in 2022.

Transmission rental
Transmission rental for the three months ended December 31, 2023 was $12 million, an increase of $6 million compared to the same period in 2022. Transmission rental for the year ended December 31, 2023 was $39 million, an increase of $16 million compared to the same period in 2022. The increase for the quarter and year was primarily due to payments for firm transmission rights to access more lucrative export markets.

Depreciation, depletion, amortization and impairment
Depreciation, depletion, amortization and impairment for the three months ended December 31, 2023 was $43 million, a decrease of $120 million compared to the same period in 2022. The decrease for the quarter was due to the reversal of impairment of oil and gas assets compared to an impairment expense recorded in 2022, partially offset by depreciation of the LCP assets which commenced in Q2 2023. Depreciation, depletion, amortization and impairment for the year ended December 31, 2023 was $315 million, an increase of $91 million compared to the same period in 2022. The increase for the year was due to the depreciation of the LCP assets which commenced in Q2 2023, partially offset by increased reversal of impairment associated with the oil and gas assets. The impairment reversals recognized in 2023 are directly related to

cash flow improvements from revised costs estimates and improved reserves as the petroleum and natural gas properties field lives mature.

Net finance expense

Net finance expense for the three months ended December 31, 2023 was $85 million, an increase of $34 million compared to the same period in 2022. Net finance expense for the year ended December 31, 2023 was $299 million, an increase of $74 million compared to the same period in 2022. The increase for the quarter and year was due to expensing of borrowing costs associated with the LIL, which began with commissioning in Q2 2023, partially offset by higher interest earned on cash balances.

Other expense (income)

	Three months ended			**Twelve months ended**		
For the periods ended December 31 (millions of Canadian dollars)	**2023**	2022	Variance	**2023**	2022	Variance
HSE Redetermination re-balancing adjustment	**(13)**	(7)	(6)	**(46)**	(22)	(24)
Settlement of commodity price swap contracts	**2**	5	(3)	**(9)**	69	(78)
Rental and royalty	**5**	4	1	**17**	19	(2)
Loss on disposal of property, plant and equipment	**8**	19	(11)	**9**	19	(10)
Other	**7**	3	4	**15**	10	5
Total other expense (income)	**9**	24	(15)	**(14)**	95	(109)

Other expense for the three months ended December 31, 2023 was $9 million, a decrease of $15 million compared to the same period in 2022. Other income for the year ended December 31, 2023 was $14 million compared to expense of $95 million for the same period in 2022, an increase of $109 million. The change for the quarter and year was primarily due to a decrease in the impact of HSE redetermination, reduced loss on disposals and favorable hedge settlements.

Regulatory adjustments

Regulatory recoveries for the three months ended December 31, 2023 were $249 million, an increase of $140 million compared to the same period in 2022. The increase for the quarter was primarily due to the deferral of costs associated with increased Muskrat Falls power purchases primarily due to LIL commissioning and the costs related to the Transmission Funding Agreement (TFA). Regulatory recoveries for the year ended December 31, 2023 were $341 million, a decrease of $10 million compared to the same period in 2022. The decrease for the year was primarily due to net variations in regulatory mechanisms largely driven by rate mitigation funding received in the first and third quarters, largely offset by increased costs associated with Muskrat Falls power purchases largely relating to LIL commissioning.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION HIGHLIGHTS

Significant changes in the Consolidated Statement of Financial Position between December 31, 2023 and 2022 include:

ASSETS *(millions of Canadian dollars)*	**Increase (Decrease)**	**Explanation**
Cash and cash equivalents	128	See Liquidity and Capital Resources for additional details on movement in cash during the year ended December 31, 2023.
Restricted cash	(83)	Decrease due to payment of dividends to shareholders and payment of punchlist costs.
Property, plant and equipment	41	Increase primarily due to non-cash reversal of impairment of Oil and Gas assets and ongoing additions, partially offset by depreciation and depletion.
Investments	(38)	Decrease primarily due to maturity of Muskrat Falls and Lab Transco deposit notes in 2023.
Regulatory assets, net of regulatory liabilities	339	Increase due to the variations in supply costs and related regulatory mechanisms largely driven by deferral of costs associated with Muskrat Falls and LC Transmission, partially offset by rate mitigation funding.
LIABILITIES AND EQUITY *(millions of Canadian dollars)*		
Short-term borrowings	99	Increase is due to promissory notes issued during the year. The balance of promissory notes will fluctuate depending on the timing of cash inflows and outflows.
Current portion of Class B limited partnership units	88	Increase is due to the distributions that are expected to be paid within the next year, which commenced with LIL commissioning.
Current portion of deferred credits	(31)	Decrease is due to change in the current portion associated with anticipated deliveries of the NS Block to Emera and revenue recognized relating to delivery of energy over the next year.
Other current liabilities	(53)	Decrease is due to the repayment of a portion of the HSE redetermination rebalancing liability during the year and fluctuations in derivative liabilities from mark–to-market on foreign exchange contracts.
Long-term debt	67	Increase is due to the first drawing of the Government of Canada convertible debenture, partially offset by planned repayments on both LCP and Hydro long-term debt.
Class B limited partnership units	(70)	Decrease is due to LIL LP Class B Limited partnership distributions and reclassification of a portion of the units to current, partially offset by effective interest earned on the partner's contributions.
Deferred credits	(56)	Decrease is primarily due to revenue recognized relating to delivery of NS Block energy during the year, partially offset by additions to undelivered NS Block energy.
Retained earnings	319	Increase due to profit recorded for the year less dividends paid to the Province.

