

**NEWFOUNDLAND AND LABRADOR HYDRO**  
**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**June 30, 2022**  
**(Unaudited)**

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

<i>As at (millions of Canadian dollars)</i>	Notes	June 30 2022	December 31 2021
<b>ASSETS</b>			
Current assets			
Cash		88	107
Trade and other receivables	3	76	137
Inventories	4	145	97
Current portion of other long-term assets		6	6
Prepayments		10	9
Deferred asset	5	28	56
Related party loan receivable	17	-	53
<b>Total current assets</b>		<b>353</b>	<b>465</b>
Non-current assets			
Property, plant and equipment	6	2,801	2,806
Intangible assets		6	7
Other long-term assets		235	232
<b>Total assets</b>		<b>3,395</b>	<b>3,510</b>
Regulatory deferrals	7	343	184
<b>Total assets and regulatory deferrals</b>		<b>3,738</b>	<b>3,694</b>
<b>LIABILITIES AND EQUITY</b>			
Current liabilities			
Short-term borrowings	8	-	55
Trade and other payables		129	135
Contract payable	17	91	18
Current portion of long-term debt	8	7	7
Derivative liability	16	57	56
Other current liabilities		7	6
<b>Total current liabilities</b>		<b>291</b>	<b>277</b>
Non-current liabilities			
Long-term debt	8	2,038	2,041
Deferred contributions		32	30
Decommissioning liabilities		13	13
Employee future benefits		123	120
Other long-term liabilities		4	4
<b>Total liabilities</b>		<b>2,501</b>	<b>2,485</b>
Shareholder's equity			
Share capital		23	23
Contributed capital		150	150
Reserves		(8)	(6)
Retained earnings		1,041	1,015
<b>Total equity</b>		<b>1,206</b>	<b>1,182</b>
<b>Total liabilities and equity</b>		<b>3,707</b>	<b>3,667</b>
Regulatory deferrals	7	31	27
<b>Total liabilities, equity and regulatory deferrals</b>		<b>3,738</b>	<b>3,694</b>

Commitments and contingencies (Note 18)

See accompanying notes

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

<i>For the period ended June 30 (millions of Canadian dollars)</i>	Notes	Three months ended		Six months ended	
		2022	2021	2022	2021
Energy sales		<b>165</b>	128	<b>443</b>	338
Other revenue	11	<b>11</b>	28	<b>21</b>	36
Revenue		<b>176</b>	156	<b>464</b>	374
Fuels		<b>30</b>	24	<b>115</b>	79
Power purchased	12	<b>117</b>	20	<b>243</b>	42
Operating costs	13	<b>44</b>	42	<b>86</b>	83
Transmission rental		<b>4</b>	5	<b>9</b>	10
Depreciation and amortization		<b>26</b>	25	<b>53</b>	50
Net finance expense	14	<b>22</b>	23	<b>45</b>	45
Other expense	15	<b>15</b>	6	<b>33</b>	12
Expenses		<b>258</b>	145	<b>584</b>	321
(Loss) profit for the period before regulatory adjustments		<b>(82)</b>	11	<b>(120)</b>	53
Regulatory adjustments	7	<b>(96)</b>	(30)	<b>(156)</b>	(28)
Profit for the period		<b>14</b>	41	<b>36</b>	81
Other comprehensive loss					
Net fair value loss on reserve fund		<b>(1)</b>	-	<b>(2)</b>	-
Other comprehensive loss for the period		<b>(1)</b>	-	<b>(2)</b>	-
Total comprehensive income for the period		<b>13</b>	41	<b>34</b>	81

*See accompanying notes*

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

<i>(millions of Canadian dollars)</i>	Note	Share Capital	Contributed Capital	Reserves	Retained Earnings	Total
<b>Balance at January 1, 2022</b>		<b>23</b>	<b>150</b>	<b>(6)</b>	<b>1,015</b>	<b>1,182</b>
<b>Profit for the period</b>		-	-	-	<b>36</b>	<b>36</b>
<b>Other comprehensive loss for the period</b>		-	-	<b>(2)</b>	-	<b>(2)</b>
<b>Total comprehensive (loss) income for the period</b>		-	-	<b>(2)</b>	<b>36</b>	<b>34</b>
<b>Dividends</b>	<b>10</b>	-	-	-	<b>(10)</b>	<b>(10)</b>
<b>Balance at June 30, 2022</b>		<b>23</b>	<b>150</b>	<b>(8)</b>	<b>1,041</b>	<b>1,206</b>
Balance at January 1, 2021		23	151	(22)	939	1,091
Profit for the period		-	-	-	81	81
Total comprehensive income for the period		-	-	-	81	81
Dividends	10	-	-	-	(7)	(7)
Balance at June 30, 2021		23	151	(22)	1,013	1,165

