

**NEWFOUNDLAND AND LABRADOR HYDRO**  
**NON-CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2025**

## Independent Auditor's Report

To the Directors of Newfoundland and Labrador Hydro

### Opinion

We have audited the non-consolidated financial statements of Newfoundland and Labrador Hydro (the "Company"), which comprise the non-consolidated statement of financial position as at December 31, 2025, and the non-consolidated statements of profit and comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including material accounting policy information (collectively referred to as the "financial statements").

In our opinion, the accompanying non-consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2025, and the results of its financial performance and its cash flows for the year then ended in accordance with the financial reporting provisions of Section 59 of the Public Utilities Act.

### 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.

### Emphasis of Matter — Basis of Accounting

We draw attention to Note 2 to the non-consolidated financial statements, which describes the basis of accounting. The non-consolidated financial statements are prepared to assist the Company in complying with the financial reporting provisions of Section 59 of the Public Utilities Act. As a result, the non-consolidated financial statements may not be suitable for another purpose.

### 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 the financial reporting provisions of Section 59 of the Public Utilities Act, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

## Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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 17, 2026

**NEWFOUNDLAND AND LABRADOR HYDRO**  
**NON-CONSOLIDATED STATEMENT OF FINANCIAL POSITION**


<i>As at (millions of Canadian dollars)</i>	Notes	December 31 2025	December 31 2024	January 1 2024
			(Note 2.2)	(Note 2.2)
<b>ASSETS</b>				
Current assets				
Cash		658	775	445
Trade and other receivables	5	208	213	142
Inventories	6	98	106	103
Current portion of sinking fund investments	10	115	22	9
Contract asset	30	5	3	13
Prepayments		8	8	10
Deferred asset	7	110	84	68
Related party loan receivable	30	555	705	855
<b>Total current assets</b>		<b>1,757</b>	1,916	1,645
Non-current assets				
Property, plant and equipment	8	4,429	4,284	4,219
Intangible assets	9	25	27	34
Sinking fund investments	10	132	223	231
Investment in joint arrangement	11	824	778	731
Investments in subsidiaries	12	5,150	4,805	4,650
Other non-current assets		2	2	2
<b>Total assets</b>		<b>12,319</b>	12,035	11,512
Regulatory deferrals	13	1,721	1,493	889
<b>Total assets and regulatory deferrals</b>		<b>14,040</b>	13,528	12,401
<b>LIABILITIES AND EQUITY</b>				
Current liabilities				
Short-term borrowings	16	250	590	230
Trade and other payables	14	271	238	194
Current portion of contract liability	30	325	325	274
Other current liabilities	15	461	217	184
<b>Total current liabilities</b>		<b>1,307</b>	1,370	882
Non-current liabilities				
Long-term debt	16	2,056	2,001	2,017
Deferred credits	17	1,479	1,512	1,581
Deferred contributions	18	44	41	37
Decommissioning liabilities	19	33	27	27
Employee future benefits	21	106	105	97
Contract liability	30	824	401	178
Other long-term liabilities	22	39	40	39
<b>Total liabilities</b>		<b>5,888</b>	5,497	4,858
Shareholder's equity				
Share capital	23	123	123	123
Shareholder contributions	23	4,784	4,785	4,786
Reserves		(20)	(29)	(30)
Retained earnings		3,215	3,100	2,621
<b>Total equity</b>		<b>8,102</b>	7,979	7,500
<b>Total liabilities and equity</b>		<b>13,990</b>	13,476	12,358
Regulatory deferrals	13	50	52	43
<b>Total liabilities, equity and regulatory deferrals</b>		<b>14,040</b>	13,528	12,401

Commitments and contingencies (Note 31)