SEGMENTED RESULTS

The following presents an overview of the Company's profit for the three months and year ended December 31, 2023, by operating segment, in comparison to the three months and year ended December 31, 2022. This discussion should be read in conjunction with Note 34 of the financial statements.

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2023**	2022	Variance	**2023**	2022	Variance
Hydro Regulated	**7**	1	6	**33**	36	(3)
Muskrat Falls	**88**	39	49	**194**	134	60
LC Transmission	**62**	25	37	**192**	83	109
Churchill Falls	**13**	12	1	**37**	57	(20)
Energy Trading	**3**	13	(10)	**17**	72	(55)
Other Electric	**32**	13	19	**(77)**	22	(99)
Oil and Gas	**103**	(59)	162	**230**	193	37
Corporate	**-**	(6)	6	**(4)**	(14)	10
Inter-segment	**(2)**	(1)	(1)	**(3)**	(3)	-
Profit for the period	**306**	37	269	**619**	580	39

HYDRO REGULATED

Hydro Regulated activities encompass sales of electricity to customers within the Province and other activities that are regulated by the PUB. The operations of Hydro Regulated are influenced by many external factors including regulation, performance of the domestic economy and weather patterns. The demand for electricity is met through a combination of hydroelectric generation, thermal generation and power purchases, including wind generation. Hydro Regulated is entitled to the opportunity to recover, through customer rates, all reasonable and prudent costs incurred in providing electricity service to its customers, in addition to a just and reasonable return on rate base, in accordance with Section 80 of the Public Utilities Act. Hydro Regulated uses regulatory mechanisms, as directed by the PUB, to adjust customer rates, both to smooth rate impacts for island electricity customers and to protect Hydro Regulated's profit from the majority of variations in certain supply costs, including Holyrood TGS fuel costs and power purchase costs from Muskrat Falls and LC Transmission, with recovery subject to applications to and approval by the PUB. Adjustments related to these regulatory mechanisms flow through the regulatory adjustments line in the financial results.

Financial Highlights

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2023**	2022	Variance	**2023**	2022	Variance
Revenue	**227**	177	50	**1,128**	680	448
Expenses	**469**	285	184	**1,437**	996	441
Loss for the period before regulatory adjustments	**(242)**	(108)	(134)	**(309)**	(316)	7
Regulatory adjustments	**(249)**	(109)	(140)	**(342)**	(352)	10
Profit for the period	**7**	1	6	**33**	36	(3)

Revenue

Revenue for the three months ended December 31, 2023 was $227 million, an increase of $50 million compared to the same period in 2022. The increase for the quarter was primarily due to higher export and utility sales as well as higher customer recoveries. Revenue for the year ended December 31, 2023 was $1,128 million, an increase of $448 million compared to the same period in 2022. The increase for the year was primarily due to $335 million of rate mitigation funding received, higher utility sales and associated utility customer recoveries. The impact of certain variances for both the quarter and year are offset in the regulatory adjustments line.

Regulated energy sales and supply are summarized below:

For the periods ended December 31 (GWh)	Three months ended		Twelve months ended	
	2023	2022	**2023**	2022
Customer Energy Sales:				
Utility	**1,580**	1,489	**5,858**	5,509
Rural	**323**	322	**1,178**	1,191
Industrial	**96**	86	**334**	387
Energy Sales	**1,999**	1,897	**7,370**	7,087
Generation:				
Hydraulic generation[1]	**1,155**	1,205	**4,391**	4,644
Holyrood generation	**211**	237	**649**	746
Standby generation[2]	**(1)**	(2)	**10**	(5)
Thermal diesel generation	**17**	12	**59**	48
Purchases:				
Domestic[3]	**471**	469	**1,820**	1,820
Off-Island[4]	**257**	68	**867**	188
Gross generation	**2,110**	1,989	**7,796**	7,441
Losses	**111**	92	**426**	354
Net generation	**1,999**	1,897	**7,370**	7,087

[1] Includes NL Hydro owned generation only.

[2] Includes gas turbine and diesel generation.

[3]Domestic purchases include energy purchased from Churchill Falls and Muskrat Falls for use in Labrador and generation from Exploits, wind and other sources for use on the Island Interconnected System.

[4] Off-Island purchases include energy imported over the LIL (including from Muskrat Falls) and external market purchases imported over the Maritime Link for use on the Island Interconnected System.

