

NEWFOUNDLAND AND LABRADOR HYDRO
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
June 30, 2021
(Unaudited)

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

<i>As at (millions of Canadian dollars)</i>	Notes	June 30 2021	December 31 2020
ASSETS			
Current assets			
Cash		173	92
Trade and other receivables	3	84	108
Inventories	4	104	104
Current portion of other long-term assets	7	6	3
Prepayments		11	9
Deferred asset	5	11	23
Total current assets		389	339
Non-current assets			
Property, plant and equipment	6	2,768	2,757
Intangible assets		7	8
Other long-term assets	7	222	222
Total assets		3,386	3,326
Regulatory deferrals	8	174	172
Total assets and regulatory deferrals		3,560	3,498
LIABILITIES AND EQUITY			
Current liabilities			
Short-term borrowings	10	-	262
Trade and other payables	9	120	154
Current portion of long-term debt	10	7	7
Derivative liability	17	19	23
Other current liabilities		3	3
Total current liabilities		149	449
Non-current liabilities			
Long-term debt	10	2,047	1,765
Deferred contributions		26	26
Decommissioning liabilities		16	16
Employee future benefits		133	130
Other long-term liabilities		4	4
Total liabilities		2,375	2,390
Shareholder's equity			
Share capital		23	23
Contributed capital		151	151
Reserves		(22)	(22)
Retained earnings		1,013	939
Total equity		1,165	1,091
Total liabilities and equity		3,540	3,481
Regulatory deferrals	8	20	17
Total liabilities, equity and regulatory deferrals		3,560	3,498

Commitments and contingencies (Note 19)

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	
		2021	2020	2021	2020
Energy sales		128	142	338	413
Other revenue	13	28	7	36	14
Revenue		156	149	374	427
Fuels		24	22	79	118
Power purchased		20	20	42	53
Operating costs	14	42	40	83	87
Transmission rental		5	6	10	12
Depreciation and amortization		25	26	50	51
Net finance expense	15	23	22	45	44
Other expense	16	6	1	12	4
Expenses		145	137	321	369
Profit for the period before regulatory adjustments		11	12	53	58
Regulatory adjustments	8	(30)	(14)	(28)	(5)
Total profit and other comprehensive income for the period		41	26	81	63

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
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	12	-	-	-	(7)	(7)
Balance at June 30, 2021		23	151	(22)	1,013	1,165
Balance at January 1, 2020		23	152	(22)	877	1,030
Profit for the period		-	-	-	63	63
Total comprehensive income for the period		-	-	-	63	63
Dividends	12	-	-	-	(9)	(9)
Balance at June 30, 2020		23	152	(22)	931	1,084

See accompanying notes

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

<i>For the period ended June 30 (millions of Canadian dollars)</i>	Notes	Three months ended		Six months ended	
		2021	2020	2021	2020
Operating activities					
Profit for the period		41	26	81	63
Adjustments to reconcile profit to cash provided from operating activities:					
Depreciation and amortization		25	26	50	51
Regulatory adjustments	8	(30)	(14)	(28)	(5)
Amortization of rate stabilization plan fuel credit		13	-	32	-
Net changes in PPA fair value	16	5	2	8	-
Finance income	15	(3)	(3)	(6)	(7)
Finance expense	15	26	25	51	51
Other		1	(3)	3	-
		78	59	191	153
Changes in non-cash working capital balances	20	3	40	(8)	32
Interest received		-	-	1	1
Interest paid		(23)	(20)	(58)	(56)
Net cash provided from operating activities		58	79	126	130
Investing activities					
Additions to property, plant and equipment		(45)	(15)	(60)	(31)
Additions to intangible assets		-	(1)	-	(1)
Contributions to sinking funds	7	-	-	(2)	(3)
Changes in non-cash working capital balances	20	16	(11)	2	(18)
Net cash used in investing activities		(29)	(27)	(60)	(53)
Financing activities					
Proceeds from long-term debt		286	-	286	-
Dividends paid		(2)	(1)	(5)	(4)
Decrease in short term borrowings		(203)	(33)	(262)	(43)
Rate stabilization plan fuel credit		-	-	(3)	-
Changes in non-cash working capital balances	20	-	(2)	(2)	(5)
Other		1	1	1	1
Net cash provided from (used in) financing activities		82	(35)	15	(51)
Net increase in cash		111	17	81	26
Cash, beginning of the period		62	75	92	66
Cash, end of the period		173	92	173	92

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, 2020.