See accompanying note

**NEWFOUNDLAND AND LABRADOR HYDRO**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**(Unaudited)**

<i>For the period ended June 30 (millions of Canadian dollars)</i>	Notes	<b>Three months ended</b>		<b>Six months ended</b>	
		<b>2022</b>	2021	<b>2022</b>	2021
<b>Operating activities</b>					
Profit for the period		<b>14</b>	41	<b>36</b>	81
Adjustments to reconcile profit to cash provided from operating activities:					
Depreciation and amortization		<b>26</b>	25	<b>53</b>	50
Employee future benefits		<b>2</b>	1	<b>3</b>	3
Regulatory adjustments	7	<b>(96)</b>	(30)	<b>(156)</b>	(28)
Amortization of rate stabilization plan fuel credit		-	13	-	32
Net changes in PPA fair value	15	<b>11</b>	5	<b>29</b>	8
Finance income	14	<b>(6)</b>	(3)	<b>(9)</b>	(6)
Finance expense	14	<b>28</b>	26	<b>54</b>	51
Other		-	-	<b>3</b>	-
		<b>(21)</b>	78	<b>13</b>	191
Changes in non-cash working capital balances	19	<b>56</b>	3	<b>91</b>	(8)
Interest received		<b>1</b>	-	<b>2</b>	1
Interest paid		<b>(23)</b>	(23)	<b>(58)</b>	(58)
<b>Net cash provided from operating activities</b>		<b>13</b>	58	<b>48</b>	126
<b>Investing activities</b>					
Additions to property, plant and equipment	6	<b>(32)</b>	(45)	<b>(48)</b>	(60)
Decrease in related party loan receivable	17	<b>2</b>	-	<b>53</b>	-
Contributions to sinking funds		-	-	<b>(2)</b>	(2)
Changes in non-cash working capital balances	19	<b>3</b>	16	<b>(7)</b>	2
<b>Net cash used in investing activities</b>		<b>(27)</b>	(29)	<b>(4)</b>	(60)
<b>Financing activities</b>					
Proceeds from long-term debt		-	286	-	286
Dividends paid		<b>(5)</b>	(2)	<b>(6)</b>	(5)
Decrease in short term borrowings		-	(203)	<b>(55)</b>	(262)
Rate stabilization plan fuel credit		-	-	-	(3)
Changes in non-cash working capital balances	19	-	-	<b>(4)</b>	(2)
Other		<b>2</b>	1	<b>2</b>	1
<b>Net cash (used in) provided from financing activities</b>		<b>(3)</b>	82	<b>(63)</b>	15
<b>Net (decrease) increase in cash</b>		<b>(17)</b>	111	<b>(19)</b>	81
Cash, beginning of the period		<b>105</b>	62	<b>107</b>	92
Cash, end of the period		<b>88</b>	173	<b>88</b>	173

See accompanying notes

# NEWFOUNDLAND AND LABRADOR HYDRO

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

---

### 1. DESCRIPTION OF BUSINESS

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

Hydro holds interests in the following entities:

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

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

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### 2.1 Statement of Compliance and Basis of Measurement

These condensed consolidated interim financial statements (financial statements) have been prepared in accordance with *International Accounting Standard 34 - Interim Financial Reporting* and have been prepared using accounting policies consistent with those used in the preparation of the annual audited consolidated financial statements for the year ended December 31, 2021.

These financial statements do not include all of the disclosures normally found in Hydro's annual audited consolidated financial statements and should be read in conjunction with the annual audited consolidated financial statements. Interim results will fluctuate due to the seasonal nature of electricity demand and water flows, as well as timing and recognition of regulatory items. Due to higher electricity demand during the winter months, revenue from electricity sales is higher during the first and fourth quarters.

These financial statements have been prepared on a historical cost basis, except for financial instruments at fair value through profit or loss which have been measured at fair value. These financial statements are presented in Canadian dollars (CAD) and all values are rounded to the nearest million, except when otherwise noted. These financial statements were approved by Hydro's Board of Directors (the Board) on August 15, 2022.