Expenses

Expenses for the three months ended December 31, 2023 were $469 million, an increase of $184 million compared to the same period in 2022. Expenses for the year ended December 31, 2023 were $1,437 million, an increase of $441 million compared to the same period in 2022. The increase for the quarter and year was primarily related to higher volume of power purchased from Muskrat Falls and an increase in costs related to the LC transmission that began upon commissioning of the LIL in Q2 2023. The increase for the quarter was partially offset by lower fuel costs. Portions of these variances are offset through regulatory mechanisms in the regulatory adjustments line.

Regulatory adjustments

Regulatory recoveries for the three months ended December 31, 2023 were $249 million, an increase of $140 million compared to the same period in 2022. The increase for the quarter was primarily due to the deferral of costs associated with increased Muskrat Falls power purchases primarily due to LIL commissioning and the costs related to the TFA. Regulatory recoveries for the year ended December 31, 2023 were $342 million, a decrease of $10 million compared to the same period in 2022. The decrease for the year was primarily due to net variations in regulatory mechanisms largely driven by rate mitigation funding received in the first and third quarters, largely offset by increased costs associated with Muskrat Falls power purchases largely relating to LIL commissioning.

MUSKRAT FALLS

Muskrat Falls includes the operation of the 824 MW hydroelectric generating facility in Labrador on the Lower Churchill River. Profit for Muskrat Falls is largely driven by revenue earned from Hydro Regulated for the delivery of energy and provision of capacity under the Muskrat Falls Power Purchase Agreement. This revenue fluctuates based on the amount of energy delivered in a given period.

Financial Highlights

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2023**	2022	Variance	**2023**	2022	Variance
Revenue	**178**	105	73	**521**	416	105
Expenses	**90**	66	24	**327**	282	45
Profit for the period	**88**	39	49	**194**	134	60

Revenue
Revenue for the three months ended December 31, 2023 was $178 million, an increase of $73 million compared to the same period in 2022. Revenue for the year ended December 31, 2023 was $521 million, an increase of $105 million compared to the same period in 2022. The increase for the quarter and year relates to an increase in energy sales delivered to Hydro Regulated, partially offset by lower market prices realized on export sales.

Expenses
Expenses for the three months ended December 31, 2023 were $90 million, an increase of $24 million compared to the same period in 2022. Expenses for the year ended December 31, 2023 were $327 million, an increase of $45 million compared to the same period in 2022. The increase for the quarter and year relates to commencement of depreciation of property, plant and equipment as a result of full commissioning of the LCP assets during Q2. Also the increase for the year is partially offset by higher interest earned on cash balances in 2023.

LC TRANSMISSION

LC Transmission includes the operation of the LIL and LTA, which connects the Muskrat Falls Generating Station, the Churchill Falls Generating Station, and portions of the transmission system in Labrador to the Island. On April 14, 2023 commissioning of the LIL was approved by all required stakeholders. Profit for LC Transmission is largely driven by revenue earned from Hydro Regulated associated with the LIL under the TFA and from Muskrat Falls for interconnection services provided by the LTA under the Generator Interconnection Agreement (GIA).

Financial Highlights

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2023**	2022	Variance	**2023**	2022	Variance
Revenue	**142**	30	112	**436**	110	326
Expenses	**80**	5	75	**244**	27	217
Profit for the period	**62**	25	37	**192**	83	109

Revenue
Revenue for the three months ended December 31, 2023 was $142 million, an increase of $112 million compared to the same period in 2022. Revenue for the year ended December 31, 2023 was $436 million, an increase of $326 million compared to the same period in 2022. The increase for the quarter and year relates to commencement of revenue earned from Hydro Regulated under the TFA upon LIL commissioning in Q2.

Expenses
Expenses for the three months ended December 31, 2023 were $80 million, an increase of $75 million compared to the same period in 2022. Expenses for the year ended December 31, 2023 were $244 million, an increase of $217 million compared to the same period in 2022. The increase for the quarter and year relates to commencement of depreciation and the expensing of interest and operating costs upon commissioning of the LIL in Q2.

CHURCHILL FALLS

Churchill Falls is the majority owner (65.8%) and operator of the Churchill Falls Generating Station, with a rated capacity of 5,428 MW. Various power sales contracts are in place with Hydro-Québec for the majority of the energy and capacity from this facility. In addition, two power purchase agreements provide for the sale of electricity to NL Hydro for use domestically and for resale in export markets.

The profit of Churchill Falls is largely driven by the volume of energy and capacity delivered to Hydro-Québec and NL Hydro. Seasonal weather patterns and equipment outages can affect results of operations.

Financial Highlights

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2023**	2022	Variance	**2023**	2022	Variance
Revenue	**32**	27	5	**103**	119	(16)
Expenses	**19**	15	4	**66**	62	4
Profit for the period	**13**	12	1	**37**	57	(20)

Revenue
Revenue for the three months ended December 31, 2023 was comparable to the same period in 2022. Revenue for the year ended December 31, 2023 was $103 million, a decrease of $16 million compared to the same period in 2022. The decrease for the year is due to no Excess Energy sales in 2023 due to low hydrology levels.