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 11, 2021.

2.2 Basis of Consolidation

The financial statements include the financial statements of Hydro, 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. Intercompany transactions and balances have been eliminated upon consolidation.

3. TRADE AND OTHER RECEIVABLES

<i>As at (millions of Canadian dollars)</i>	June 30 2021	December 31 2020
Trade receivables	65	97
Due from related parties	27	16
Other receivables	9	12
Allowance for doubtful accounts	(17)	(17)
	84	108

NEWFOUNDLAND AND LABRADOR HYDRO

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

<i>As at (millions of Canadian dollars)</i>	June 30	December 31
	2021	2020
0-60 days	84	106
60+ days	-	2
	84	108

<i>As at (millions of Canadian dollars)</i>	June 30	December 31
	2021	2020
Allowance for doubtful accounts, beginning of the period	(17)	(14)
Change in balance during the period	-	(3)
Allowance for doubtful accounts, end of the period	(17)	(17)

4. INVENTORIES

<i>As at (millions of Canadian dollars)</i>	June 30	December 31
	2021	2020
Fuel	54	54
Materials and other	50	50
	104	104

Fuel inventory includes No. 6 fuel in the amount of \$43.0 million (December 31, 2020 - \$43.6 million). The cost of inventories recognized as an expense during the period is \$81.0 million (June 30, 2020 - \$119.5) and is included in operating costs and fuels.

5. DEFERRED ASSET

The deferred asset related to Hydro's PPA with Nalcor Energy Marketing (Energy Marketing) is amortized into income on a straight-line basis over the assumed nine month term of the contract, which commenced on January 1, 2021. At March 31, 2021, Management assessed the anticipated term of the contract and determined that it should be extended and a new derivative liability and corresponding deferred asset was required. This resulted in a deferred asset addition of \$3.9 million to be amortized into income on a straight-line basis over the extended term of the PPA. The components of change are as follows:

<i>As at (millions of Canadian dollars)</i>	June 30	December 31
	2021	2020
Deferred asset, beginning of the period	23	9
Additions	4	38
Amortization	(16)	(24)
Deferred asset, end of the period	11	23

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
Cost					
Balance at January 1, 2020	1,992	1,353	289	59	3,693
Additions	-	-	-	132	132
Disposals	(6)	(3)	(3)	-	(12)
Transfers	41	72	14	(127)	-
Other adjustments	-	(1)	-	(4)	(5)
Decommissioning liabilities and revisions	1	-	-	-	1
Balance at December 31, 2020	2,028	1,421	300	60	3,809
Additions	-	-	-	61	61
Disposals	(1)	-	-	-	(1)
Other adjustments	-	(2)	2	-	-
Balance at June 30, 2021	2,027	1,419	302	121	3,869
Depreciation					
Balance at January 1, 2020	606	241	115	-	962
Depreciation	55	31	13	-	99
Disposals	(4)	(2)	(3)	-	(9)
Balance at December 31, 2020	657	270	125	-	1,052
Depreciation	27	16	6	-	49
Balance at June 30, 2021	684	286	131	-	1,101
Carrying value					
Balance at January 1, 2020	1,386	1,112	174	59	2,731
Balance at December 31, 2020	1,371	1,151	175	60	2,757
Balance at June 30, 2021	1,343	1,133	171	121	2,768

Capitalized interest for the period ended June 30, 2021 was \$0.6 million (December 31, 2020 - \$1.5 million) related to assets under development.

7. OTHER LONG-TERM ASSETS

<i>As at (millions of Canadian dollars)</i>	June 30 2021	December 31 2020
Reserve fund	38	39
Sinking funds	187	183
Right-of-use assets	2	2
Investment in joint arrangement	1	1
	228	225
Less: current portion of reserve fund	(6)	(3)
	222	222

(a) As at June 30, 2021, sinking funds include \$187.1 million (December 31, 2020 - \$182.6 million) related to repayment of Hydro's long-term debt. Sinking fund investments consist of bonds, debentures, short-term borrowings and coupons issued by, or guaranteed by, the Government of Canada, provincial governments or Schedule 1 banks, and have maturity dates ranging from 2022 to 2033.