#### 2.2 Basis of Consolidation

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

**NEWFOUNDLAND AND LABRADOR HYDRO****NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)****3. TRADE AND OTHER RECEIVABLES**

	<b>June 30</b>	December 31
<i>As at (millions of Canadian dollars)</i>	<b>2022</b>	2021
Trade receivables	<b>72</b>	121
Due from related parties	<b>11</b>	17
Other receivables	<b>10</b>	16
Loss allowance	<b>(17)</b>	(17)
	<b>76</b>	137

	<b>June 30</b>	December 31
<i>As at (millions of Canadian dollars)</i>	<b>2022</b>	2021
0-60 days	<b>73</b>	134
60+ days	<b>3</b>	3
	<b>76</b>	137

	<b>June 30</b>	December 31
<i>As at (millions of Canadian dollars)</i>	<b>2022</b>	2021
Loss allowance, beginning of the period	<b>(17)</b>	(17)
Change in balance during the period	<b>-</b>	-
Loss allowance, end of the period	<b>(17)</b>	(17)

**4. INVENTORIES**

	<b>June 30</b>	December 31
<i>As at (millions of Canadian dollars)</i>	<b>2022</b>	2021
Fuel	<b>94</b>	46
Materials and other	<b>51</b>	51
	<b>145</b>	97

Fuel inventory includes No. 6 fuel in the amount of \$77.4 million (December 31, 2021 - \$34.8 million). The cost of inventories recognized as an expense during the period is \$117.3 million (June 30, 2021 - \$81.0 million) and is included in operating costs and fuels.

**5. DEFERRED ASSET**

The deferred asset related to Hydro's PPA with Nalcor Energy Marketing Corporation (Energy Marketing) is amortized into income on a straight-line basis over the assumed twelve month term of the contract, which commenced on January 1, 2022. The components of the change are as follows:

	<b>June 30</b>	December 31
<i>As at (millions of Canadian dollars)</i>	<b>2022</b>	2021
Deferred asset, beginning of the period	<b>56</b>	23
Additions	<b>-</b>	63
Amortization	<b>(28)</b>	(30)
Deferred asset, end of the period	<b>28</b>	56

## NEWFOUNDLAND AND LABRADOR HYDRO

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

#### 6. PROPERTY, PLANT AND EQUIPMENT

<i>(millions of Canadian dollars)</i>	Generation Plant	Transmission and Distribution	Other	Assets Under Development	Total
<b>Cost</b>					
Balance at January 1, 2021	2,028	1,421	300	60	3,809
Additions	1	-	-	161	162
Disposals	(13)	(2)	(2)	-	(17)
Transfers	93	64	26	(183)	-
Other adjustments	(1)	(2)	-	-	(3)
Balance at December 31, 2021	2,108	1,481	324	38	3,951
<b>Additions</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>48</b>	<b>48</b>
<b>Disposals</b>	<b>-</b>	<b>-</b>	<b>(2)</b>	<b>-</b>	<b>(2)</b>
<b>Transfers</b>	<b>-</b>	<b>2</b>	<b>-</b>	<b>(3)</b>	<b>(1)</b>
<b>Balance at June 30, 2022</b>	<b>2,108</b>	<b>1,483</b>	<b>322</b>	<b>83</b>	<b>3,996</b>
<b>Depreciation</b>					
Balance at January 1, 2021	657	270	125	-	1,052
Depreciation	57	33	13	-	103
Disposals	(7)	(1)	(2)	-	(10)
Balance at December 31, 2021	707	302	136	-	1,145
<b>Depreciation</b>	<b>28</b>	<b>17</b>	<b>7</b>	<b>-</b>	<b>52</b>
<b>Disposals</b>	<b>-</b>	<b>-</b>	<b>(2)</b>	<b>-</b>	<b>(2)</b>
<b>Balance at June 30, 2022</b>	<b>735</b>	<b>319</b>	<b>141</b>	<b>-</b>	<b>1,195</b>
<b>Carrying value</b>					
Balance at January 1, 2021	1,371	1,151	175	60	2,757
Balance at December 31, 2021	1,401	1,179	188	38	2,806
<b>Balance at June 30, 2022</b>	<b>1,373</b>	<b>1,164</b>	<b>181</b>	<b>83</b>	<b>2,801</b>

Capitalized interest for the period ended June 30, 2022 was \$0.3 million (December 31, 2021 - \$1.6 million) related to assets under development.

# NEWFOUNDLAND AND LABRADOR HYDRO

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

### 7. REGULATORY DEFERRALS

		January 1	Reclass & Regulatory	June 30	Remaining	
		2022	Disposition	2022	Recovery	
			Activity		Settlement	
					Period	
					(years)	
<i>(millions of Canadian dollars)</i>						
<b>Regulatory asset deferrals</b>						
Supply cost variance deferral account	(a)	18	-	101	119	n/a
Power purchase expense recognition	(b)	18	-	73	91	n/a
Rate stabilization plan (RSP)	(c)	56	12	(17)	51	n/a
Foreign exchange losses		44	-	(1)	43	19.5
Retirement asset pool		19	-	-	19	n/a
Supply deferrals		12	(12)	3	3	n/a
Deferred energy conservation costs		8	-	-	8	n/a
Business system transformation program		5	-	1	6	n/a
Other		4	-	(1)	3	n/a
		184	-	159	343	
<b>Regulatory liability deferrals</b>						
Removal provision		(17)	-	(3)	(20)	n/a
Insurance amortization and proceeds		(7)	-	-	(7)	n/a
Other		(3)	-	(1)	(4)	n/a
		(27)	-	(4)	(31)	