Expenses
Expenses for the three months ended December 31, 2023 were $19 million, an increase of $4 million compared to the same period in 2022. Expenses for the year ended December 31, 2023 were $66 million, an increase of $4 million for the year. The increase for the quarter and the year is primarily due to higher operating costs related to maintenance and materials and reclassification of grocery store sales.

ENERGY TRADING

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

The revenue in this segment is generated from export energy sales. Energy sales are primarily derived from the sale of available Recapture, the block of 300 MW of capacity and related firm energy, and Muskrat Falls Residual block energy. Recapture energy not used by NL Hydro is exported by Energy Trading in accordance with the power purchase agreement between Energy Marketing and NL Hydro, which was established in 2015. As well, Energy Trading and Muskrat Falls operate under a service agreement where Energy Trading purchases excess Muskrat Falls Residual Block energy for re-sale to external markets.

Energy Trading's profit is driven by the availability of export volumes for sale to external parties along with export market prices. Nearly all revenue generated by Energy Trading is denominated in USD and therefore Energy Trading's profitability is impacted by exchange rate fluctuations.

Financial Highlights

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2023**	2022	Variance	**2023**	2022	Variance
Revenue	**26**	31	(5)	**100**	128	(28)
Expenses	**23**	18	5	**83**	56	27
Profit for the period	**3**	13	(10)	**17**	72	(55)

Revenue

Revenue for the three months ended December 31, 2023 was $26 million, a decrease of $5 million compared to the same period in 2022. Revenue for the year ended December 31, 2023 was $100 million, a decrease of $28 million compared to the same period in 2022. The decrease for the quarter and year relates to lower export electricity prices, partially offset by higher export volumes.

Expenses

Expenses for the three months ended December 31, 2023 were $23 million, an increase of $5 million compared to the same period in 2022. Expenses for the year ended December 31, 2023 were $83 million, an increase of $27 million compared to the same period in 2022. The increase for the quarter and year is primarily due to higher transmission costs in order to gain access to more lucrative markets and higher NLSO transmission costs.

OTHER ELECTRIC

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

Financial Highlights

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2023**	2022	Variance	**2023**	2022	Variance
Revenue	**60**	44	16	**181**	142	39
Expenses	**28**	31	(3)	**258**	120	138
Profit (loss) for the period	**32**	13	19	**(77)**	22	(99)

Revenue

Revenue for the three months ended December 31, 2023 was $60 million, an increase of $16 million compared to the same period in 2022. Revenue for the year ended December 31, 2023 was $181 million, an increase of $39 million compared to the same period in 2022. The increase for the quarter and year relates to a higher volume of NS Block energy delivered to Emera.

Expenses

Expenses for the three months ended December 31, 2023 was comparable to the same period in 2022. Expenses for the year ended December 31, 2023 were $258 million, an increase of $138 million compared to the same period in 2022. The increase for the year is due to the expense associated with the $145 million convertible debenture rate mitigation funding provided to Hydro Regulated, partially offset by lower transmission fees.

OIL AND GAS

Oil and Gas includes the Company's share of development, production, transportation and processing of its oil and gas investments. Oil and Gas is a joint venture working interest partner in three developments in the Newfoundland and Labrador offshore. It owns a 4.9% working interest in the Hebron oil field, a 5.0% working interest in White Rose and an 8.7% working interest in HSE. On March 1, 2021, First Redetermination under the HSE Operating Agreement became effective and Oil and Gas' ownership interest in HSE decreased from 10% to 8.7%. The 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.

Profit of Oil and Gas is primarily driven by global market oil prices and the volume of entitled production. Nearly all revenue generated by Oil and Gas is denominated in USD and therefore profitability is impacted by exchange rate fluctuations. Short-term volatility in cash flow associated with global market oil price and exchange rate fluctuations have been partially mitigated through hedging for the current and prior periods, however, the Company has not entered into new hedge contracts associated with Oil and Gas since 2022.

Due to the nature of the industry, Oil and Gas may incur impairment expenses and reversal of such expenses as a result of changes in discounted projected future cash flows when compared to the carrying values of related assets. Any expense or reversal of such expense is not uncommon and can lead to large fluctuations in profit or loss between financial reporting periods.

Financial Highlights

	Three months ended			**Twelve months ended**		
For the periods ended December 31 (millions of Canadian dollars)	**2023**	2022	Variance	**2023**	2022	Variance
Revenue	**59**	75	(16)	**251**	359	(108)
(Recoveries) Expenses	**(44)**	134	(178)	**21**	166	(145)
Profit (loss) for the period	**103**	(59)	162	**230**	193	37

Non-GAAP Operating Profit Disclosure

Reconciliation of Oil and Gas profit to operating profit for the three months and year ended December 31, 2023 and 2022 is as follows:

	Three months ended			**Twelve months ended**		
For the periods ended December 31 (millions of Canadian dollars)	**2023**	2022	Variance	**2023**	2022	Variance
Profit (loss) for the period	**103**	(59)	162	**230**	193	37
(Reversal of impairment) Impairment expense	**(60)**	100	(160)	**(60)**	(18)	(42)
Operating profit for the period	**43**	41	2	**170**	175	(5)

Revenue

Revenue for the three months ended December 31, 2023 was $59 million, a decrease of $16 million compared to the same period in 2022. Revenue for the year ended December 31, 2023 was $251 million, a decrease of $108 million compared to the same period in 2022. The decrease for the quarter and year was due to lower oil sales volumes, partially offset by decrease in royalties. The decrease for the year was also due to lower average Dated Brent price per barrel.