NEWFOUNDLAND AND LABRADOR HYDRO

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

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% (December 31, 2020 – 1.52% to 6.82%).

The sinking funds consist of the following:

<i>As at (millions of Canadian dollars)</i>	June 30	December 31
	2021	2020
Sinking funds, beginning of the period	183	174
Contributions	2	7
Change in sinking fund investments in own debentures	(4)	(10)
Earnings	6	12
Sinking funds, end of the period	187	183

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

<i>(millions of Canadian dollars)</i>	2021	2022	2023	2024	2025	2026
Sinking fund instalments	5	7	7	7	7	2

8. REGULATORY DEFERRALS

<i>(millions of Canadian dollars)</i>	January 1	Reclass & Regulatory	June 30	Remaining
	2021	Disposition	2021	Recovery
				Settlement
				Period
				(years)
Regulatory asset deferrals				
Supply deferrals (a)	59	(55)	22	n/a
Deferred energy conservation costs	8	-	8	n/a
Foreign exchange losses	46	-	45	20.5
Rate stabilization plan (RSP) (b)	40	25	79	n/a
Retirement asset pool	13	-	13	n/a
Business system transformation program	4	-	4	n/a
Other	2	-	3	n/a
	172	(30)	174	
Regulatory liability deferrals				
Insurance amortization and proceeds	(3)	-	(3)	n/a
Removal provision	(12)	-	(14)	n/a
Other	(2)	-	(3)	n/a
	(17)	-	(20)	

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

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

<i>For the period ended June 30 (millions of Canadian dollars)</i>	Three months ended		Six months ended	
	2021	2020	2021	2020
RSP amortization	(14)	(2)	(36)	(6)
RSP fuel deferral	(14)	(6)	23	18
RSP interest	(1)	-	(1)	-
Rural rate adjustment	-	1	-	2
Total RSP activity	(29)	(7)	(14)	14
Supply deferral recovery	1	3	4	6
Supply deferrals	(5)	(12)	(22)	(27)
Total supply deferrals	(4)	(9)	(18)	(21)
Other	3	2	4	2
	(30)	(14)	(28)	(5)

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, 2021 would have decreased by \$28.3 million (June 30, 2020 – \$5.4 million).

In Board Order P.U. 9 (2021), the PUB approved Hydro's proposal to allow recognition of expenses related to the purchase of pre-commissioning energy in accordance with the terms of the Muskrat Falls Power Purchase Agreement. There was no activity in this deferral account for the period ended June 30, 2021.

In Board Order P.U. 16 (2021), the PUB approved Hydro's proposal to defer and recover capital related overhead costs through the establishment of a deferral account. Hydro will propose the methodology and capitalization rate as part of its next General Rate Application. The deferral account is approved to commence on January 1, 2022 and as a result, there was no activity for the period ended June 30, 2021.

8.(a) Supply Deferrals

Pursuant to Board Order P.U. 22 (2017), the Board approved Supply Deferral costs using three specific deferral accounts: the Energy Supply, Holyrood Conversion and Isolated Systems Supply cost deferrals. In 2021, Hydro recorded a net increase to the deferrals of \$21.8 million (December 31, 2020 - \$55.0 million increase) with recovery of the period's activity determined through an annual application process. Board Order P.U. 21 (2019) approved the recovery from customers of \$18.4 million over a 20 month period; of which, in 2021 Hydro recovered \$4.5 million (December 31, 2020 - \$10.9 million). In Board Order P.U. 15 (2021), the Board approved the recovery of the 2020 supply cost deferral of \$54.9 million (December 31, 2020 - \$19.8 million) from the RSP.

8.(b) 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.