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

	Three months ended		Six months ended	
	2022	2021	2022	2021
<i>For the period ended June 30 (millions of Canadian dollars)</i>				
RSP amortization	8	(14)	19	(36)
RSP fuel deferral	-	(14)	-	23
RSP interest	(1)	(1)	(2)	(1)
<b>Total RSP activity</b>	<b>7</b>	<b>(29)</b>	<b>17</b>	<b>(14)</b>
Supply deferral recovery	-	1	-	4
Supply deferrals	(2)	(5)	(3)	(22)
<b>Total supply deferrals</b>	<b>(2)</b>	<b>(4)</b>	<b>(3)</b>	<b>(18)</b>
Supply cost variance deferrals	(41)	-	(101)	-
Power purchase expense recognition	(60)	-	(73)	-
Other	-	3	4	4
	(96)	(30)	(156)	(28)

Hydro's regulatory deferrals which will be, or are expected to be, reflected in customer rates in future periods have been established through the rate setting process. In the absence of rate regulation, these amounts would be reflected in operating results in the period and profit for the period ended June 30, 2022 would have decreased by \$155.9 million (June 30, 2021 – \$28.3 million).

#### 7.(a) Supply Cost Variance Deferral Account

In Board Order No's. P.U. 33 (2021) and P.U. 4 (2022), the PUB approved Hydro's proposal to establish an account to defer payments under the Muskrat Falls Project agreements, rate mitigation funding, project cost recovery from customers and supply cost variances. The deferral commenced activity on November 1, 2021. During 2022, Hydro deferred \$101.0 million for future recovery from customers resulting in a balance owing from customers of \$119.3 million (December 31, 2021 - \$18.3 million).

## NEWFOUNDLAND AND LABRADOR HYDRO

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

---

#### 7.(b) Power Purchase Expense Recognition

In Board Order No's. P.U. 9 (2021) and P.U. 33 (2021), the PUB approved Hydro's proposal to deviate from IFRS to allow recognition of expenses related to the purchase of energy in accordance with the commercial terms of the Muskrat Falls Power Purchase Agreement. As at June 30, 2022, IFRS power purchase expenses were \$73.2 million (June 30, 2021 - \$nil) higher than commercial payments which resulted in a regulatory asset of \$90.8 million (December 31, 2021 - \$17.6 million).

#### 7.(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 P.U. 33 (2021) and Hydro's compliance filing, the RSP was discontinued for purposes of deferring variations in hydraulic production, No.6 fuel and load as at October 31, 2021. The Board ordered that the RSP should be maintained to provide timely recovery of the remaining balance which results in the continuation of recovery and interest charges and in 2022, Hydro recovered \$19.0 million (June 30, 2021 - \$36.4 million) from customers. As well, Board Order P.U. 16 (2022) approved the recovery of the 2021 Supply deferrals from the RSP Current Plan resulting in an increase to the RSP of \$12.5 million. This activity in 2022 resulted in a remaining balance for future recovery from customers of \$51.1 million (December 31, 2021 - \$56.5 million).

## 8. DEBT

### 8.1 Short-term Borrowings

Hydro has a \$300.0 million government guaranteed promissory note program to fulfil its short-term funding requirements. As at June 30, 2022, there were no promissory notes outstanding (December 31, 2021 - \$55.0 million relating to two promissory notes bearing an average interest rate of 0.20%).

Hydro maintains a \$500.0 million CAD or USD equivalent committed revolving term facility with a maturity date of July 31, 2023. As at June 30, 2022, there were no amounts drawn on the facility (December 31, 2021 - \$nil). Borrowings in CAD may take the form of Prime Rate Advances, Bankers' Acceptances (BAs), and letters of credit, with interest calculated at the Prime Rate or BA fee. Borrowings in USD may take the form of Base Rate Advances, Secured Overnight Financing Rate (SOFR) Advances and letters of credit. The facility also provides coverage for overdrafts on Hydro's bank accounts, with interest calculated at the Prime Rate.

Order in Council OC2020-018 increased the level of short-term borrowings permitted by Hydro from \$300.0 million to \$500.0 million, effective until March 31, 2022. On April 7, 2022, the Lieutenant-Governor in Council issued Order in Council OC2022-090 extending the effective date of the increase until March 31, 2023.