(Recoveries) Expenses

Recoveries for the three months ended December 31, 2023 were $44 million, compared to expense of $134 million for the same period in 2022, an increase of $178 million. Expenses for the year ended December 31, 2023 were $21 million, a decrease of $145 million compared to the same period in 2022. The decrease in expenses for the quarter and year was primarily due to the net impact of the impairment reversal in 2023. The decrease for the year was also due to favorable commodity hedge settlements and favorable fair value fluctuations on HSE redetermination.

Reserves

Oil and Gas contracts independent reserve evaluators to prepare reports on remaining oil reserves related to its working interest in offshore developments. Gross reserves represent Oil and Gas' working interest in remaining reserves, while net reserves represent remaining reserves less royalties. Remaining reserve data for both proved and probable reserves to be recovered as at December 31, 2023 with 2022 comparatives are summarized in the table below:

As at December 31 (thousands of bbls)	2023 Light and Medium Oil Gross	Net	2022 Light and Medium Oil Gross	Net
Developed[1]	**12,542**	**9,190**	14,313	11,456
Undeveloped[2]	**10,771**	**7,740**	3,840	3,245
Total Proved[3]	**23,313**	**16,930**	18,153	14,701
Probable[4]	**21,486**	**15,417**	19,706	14,707
Total Proved Plus Probable	**44,799**	**32,347**	37,859	29,408

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

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

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

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

CORPORATE

Corporate includes costs associated with shared services functions, and community and business development that are not allocated to the Company's other operating segments. Financial results of Corporate are primarily driven by operating costs associated with these functions, interest and depreciation and amortization of Corporate assets.

Financial Highlights

For the periods ended December 31 (millions of Canadian dollars)	Three months ended 2023	2022	Variance	Twelve months ended 2023	2022	Variance
Expenses	**-**	6	(6)	**4**	14	(10)
Loss for the period	**-**	(6)	6	**(4)**	(14)	10

Expenses

There were net nil expenses for the three months ended December 31, 2023, compared to net expenses of $6 million in the same period in 2022. The decrease for the quarter was due to higher interest earned on corporate cash balances and a decrease in operating expenses due to reduction in professional services. Expenses for the year ended December 31, 2023 were $4 million, a decrease of $10 million compared to the same period in 2022. The decrease for the year was due to higher interest earned on cash balances, partially offset by an increase in operating expenses related to professional services, salaries and benefits and a bad debt provision.

LIQUIDITY AND CAPITAL RESOURCES

CASH FLOW HIGHLIGHTS

For the period ended December 31 (millions of Canadian dollars)	Twelve months ended 2023	2022	Variance
Cash and cash equivalents, beginning of the year	**566**	407	159
Net cash provided from operating activities	**496**	348	148
Net cash used in investing activities	**(303)**	(737)	434
Net cash (used in) provided from financing activities	**(65)**	548	(613)
Cash and cash equivalents, end of the year	**694**	566	128

Operating Activities

Net cash provided from operating activities during the year ended December 31, 2023 was $496 million, an increase of $148 million compared to the same period in 2022. The increase in cash was primarily due to receipt of rate mitigation funding from the Province, favourable changes in non-cash working capital balances and cash interest received; partially offset by lower export energy and oil and gas sales.

Investing Activities

Net cash used in investing activities during the year ended December 31, 2023 was $303 million, a decrease of $434 million compared to the same period in 2022. The decrease was driven by reduction in investment of debt proceeds associated with the third federal loan guarantee, received in 2022, partially offset by higher capital additions.

Financing Activities

Net cash used in financing activities during the year ended December 31, 2023 was $65 million compared to cash provided from financing activities of $548 million for the same period in 2022, a decrease of $613 million. The decrease was primarily due to lower proceeds from long-term debt issuances as well as dividends paid to the Province in 2023, partially offset by increase in restricted cash associated with the third federal loan guarantee drawdown in 2022. For 2023, the long-term debt and restricted cash transactions relate to the convertible debenture funding from LIL (2021) LP as well as the payment of the Class B limited partnership distributions.

CAPITAL RESOURCES

Hydro's capital resources consist primarily of cash, restricted cash, investments, proceeds from debt and equity from the Province. These capital resources are used to fund the Company's consolidated capital resource requirements, which include working capital needs, capital expenditures, and the servicing and repayment of debt.