During 2021, Hydro recorded a net increase in the RSP balance of \$39.5 million (December 31, 2020 - increase of \$23.7 million) resulting in a balance from customers of \$79.4 million (December 31, 2020 - \$39.9 million). The increase in the RSP asset is primarily due to the recovery of the 2020 energy supply deferrals as per Board Order P.U. 15 (2021) resulting in a net increase to the RSP of \$54.9 million (December 31, 2020 - \$19.8 million); normal operation of the RSP resulted in a net increase to the RSP of \$13.9 million (December 31, 2020 - \$25.4 million) and Board Order P.U. 6 (2021) which approved a transfer of the remaining balance in the 2017 GRA Cost Recovery Rider to the Island Industrial Customer RSP Current Plan resulting in a net increase to the RSP of \$0.3 million; partially offset by adjustments related to the one-time fuel price bill credits for utility, rural and industrial customers as per Board Orders. P.U. 16 (2020) and P.U. 6 (2021) resulting in a net decrease of \$29.6 million (December 31, 2020 - net increase of \$30.8 million).

NEWFOUNDLAND AND LABRADOR HYDRO

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

9. TRADE AND OTHER PAYABLES

	June 30	December 31
<i>As at (millions of Canadian dollars)</i>	2021	2020
Trade payables	71	103
Accrued interest payable	25	25
Due to related parties	10	8
Other payables	14	18
	120	154

10. DEBT

10.1 Short-term Borrowings

Hydro utilized its \$300.0 million government guaranteed promissory note program to fulfil its short-term funding requirements. As at June 30, 2021, there were no promissory notes outstanding (December 31, 2020 - \$262.0 million bearing an average interest rate of 0.17%).

On April 16, 2021, Hydro increased its \$200.0 million CAD or USD equivalent committed revolving term credit facility to \$500.0 million with a new maturity date of July 31, 2022. As at June 30, 2021, there were no amounts drawn on the facility (December 31, 2020 - \$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 and letters of credit. The facility also provides coverage for overdrafts on Hydro's bank accounts, with interest calculated at the Prime Rate.

The additional credit facility, which was signed on April 17, 2020 in the amount of \$300.0 million matured on April 17, 2021, was not renewed.

10.2 Long-term Debt

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

	Face	Coupon	Year of	Year of	June 30	December 31
<i>As at (millions of Canadian dollars)</i>	Value	Rate %	Issue	Maturity	2021	2020
Hydro						
Y*	300	8.40	1996	2026	297	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	481
1A	600	3.70	2017/2018	2048	638	639
2A	300	1.75	2021	2030	286	-
Total	2,125				2,131	1,845
Less: Sinking fund investments in own debentures					77	73
					2,054	1,772
Less: Sinking fund payments due within one year					7	7
Total					2,047	1,765

*Sinking funds have been established for these issues.

NEWFOUNDLAND AND LABRADOR HYDRO

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

11. LEASE LIABILITIES

AMOUNTS RECOGNIZED IN THE CONSOLIDATED STATEMENT OF PROFIT AND COMPREHENSIVE INCOME

<i>For the period ended June 30 (millions of Canadian dollars)</i>		2021	2020
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, 2021 amount to \$15.3 million (June 30, 2020 - \$15.3 million).

12. SHAREHOLDER'S EQUITY

12.1 Dividends

<i>For the period ended June 30 (millions of Canadian dollars)</i>	Three months ended		Six months ended	
	2021	2020	2021	2020
Declared during the period				
Final dividend for prior period: \$0.03 per share (2020 - \$0.03)	-	-	1	1
Interim dividend for current period: \$0.26 per share (2020 - \$0.35)	2	3	6	8
	2	3	7	9

13. OTHER REVENUE

In 2019, Churchill Falls received judgment from the Québec Court of Appeal regarding a Motion for Declaratory Judgment filed by Hydro-Québec, relating to the interpretation of the 1969 Power Contract between Churchill Falls and Hydro-Québec and the associated Renewal Contract. 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.

14. OPERATING COSTS

<i>For the period ended June 30 (millions of Canadian dollars)</i>	Three months ended		Six months ended	
	2021	2020	2021	2020
Salaries and benefits	28	27	56	58
Maintenance and materials	7	6	12	11
Professional services	2	2	4	4
Travel and transportation	2	1	3	2
Insurance	1	2	3	3
Other operating costs	2	2	5	9
	42	40	83	87

NEWFOUNDLAND AND LABRADOR HYDRO

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

15. NET FINANCE EXPENSE

<i>For the period ended June 30 (millions of Canadian dollars)</i>	Three months ended		Six months ended	
	2021	2020	2021	2020
Finance income				
Interest on sinking fund	3	3	6	6
Other	-	-	-	1
	3	3	6	7
Finance expense				
Long-term debt	24	23	47	46
Debt guarantee fee	2	2	4	4
Other	1	1	1	2
	27	26	52	52
Interest capitalized during construction	(1)	(1)	(1)	(1)
	26	25	51	51
Net finance expense	23	22	45	44