## NEWFOUNDLAND AND LABRADOR HYDRO

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

#### 8.2 Long-term Debt

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

<i>As at (millions of Canadian dollars)</i>	Face Value	Coupon Rate %	Year of Issue	Year of Maturity	June 30 2022	December 31 2021
Hydro						
Y*	300	8.40	1996	2026	298	297
AB*	300	6.65	2001	2031	304	304
AD*	125	5.70	2003	2033	124	124
AF	500	3.60	2014/2017	2045	482	482
1A	600	3.70	2017/2018	2048	638	638
2A	300	1.75	2021	2030	287	287
Total	2,125				2,133	2,132
Less: Sinking fund investments in own debentures					88	84
					2,045	2,048
Less: Sinking fund payments due within one year					7	7
Total					2,038	2,041

\*Sinking funds have been established for these issues.

#### 9. LEASES

##### Amounts Recognized in the Consolidated Statement of Profit and Comprehensive Income

<i>For the period ended June 30 (millions of Canadian dollars)</i>		Six months ended	
		2022	2021
Variable lease payments not included in the measurement of leases	(a)	15	15

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

The total cash outflow for leases for the period ended June 30, 2022 amount to \$15.4 million (June 30, 2021 - \$15.3 million).

#### 10. SHAREHOLDER'S EQUITY

##### Dividends

<i>For the period ended June 30 (millions of Canadian dollars)</i>	Three months ended		Six months ended	
	2022	2021	2022	2021
Declared during the period				
Final dividend for prior period: \$0.04 per share (2021 - \$0.03)	1	-	1	1
Interim dividend for current period: \$0.38 per share (2021 - \$0.27)	4	2	9	6
	5	2	10	7

#### 11. OTHER REVENUE

In August 2021, Churchill Falls and Hydro-Québec reached a Settlement Agreement regarding the Declaratory Judgment case surrounding the interpretation of the Renewed Power Contract, which came into effect September 1, 2016, and alignment on a final Annual Energy Base, which establishes Hydro-Québec's annual energy entitlement for the term of the contract.

## NEWFOUNDLAND AND LABRADOR HYDRO

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

#### 12. POWER PURCHASED

The supply period under the Power Purchase Agreement with Muskrat Falls and the contractual payments commenced in November 2021. For the period ended June 30, 2022, Hydro recognized power purchase expense of \$200.4 million (June 30, 2021 - \$nil) associated energy and capacity delivered from the Muskrat Falls Plant. These Muskrat Falls power purchase expenses are deferred in either the Supply Cost Variance Deferral Account or the Power Purchase Expense Recognition Deferral Account as described in Note 7.

#### 13. OPERATING COSTS

<i>For the period ended June 30 (millions of Canadian dollars)</i>	Three months ended		Six months ended	
	2022	2021	2022	2021
Salaries and benefits	29	28	58	56
Maintenance and materials	8	7	13	12
Professional services	2	2	4	4
Travel and transportation	2	2	3	3
Insurance	2	1	4	3
Other operating costs	1	2	4	5
	<b>44</b>	<b>42</b>	<b>86</b>	<b>83</b>

#### 14. NET FINANCE EXPENSE

<i>For the period ended June 30 (millions of Canadian dollars)</i>	Three months ended		Six months ended	
	2022	2021	2022	2021
Finance income				
Interest on sinking fund	4	3	7	6
Interest on reserve fund	1	-	1	-
Other	1	-	1	-
	<b>6</b>	<b>3</b>	<b>9</b>	<b>6</b>
Finance expense				
Long-term debt	25	24	49	47
Debt guarantee fee	2	2	4	4
Other	1	1	1	1
	<b>28</b>	<b>27</b>	<b>54</b>	<b>52</b>
Interest capitalized during construction	-	(1)	-	(1)
	<b>28</b>	<b>26</b>	<b>54</b>	<b>51</b>
Net finance expense	<b>22</b>	<b>23</b>	<b>45</b>	<b>45</b>

## NEWFOUNDLAND AND LABRADOR HYDRO

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

#### 15. OTHER EXPENSE

<i>For the period ended June 30 (millions of Canadian dollars)</i>	Three months ended		Six months ended	
	2022	2021	2022	2021
Rent and royalties	1	2	3	4
Net change in PPA fair value (a)	11	5	29	8
Foreign exchange loss	1	-	1	-
Other	2	(1)	-	-
Other expense	15	6	33	12

(a) Net change in PPA fair value

<i>For the period ended June 30 (millions of Canadian dollars)</i>	Three months ended		Six months ended	
	2022	2021	2022	2021
PPA gains				
Settlement of realized profit	(20)	(7)	(29)	(15)
	(20)	(7)	(29)	(15)
PPA losses				
Amortization of deferral	9	8	28	16
Mark-to-market of derivative	22	4	30	7
	31	12	58	23
Net change in PPA fair value	11	5	29	8

#### 16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

##### 16.1 Fair Value

The estimated fair values of financial instruments as at June 30, 2022 and December 31, 2021 are based on relevant market prices and information available at the time. Fair value estimates are based on valuation techniques which are significantly affected by the assumptions used including the amount and timing of future cash flows and discount rates reflecting various degrees of risk. As such, the fair value estimates below are not necessarily indicative of the amounts that Hydro might receive or incur in actual market transactions.