Cash from operations is a primary source of funding and depends on a number of factors including electricity demand, regulatory process and commodity price and volume. The Company monitors cash from operations, and where necessary, additional sources of liquidity are put in place. Hydro also has access to long-term debt financing and equity from the Province. Borrowings are restricted by legislation that currently limits Hydro Regulated's short-term borrowings to $700 million and total borrowings to $2.6 billion. 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 Regulated to $700 million, effective until January 1, 2026 at which time the level will be $500 million. Nalcor's borrowings are also restricted by legislation that limits its short-term borrowings to $300 million and total borrowings of Nalcor and its subsidiaries, excluding Hydro and the Muskrat Falls Project, to $600 million.

On April 14, 2023, commissioning of the LIL was approved by all required stakeholders and total project costs are now known. The commissioning of the LIL provided Hydro with access to $1 billion of rate mitigation funding provided by the third federal loan guarantee and the ability to commence drawing on the $1 billion Government of Canada investment in the LIL, which is in the form of a convertible debenture.

Outstanding commitments for capital projects, excluding those related to Oil and Gas, total approximately $91.6 million as at December 31, 2023 (2022 - $94.9 million). The Company has the available capital resources to sufficiently fund these requirements.

As at December 31, 2023, the Company's short-term credit facilities are as follows:

(millions of Canadian dollars)	Limit	Drawn	Letters of Credit	Available Limit
Revolving Term Facilities:				
Nalcor Energy	**240**	**-**	**6**	**234**
Hydro Regulated	**500**	**-**	**-**	**500**
Demand Operating Facilities:				
Churchill Falls	**10**	**-**	**1**	**9**
Energy Trading	**20**	**-**	**11**	**9**
Oil and Gas	**40**	**-**	**34**	**6**
Promissory Notes:				
Hydro Regulated	**300**	**230**	**-**	**70**
Total credit facilities	**1,110**	**230**	**52**	**828**

CAPITAL STRUCTURE

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

As at December 31 (millions of Canadian dollars)	2023	2022
Short-term borrowings	**230**	131
Long-term debt (net of sinking funds)[1]	**10,652**	10,588
Class B limited partnership units[1]	**757**	739
Lease liabilities[1]	**5**	5
Total debt	**11,644**	11,463
Total shareholder's equity	**7,458**	7,150
Debt to capital	**61%**	62%

[1]Includes current portion.

CAPITAL EXPENDITURES

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2023**	2022	Variance	**2023**	2022	Variance
Hydro Regulated	**52**	37	15	**150**	104	46
Muskrat Falls	**1**	(2)	3	**5**	28	(23)
LC Transmission	**10**	50	(40)	**83**	214	(131)
Churchill Falls	**12**	31	(19)	**49**	69	(20)
Other Electric	**5**	2	3	**14**	10	4
Oil and Gas	**11**	8	3	**58**	31	27
Corporate	**1**	1	-	**4**	3	1
Inter-segment	**-**	(3)	3	**(1)**	(3)	2
Total capital expenditures	**92**	124	(32)	**362**	456	(94)

Capital expenditures for the three months ended December 31, 2023 were $92 million, a decrease of $32 million compared to the same period in 2022. Capital expenditures for the year ended December 31, 2023 were $362 million, a decrease of $94 million compared to the same period in 2022. The decrease for the quarter and year was primarily due to substantial completion of construction of the LCP assets and reduction in Churchill Falls capital related to the 2022 Microwave additions, partially offset by increase in Hydro Regulated capital expenditures.

KEY BUSINESS RISKS

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

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

Strategic Risks

Sustainability of Electricity Rates
Existing contracts and legislation require Hydro's customers to pay the full cost of the LCP. Without rate mitigation, the full cost of residential rates could increase to an unsustainable level. Rate mitigation with the assistance of the Government of Canada and Government of Newfoundland & Labrador aims to ensure that rates will not reach this level in the immediate or near-term.

Until final decisions are made with respect to the Provincial Rate Mitigation Plan, uncertainty will remain regarding the costs that will be required to be recovered and the timing of regulatory processes to do so.

The requirement for additional investments in generation, the further extension of Holyrood as a generating facility (as indicated in Hydro's RRA Study) and the changing energy landscape to deal with de-carbonization will continue to put pressure on electricity rates.

As further decisions are made regarding the Provincial Rate Mitigation Plan, Management will continue to assess the impact on Hydro's financial results. The structure and timing of final decisions on rate mitigation may cause volatility and/or have an adverse effect on the results of operations and financial position or cash flows of the Company.

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

A 'Climate Change Mitigation and Adaptation' group has been established which monitors the research available and the potential impact to our assets. Hydro continues to monitor environmental research available on vulnerabilities such as the increased occurrence of dry and hot weather resulting in forest fires, changing sea levels which impact hydrology and changes in ice loading impacting transmission lines.

Severe weather events associated with climate change may result in material impact on Hydro's assets and infrastructure, thus impacting the results of operations and financial position or cash flows of the Company.