16. OTHER EXPENSE

<i>For the period ended June 30 (millions of Canadian dollars)</i>	Three months ended		Six months ended	
	2021	2020	2021	2020
Rent and royalties	2	1	4	3
Net change in PPA fair value (a)	5	2	8	-
Foreign exchange (gain) loss	-	(2)	-	1
Other	(1)	-	-	-
Other expense	6	1	12	4

(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	
	2021	2020	2021	2020
PPA gains				
Settlement of realized profit	(7)	(4)	(15)	(7)
Mark-to-market of derivative	-	-	-	(2)
	(7)	(4)	(15)	(9)
PPA losses				
Amortization of deferral	8	4	16	9
Mark-to-market of derivative	4	2	7	-
	12	6	23	9
Net change in PPA fair value	5	2	8	-

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

17.1 Fair Value

The estimated fair values of financial instruments as at June 30, 2021 and December 31, 2020 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.

NEWFOUNDLAND AND LABRADOR HYDRO

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

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, 2021 and year ended December 31, 2020.

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
		June 30, 2021		December 31, 2020	
<i>As at (millions of Canadian dollars)</i>					
Financial assets					
Sinking funds - investments in Hydro debt issue	2	77	89	73	88
Sinking funds - other investments	2	187	226	183	234
Reserve fund	2	38	38	39	39
Financial liabilities					
Derivative liability	3	19	19	23	23
Long-term debt (including amount due within one year before sinking funds)	2	2,131	2,508	1,845	2,394

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

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

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

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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, 2021:

<i>(millions of Canadian dollars)</i>	Carrying Value	Valuation Techniques	Significant Unobservable Input(s)	Range
Derivative liability (PPA)	19	Modelled pricing	Volumes (MWh)	35-40% 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, 2021, the effect of using reasonably possible alternative assumptions for volume inputs to valuation techniques may have resulted in a \$nil to +\$0.8 million change in the carrying value of the power purchase derivative liability.

The components of the change impacting the carrying value of the derivative liability for the period ended June 30, 2021 are as follows:

<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)

<i>(millions of Canadian dollars)</i>	Level 3
Balance at January 1, 2020	(9)
Purchases	(8)
Changes in profit or loss	
Mark-to-market	2
Settlements	7
Total	9
Balance at June 30, 2020	(8)

17.2 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.

The COVID-19 pandemic has increased the credit risk of the Company, as the potential risk for non-performance of the Company's customers has increased with the current economic slowdown. Hydro had established flexible collection practices during the COVID-19 pandemic for its customers and has since returned to its normal customer collections practices, but continues to waive interest on overdue accounts, which is recoverable from the Province. Hydro is continuing to monitor the risk of non-performance by its customers and as at June 30, 2021 the impact on the Company's expected credit loss allowance is not considered material. As well, Hydro is continuing to monitor the implications of COVID-19, including the risk of credit losses, pronouncements from governments and regulators and, if required, will make adjustments to the expected credit loss allowance in future periods.

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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.

18. RELATED PARTY TRANSACTIONS

Hydro enters into various transactions with its parent and other affiliates. 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. Related parties with which Hydro transacts are as follows:

<u>Related Party</u>	<u>Relationship</u>
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
The Trust	Created by the Province with Churchill Falls as the beneficiary

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. Outstanding balances due to or from related parties are non-interest bearing with settlement within 30 days, unless otherwise stated.

19. 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.
- (b) Outstanding commitments for capital projects total approximately \$63.6 million as at June 30, 2021 (December 31, 2020 - \$42.7 million).