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

##### Establishing Fair Value

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

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

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

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

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value. For assets and liabilities that are recognized at fair value on a recurring basis, Hydro determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. There were no transfers between Level 1, 2 and 3 fair value measurement for the period ended June 30, 2022 and year ended December 31, 2021.

## NEWFOUNDLAND AND LABRADOR HYDRO

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
		June 30, 2022		December 31, 2021	
<i>As at (millions of Canadian dollars)</i>					
Financial assets					
Sinking funds - investments in Hydro debt issue	2	88	89	84	94
Sinking funds - other investments	2	197	208	192	230
Reserve fund	2	41	41	43	43
Financial liabilities					
Derivative liability	3	57	57	56	56
Long-term debt (including amount due within one year before sinking funds)	2	2,133	2,267	2,132	2,508

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

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

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

The following table summarizes quantitative information about the valuation techniques and unobservable inputs used in the fair value measurement of Level 3 financial instruments as at June 30, 2022:

<i>(millions of Canadian dollars)</i>	Carrying Value	Valuation Techniques	Significant Unobservable Input(s)	Range
Derivative liability (PPA)	57	Modelled pricing	Volumes (MWh)	36-42% of available generation

The derivative liability arising under the PPA is designated as a Level 3 instrument as certain forward market prices and related volumes are not readily determinable to estimate a portion of the fair value of the derivative liability. Hence, fair value measurement of this instrument is based upon a combination of internal and external pricing and volume estimates. As at June 30, 2022, the effect of using reasonably possible alternative assumptions for volume inputs to valuation techniques may have resulted in a -\$0.3 million to +\$2.9 million change in the carrying value of the derivative liability.

The components of the change impacting the carrying value of the derivative liability for the period ended June 30, 2022 are as follows:

## NEWFOUNDLAND AND LABRADOR HYDRO

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

<i>(millions of Canadian dollars)</i>	Level 3
<b>Balance at January 1, 2022</b>	<b>(56)</b>
<b>Changes in profit or loss</b>	
Mark-to-market	(30)
Settlements	29
<b>Total</b>	<b>(1)</b>
<b>Balance at June 30, 2022</b>	<b>(57)</b>

<i>(millions of Canadian dollars)</i>	Level 3
Balance at January 1, 2021	(23)
Purchases	(4)
Changes in profit or loss	
Mark-to-market	(7)
Settlements	15
Total	8
Balance at June 30, 2021	(19)

#### 16.2 Risk Management

##### Credit Risk

Hydro's expected future cash flows are exposed to credit risk through its operating activities, primarily due to the potential for non-performance by its customers, and through its financing and investing activities, based on the risk of non-performance by counterparties to its financial instruments.

##### Market Risk

In the course of carrying out its operating, financing and investing activities, Hydro is exposed to possible market price movements that could impact expected future cash flow and the carrying value of certain financial assets and liabilities. Market price movements to which Hydro has significant exposure include those relating to prevailing interest rates, foreign exchange rates, most notably the USD/CAD, and current commodity prices, most notably the spot prices for diesel fuel, electricity, and No. 6 fuel. These exposures are addressed as part of the Company's Financial Risk Management Policy.

## NEWFOUNDLAND AND LABRADOR HYDRO

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

---

#### 17. RELATED PARTY TRANSACTIONS

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

Related parties with which Hydro transacts are as follows:

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

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

# NEWFOUNDLAND AND LABRADOR HYDRO

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

<i>As at (millions of Canadian dollars)</i>	<b>June 30</b>	December 31
	<b>2022</b>	2021
<b>Trade and other receivables:</b>		
Parent	-	2
Other related parties	<b>10</b>	15
<b>Related party loan receivable:</b>		
Other related parties (a)	-	53
<b>Trade and other payables:</b>		
Parent	<b>9</b>	1
Joint operation	<b>1</b>	1
Other related parties	<b>10</b>	3
<b>Contract payable:</b>		
Other related parties (b)	<b>91</b>	18
<b>Long-term debt:</b>		
The Province	<b>925</b>	925
<b>Other current liabilities:</b>		
The Province (c)	<b>3</b>	6