Ability to Supply Future Load Growth
As a result of climate and energy policy (Net Zero 2050), Hydro is experiencing unprecedented demand for its clean, renewable electricity. This is evident through increasing demand for electric vehicles, electrification in homes and in local businesses. There is also growth from existing industrial customers and new customers in the wind/hydrogen industry.

Internally, Hydro's 2023-2025 Corporate Strategic Plan helps guide and prioritize decision-making in the organization. Externally, Hydro continues to work closely with the provincial government on the RRA, rate mitigation and the Renewable Energy Plan, including the development of wind and hydrogen resources.

Through the RRA, Hydro continues to advance the necessary studies and analysis of all viable supply options that can be used to serve this increased customer demand through the PUB.

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

Regulatory Risk

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

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

Contractual payment obligations associated with the LCP assets have commenced for Hydro Regulated since the LCP assets were commissioned in Q2. While regulatory deferral accounts have been approved related to these costs, regulatory processes and outcomes may be impacted by the implementation of further rate mitigation initiatives.

Hydro Regulated's RRA Study addresses its long-term approach to providing least-cost, reliable service for its customers and focuses on Hydro's proposed planning criteria, reflecting the inclusion of the LC transmission assets, and ability to meet customer and system requirements reliably. The planning period is updated for every RRA filing with the next filing anticipated in Spring 2024 which will cover the period from 2024 to 2033.

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

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

Financial Risks

Commodity Price and Foreign Exchange

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

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

Hydro Regulated's exposure to commodity price and foreign exchange fluctuations in the purchase of No. 6 fuel is mitigated by regulatory mechanisms that transfer the impact of commodity price risk and foreign exchange to customers. While regulatory mechanisms mitigate the impact of commodity price and foreign exchange volatility on profit, risk remains on the timing of cash flows, which is managed by ensuring sufficient short-term liquidity is available to address capital requirements.

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

Liquidity

Liquidity risk is the risk that Hydro will not be able to meet its financial obligations as they become due. The Company is exposed to liquidity risk with respect to its short-term contractual obligations and financial liabilities. Short-term liquidity is provided by cash and cash equivalents, funds from operations and maintenance of borrowing facilities sufficient to cover both anticipated and unexpected fluctuations within operations. Cash flows are monitored continuously and the Company maintains committed revolving term credit facilities, demand operating credit facilities and a government guaranteed promissory note program to ensure additional liquidity is available. Short-term and total borrowings are restricted by legislated caps.

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

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

Operational Risks

Safety & Health

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

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

Human Resource Management

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

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

Cyber Security Risk

The Company develops, maintains and manages complex Information Technology (IT) systems that support critical business processes and Operational Technology (OT) systems that operate the transmission grid and generation facilities. Key systems are subject to cyber security threats, which could lead to loss of data or system availability resulting in: financial loss, impacted service levels, reputational damage, physical or psychological distress or trauma, legal action, delays in issuing accurate internal or external reporting, including information required to maintain contractual and regulatory compliance or delays in issuing vendor payments, processing payroll, or providing customer billings.

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

The Company has been and continues to do its due diligence to advance our cyber security programs and continues to invest in the following areas: network segmentation between Admin and OT environments; network access controls; intrusion detection; incident response; penetration testing; software patching; backups; and, training and awareness.

Supply Chain

Supply chain globally has been impacted by lack of raw materials, work force capacity, logistical issues, rising costs and longer shipping and delivery times. Hydro is communicating with suppliers and sharing information with the business as global supply chains continue to be subject to volatility.

Hydro has taken a number of mitigating measures and is adjusting to the new realities of global supply chain challenges. Hydro is proactively engaging suppliers on delays and working to enable effective and timely execution of projects.

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

Asset Condition & Maintenance

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

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

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

MATERIAL ACCOUNTING POLICIES AND SIGNIFICANT JUDGMENTS AND ESTIMATES

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

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

Amendments to existing IFRS that have been issued, however, are not yet effective for the year ended December 31, 2023, and have not been applied in preparing the consolidated financial statements include Amendments to IAS 1 *Presentation of Financial Statements* – Classification of Liabilities as Current or Non-Current and Non-Current Liabilities with Covenants.

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

SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

Preparing the financial statements in accordance with IFRS requires management to make significant accounting judgments and estimates that impact reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amount of revenues and expenses during the reporting periods. Significant accounting judgments and estimates are based on historical experience, current conditions and various other assumptions believed to be reasonable under the circumstances. Due to changes in facts and circumstances, and the inherent uncertainty involved in making estimates, actual results may differ materially from current estimates. The estimates used are reviewed on an on-going basis by Management and, as adjustments become necessary, are recognized in profit or loss in the period in which they become known. A summary of the Company's critical accounting judgments and estimates are described in Note 3 of the financial statements.