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20. SUPPLEMENTARY CASH FLOW INFORMATION

<i>For the period ended June 30 (millions of Canadian dollars)</i>	Three months ended		Six months ended	
	2021	2020	2021	2020
Trade and other receivables	22	74	24	82
Prepayments	1	-	2	2
Inventories	(17)	(8)	-	5
Trade and other payables	13	(39)	(34)	(80)
Changes in non-cash working capital balances	19	27	(8)	9
Related to:				
Operating activities	3	40	(8)	32
Investing activities	16	(11)	2	(18)
Financing activities	-	(2)	(2)	(5)
	19	27	(8)	9

21. 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. Hydro Non-Regulated activities include the sale of energy, purchased from Churchill Falls, to mining operations in Labrador West 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 Regulated. Energy Marketing includes the sale of electricity and transmission to Energy Marketing.

	Hydro Regulated	Churchill Falls	Energy Marketing	Non-Regulated Activities	Inter-Segment	Total
<i>(millions of Canadian dollars)</i>	For the period ended June 30, 2021					
Energy sales	278	50	1	25	(16)	338
Other revenue	8	16	10	-	2	36
Revenue	286	66	11	25	(14)	374
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
Expenses	264	31	18	23	(15)	321
Preferred dividends	-	(1)	-	-	1	-
Profit (loss) before regulatory adjustments	22	36	(7)	2	-	53
Regulatory adjustments	(28)	-	-	-	-	(28)
Profit (loss) for the period	50	36	(7)	2	-	81
Capital expenditures*	39	22	-	-	-	61
Total assets	2,833	708	15	4	-	3,560

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

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	Hydro Regulated	Churchill Falls	Energy Marketing	Non-Regulated Activities	Inter- Segment	Total
<i>(millions of Canadian dollars)</i>						
For the period ended June 30, 2020						
Energy sales	351	50	1	27	(16)	413
Other revenue	2	-	10	-	2	14
Revenue	353	50	11	27	(14)	427
Fuels	118	-	-	-	-	118
Power purchased	45	-	1	23	(16)	53
Operating costs	70	17	-	-	-	87
Transmission rental	1	-	10	1	-	12
Depreciation and amortization	40	11	-	-	-	51
Net finance expense (income)	45	(1)	-	-	-	44
Other expense (income)	2	2	-	(1)	1	4
Expenses	321	29	11	23	(15)	369
Preferred dividends	-	(1)	-	-	1	-
Profit before regulatory adjustments	32	22	-	4	-	58
Regulatory adjustments	(5)	-	-	-	-	(5)
Profit for the period	37	22	-	4	-	63
Capital expenditures*	23	8	-	-	2	33
Total assets	2,648	654	12	29	-	3,343

*Capital expenditures include non-cash additions of \$0.1 million contributed by Lower Churchill Management Corporation and \$0.8 million of interest capitalized during construction.

	Hydro Regulated	Churchill Falls	Energy Marketing	Non-Regulated Activities	Inter- Segment	Total
<i>(millions of Canadian dollars)</i>						
For the three months ended June 30, 2021						
Energy sales	107	17	-	12	(8)	128
Other revenue	6	16	5	-	1	28
Revenue	113	33	5	12	(7)	156
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
Expenses	116	14	10	12	(7)	145
(Loss) profit before regulatory adjustments	(3)	19	(5)	-	-	11
Regulatory adjustments	(30)	-	-	-	-	(30)
Profit (loss) for the period	27	19	(5)	-	-	41
Capital expenditures*	28	18	-	-	-	46
Total assets	2,833	708	15	4	-	3,560

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

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	Hydro Regulated	Churchill Falls	Energy Marketing	Non-Regulated Activities	Inter- Segment	Total
<i>(millions of Canadian dollars)</i>						
For the three months ended June 30, 2020						
Energy sales	120	17	1	12	(8)	142
Other revenue	1	-	5	-	1	7
Revenue	121	17	6	12	(7)	149
Fuels	22	-	-	-	-	22
Power purchased	16	-	1	11	(8)	20
Operating costs	32	8	-	-	-	40
Transmission rental	-	-	5	1	-	6
Depreciation and amortization	20	6	-	-	-	26
Net finance expense (income)	22	(1)	-	1	-	22
Other (income) expense	(1)	-	2	(1)	1	1
Expenses	111	13	8	12	(7)	137
Profit (loss) before regulatory adjustments	10	4	(2)	-	-	12
Regulatory adjustments	(14)	-	-	-	-	(14)
Profit (loss) for the period	24	4	(2)	-	-	26
Capital expenditures*	11	4	-	-	2	17
Total assets	2,648	654	12	29	-	3,343

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