<i>For the period ended June 30 (millions of Canadian dollars)</i>	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>2022</b>	2021	<b>2022</b>	2021
<b>Energy sales:</b>				
Other related parties	<b>10</b>	10	<b>52</b>	35
<b>Other revenue:</b>				
Parent	<b>2</b>	-	<b>5</b>	-
Other related parties	<b>2</b>	19	<b>4</b>	19
<b>Power purchased:</b>				
Joint operation	<b>4</b>	4	<b>8</b>	8
Parent	<b>7</b>	7	<b>15</b>	15
Other related parties	<b>96</b>	-	<b>202</b>	-
<b>Net operating recoveries:</b>				
Other related parties	<b>(3)</b>	(3)	<b>(9)</b>	(8)
<b>Net finance expense:</b>				
The Province	<b>9</b>	9	<b>18</b>	17
<b>Other expense:</b>				
The Province	<b>1</b>	2	<b>3</b>	4

(a) Hydro had a related party loan receivable from Muskrat Falls which includes interest charged at 5.43% and was payable from Muskrat Falls as cash became available while still meeting its debt servicing costs.

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

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

### 18. COMMITMENTS AND CONTINGENCIES

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

## NEWFOUNDLAND AND LABRADOR HYDRO

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

- (b) Outstanding commitments for capital projects total approximately \$80.4 million as at June 30, 2022 (December 31, 2021 - \$34.3 million).

#### 19. SUPPLEMENTARY CASH FLOW INFORMATION

<i>For the period ended June 30 (millions of Canadian dollars)</i>	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
Trade and other receivables	<b>69</b>	22	<b>62</b>	24
Prepayments	<b>1</b>	1	<b>3</b>	2
Inventories	<b>(43)</b>	(17)	<b>(48)</b>	-
Trade and other payables	<b>(28)</b>	13	<b>(10)</b>	(34)
Contract payable	<b>60</b>	-	<b>73</b>	-
Changes in non-cash working capital balances	<b>59</b>	19	<b>80</b>	(8)
Related to:				
Operating activities	<b>56</b>	3	<b>91</b>	(8)
Investing activities	<b>3</b>	16	<b>(7)</b>	2
Financing activities	-	-	<b>(4)</b>	(2)
	<b>59</b>	19	<b>80</b>	(8)

#### 20. SEGMENT INFORMATION

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

Hydro Regulated activities encompass sales of electricity to customers within the Province that are regulated by the PUB and for export markets. Hydro Non-Regulated activities include the sale of energy to mining operations in Labrador West and for export markets as well as costs of Hydro that are excluded from the determination of customer rates. Churchill Falls operates a hydroelectric generating facility which sells electricity to Hydro-Québec and Hydro. Energy Marketing includes the sale of electricity and transmission to Energy Marketing.

# NEWFOUNDLAND AND LABRADOR HYDRO

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

	Hydro Regulated	Churchill Falls	Energy Marketing	Non-Regulated Activities	Inter-Segment	Total
<i>(millions of Canadian dollars)</i>						
<b>For the six months ended June 30, 2022</b>						
Energy sales	377	52	1	29	(16)	443
Other revenue	13	-	6	-	2	21
<b>Revenue</b>	<b>390</b>	<b>52</b>	<b>7</b>	<b>29</b>	<b>(14)</b>	<b>464</b>
Fuels	115	-	-	-	-	115
Power purchased	234	-	1	24	(16)	243
Operating costs	66	19	-	1	-	86
Transmission rental	3	-	6	-	-	9
Depreciation and amortization	42	11	-	-	-	53
Net finance expense (income)	46	(1)	-	-	-	45
Other expense (income)	2	3	29	(1)	-	33
<b>Expenses</b>	<b>508</b>	<b>32</b>	<b>36</b>	<b>24</b>	<b>(16)</b>	<b>584</b>
Preferred dividends	-	(1)	-	-	1	-
(Loss) profit for the period before regulatory adjustments	(118)	21	(29)	5	1	(120)
Regulatory adjustments	(156)	-	-	-	-	(156)
<b>Profit (loss) for the period</b>	<b>38</b>	<b>21</b>	<b>(29)</b>	<b>5</b>	<b>1</b>	<b>36</b>
Capital expenditures*	35	13	-	-	-	48
<b>Total assets</b>	<b>2,980</b>	<b>725</b>	<b>31</b>	<b>2</b>	<b>-</b>	<b>3,738</b>

\*Capital expenditures include non-cash additions of \$0.1 million contributed by Lower Churchill Management Corporation and \$0.3 million of interest capitalized during construction.