RELATED PARTY TRANSACTIONS

The Company enters into various transactions with its shareholder and other related parties. Refer to Note 31 in the financial statements for further information regarding transactions with related parties. Unless otherwise noted, these transactions occur within the normal course of operations and are measured at the exchange amount, which is the amount of consideration agreed to by the related parties. Outstanding balances due to or from related parties are non-interest bearing with settlement normally within 30 days.

OUTLOOK

As the global energy sector continues to transition from fossil fuels to renewable energy sources, the energy landscape in Newfoundland and Labrador is shifting. Hydro is committed to serving our province and supporting sustainable growth that will benefit the people of the province now and into the future. Hydro's provincial electrical grid is greener and more interconnected than ever before. Hydro has successfully completed its first year of its new three-year strategic plan. In 2024, Hydro will maintain good Crown utility practice - providing safe, cost-conscious, environmentally responsible and reliable electricity while pro-actively planning to meet the future energy needs of our Province. Hydro will continue to support Provincial electrification efforts such as switching from oil to electric usage in our homes and businesses, supporting efforts to increase use of electric vehicles, and initiatives to capture the wind-hydrogen opportunities available in our Province. Hydro will work closely with the PUB and the Government of Newfoundland and Labrador to ensure we are well positioned to harness sustainable energy opportunities to benefit the people of Newfoundland and Labrador and meet the needs of our Province responsibly.

Societal shifts towards net-zero energy sources are expected to continue to have major impacts on electricity grids. All Canadian utilities, including Hydro, are working to navigate the uncertainty and plan system additions to respond to government policy requirements and expectations on climate change. Hydro is already seeing the impacts of electrification on its planning, and is expecting to see increased demand on the system as a result of electric vehicle adoption and the conversion of oil-to-electric heat in homes. Hydro has recommended an incremental approach to required generation expansion and will continue to progress the necessary regulatory processes this year. Hydro Regulated's RRA will continue throughout 2024.

With the completion of the LIL and full commissioning of the LCP in April 2023, Hydro has increased the capacity at which the LIL is able to operate and deliver additional energy to the Island, Nova Scotia and other export markets. Moving forward, Hydro will continue to take opportunities to optimize the Company's available generation and transmission assets and transmission rights, such as its decision to use Muskrat Falls energy to service Labrador, thereby increasing the amount of Recapture energy available for export.

With the term sheets, underlying agreements, Federal Loan Guarantee issuance, capital restructuring for LCP refinancing and commissioning of the LIL complete, Hydro is working closely with the Province on the remaining decisions and analysis required to finalize the implementation of the Province's Rate Mitigation Plan, which will inform Hydro's next GRA filing, anticipated in 2025. Hydro Regulated will continue to provide quarterly updates to the PUB and will confirm a more definitive timeline for filing its next GRA when further information becomes available on rate mitigation plans.

Hydro continues to support the Province in its Phase III of the review of the Province's current offshore oil and gas interests, which are held by Oil and Gas. Although the Province is presenting its portfolio of oil and gas assets to potential buyers, it is not bound to any subsequent actions. The process will enable an informed decision on whether to proceed to detailed negotiations to sell those assets. No decisions with regards to these assets have been made at this time. Future decisions regarding Oil and Gas could materially impact Hydro's future profit and cash generated from operations.

Hydro is continuing to work with and support the Province to ensure Newfoundland and Labrador is best positioned to maximize long-term benefits from the Churchill Falls assets for the people of the province.

MANAGEMENT REPORT

The accompanying Consolidated Financial Statements, and all information in the Management's Discussion & Analysis, are the responsibility of Management and have been approved by the Board of Directors.

The Consolidated Financial Statements have been prepared by Management in accordance with International Financial Reporting Standards. The preparation of financial statements necessarily involves the use of estimates based on Management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to March 13, 2024. Financial information presented elsewhere in the Management's Discussion & Analysis is consistent with that in the Consolidated Financial Statements.

Management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for the appropriate delegation of authority and segregation of responsibilities. An internal audit department independently evaluates the effectiveness of these internal controls on an ongoing basis, and reports its findings to Management and to the Audit Committee of the Board of Directors.

The responsibility of the external auditor, Deloitte LLP, is to express an independent, professional opinion on whether the Consolidated Financial Statements are fairly presented in accordance with International Financial Reporting Standards. The Auditor's Report outlines the scope of their examination and their opinion.

The Board of Directors, through its Audit Committee, is responsible for ensuring that Management fulfills its responsibility for financial reporting and internal controls. The Audit Committee meets regularly with Management, the internal auditors and the external auditors to ensure that each group has properly discharged its respective responsibility and to review the Consolidated Financial Statements before recommending approval by the Board of Directors. The internal and external auditors have full and free access to the Audit Committee, with and without the presence of Management.

Jennifer Williams
President and Chief Executive Officer

Lisa Hutchens
VP, Chief Financial Officer

APPENDIX 2

CONSOLIDATED FINANCIAL STATEMENTS – DECEMBER 31, 2023

NALCOR ENERGY
CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023

Deloitte.

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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

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

NALCOR ENERGY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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.

<u>Establishing Fair Value</u>

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.

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