	Hydro Regulated	Churchill Falls	Energy Marketing	Non-Regulated Activities	Inter-Segment	Total
<i>(millions of Canadian dollars)</i>						
<b>For the six months ended June 30, 2021</b>						
Energy sales	278	50	1	25	(16)	338
Other revenue	8	16	10	-	2	36
<b>Revenue</b>	<b>286</b>	<b>66</b>	<b>11</b>	<b>25</b>	<b>(14)</b>	<b>374</b>
Fuels	79	-	-	-	-	79
Power purchased	35	-	1	22	(16)	42
Operating costs	65	18	-	-	-	83
Transmission rental	-	-	10	-	-	10
Depreciation and amortization	40	10	-	-	-	50
Net finance expense (income)	45	(1)	-	-	1	45
Other expense	-	4	7	1	-	12
<b>Expenses</b>	<b>264</b>	<b>31</b>	<b>18</b>	<b>23</b>	<b>(15)</b>	<b>321</b>
Preferred dividends	-	(1)	-	-	1	-
Profit (loss) for the period before regulatory adjustments	22	36	(7)	2	-	53
Regulatory adjustments	(28)	-	-	-	-	(28)
<b>Profit (loss) for the period</b>	<b>50</b>	<b>36</b>	<b>(7)</b>	<b>2</b>	<b>-</b>	<b>81</b>
Capital expenditures*	39	22	-	-	-	61
<b>Total assets</b>	<b>2,833</b>	<b>708</b>	<b>15</b>	<b>4</b>	<b>-</b>	<b>3,560</b>

\*Capital expenditures include \$0.6 million of interest capitalized during construction.

**NEWFOUNDLAND AND LABRADOR HYDRO**
**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)**

	Hydro Regulated	Churchill Falls	Energy Marketing	Non-Regulated Activities	Inter- Segment	Total
<i>(millions of Canadian dollars)</i>						
<b>For the three months ended June 30, 2022</b>						
Energy sales	142	17	1	13	(8)	165
Other revenue	6	-	4	-	1	11
<b>Revenue</b>	<b>148</b>	<b>17</b>	<b>5</b>	<b>13</b>	<b>(7)</b>	<b>176</b>
Fuels	30	-	-	-	-	30
Power purchased	113	-	1	11	(8)	117
Operating costs	33	10	-	1	-	44
Transmission rental	-	-	4	-	-	4
Depreciation and amortization	21	5	-	-	-	26
Net finance expense (income)	23	(1)	-	-	-	22
Other expense	2	1	11	1	-	15
<b>Expenses</b>	<b>222</b>	<b>15</b>	<b>16</b>	<b>13</b>	<b>(8)</b>	<b>258</b>
(Loss) profit for the period before regulatory adjustments	(74)	2	(11)	-	1	(82)
Regulatory adjustments	(96)	-	-	-	-	(96)
<b>Profit (loss) for the period</b>	<b>22</b>	<b>2</b>	<b>(11)</b>	<b>-</b>	<b>1</b>	<b>14</b>
Capital expenditures*	24	8	-	-	-	32
<b>Total assets</b>	<b>2,980</b>	<b>725</b>	<b>31</b>	<b>2</b>	<b>-</b>	<b>3,738</b>

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

	Hydro Regulated	Churchill Falls	Energy Marketing	Non-Regulated Activities	Inter- Segment	Total
<i>(millions of Canadian dollars)</i>						
<b>For the three months ended June 30, 2021</b>						
Energy sales	107	17	-	12	(8)	128
Other revenue	6	16	5	-	1	28
<b>Revenue</b>	<b>113</b>	<b>33</b>	<b>5</b>	<b>12</b>	<b>(7)</b>	<b>156</b>
Fuels	24	-	-	-	-	24
Power purchased	16	-	1	11	(8)	20
Operating costs	34	9	-	-	(1)	42
Transmission rental	-	-	5	-	-	5
Depreciation and amortization	20	5	-	-	-	25
Net finance expense (income)	23	(1)	-	-	1	23
Other (income) expense	(1)	1	4	1	1	6
<b>Expenses</b>	<b>116</b>	<b>14</b>	<b>10</b>	<b>12</b>	<b>(7)</b>	<b>145</b>
(Loss) profit for the period before regulatory adjustments	(3)	19	(5)	-	-	11
Regulatory adjustments	(30)	-	-	-	-	(30)
<b>Profit (loss) for the period</b>	<b>27</b>	<b>19</b>	<b>(5)</b>	<b>-</b>	<b>-</b>	<b>41</b>
Capital expenditures*	28	18	-	-	-	46
<b>Total assets</b>	<b>2,833</b>	<b>708</b>	<b>15</b>	<b>4</b>	<b>-</b>	<b>3,560</b>

\*Capital expenditures include \$0.4 million of interest capitalized during construction.