See accompanying notes

On behalf of the Board

  
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 DIRECTOR

  
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 DIRECTOR

**NEWFOUNDLAND AND LABRADOR HYDRO**  
**NON-CONSOLIDATED STATEMENT OF PROFIT AND COMPREHENSIVE INCOME**

<i>For the year ended December 31 (millions of Canadian dollars)</i>	Notes	2025	2024
			(Note 2.2)
Energy sales		918	802
Other revenue	24	82	78
<b>Revenue</b>		<b>1,000</b>	<b>880</b>
Fuels		171	169
Power purchased		1,364	1,173
Operating costs	25	235	242
Transmission rental		22	19
Depreciation and amortization		128	122
Net finance expense	26	86	80
Rate mitigation expense	27	704	240
Other expense (income)	28	7	(14)
<b>Expenses</b>		<b>2,717</b>	<b>2,031</b>
<b>Loss for the year from operations</b>		<b>(1,717)</b>	<b>(1,151)</b>
Share of profit of joint arrangement	11	43	46
Preferred dividends of joint arrangement		9	10
Share of profit of subsidiaries	12	844	737
<b>Loss for the year before regulatory adjustments</b>		<b>(821)</b>	<b>(358)</b>
Regulatory adjustments	13	(936)	(837)
<b>Profit for the year</b>		<b>115</b>	<b>479</b>
Other comprehensive income			
Items that may or have been reclassified to profit or loss:			
Actuarial loss on employee future benefits regulatory adjustment		(1)	(1)
Actuarial gain (loss) on employee future benefits	21	4	(3)
Share of other comprehensive income of joint arrangement	11	3	1
Share of other comprehensive income of subsidiaries	12	3	4
<b>Other comprehensive income for the year</b>		<b>9</b>	<b>1</b>
<b>Total comprehensive income for the year</b>		<b>124</b>	<b>480</b>

See accompanying notes

**NEWFOUNDLAND AND LABRADOR HYDRO  
NON-CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

<i>(millions of Canadian dollars)</i>	Note	Share Capital	Shareholder Contributions	Reserves	Retained Earnings	Total
						(Note 2.2)
<b>Balance at January 1, 2025</b>		<b>123</b>	<b>4,785</b>	<b>(29)</b>	<b>3,100</b>	<b>7,979</b>
<b>Profit for the year</b>		-	-	-	<b>115</b>	<b>115</b>
<b>Other comprehensive income for the year</b>		-	-	<b>9</b>	-	<b>9</b>
<b>Total comprehensive income for the year</b>		-	-	<b>9</b>	<b>115</b>	<b>124</b>
<b>Regulatory adjustment</b>	<b>23</b>	-	<b>(1)</b>	-	-	<b>(1)</b>
<b>Balance at December 31, 2025</b>		<b>123</b>	<b>4,784</b>	<b>(20)</b>	<b>3,215</b>	<b>8,102</b>
Balance at January 1, 2024		123	4,786	(30)	2,621	7,500
Profit for the year		-	-	-	479	479
Other comprehensive income for the year		-	-	1	-	1
Total comprehensive income for the year		-	-	1	479	480
Regulatory adjustment	23	-	(1)	-	-	(1)
Balance at December 31, 2024		123	4,785	(29)	3,100	7,979

*See accompanying notes*

**NEWFOUNDLAND AND LABRADOR HYDRO**  
**NON-CONSOLIDATED STATEMENT OF CASH FLOWS**

*For the year ended December 31 (millions of Canadian dollars)*

	Notes	2025	2024 (Note 2.2)
<b>Operating activities</b>			
Profit for the year		115	479
Adjustments to reconcile profit to cash used in operating activities:			
Depreciation and amortization		128	122
Regulatory adjustments	13	(936)	(837)
Share of profit of joint arrangement	11	(43)	(46)
Share of profit of subsidiaries	12	(844)	(737)
Rate mitigation expense	27	704	240
Amortization of deferred credits	17	(117)	(131)
Non-cash distribution from subsidiary	12	93	110
Maritime Link operating costs		20	22
Finance income	26	(38)	(51)
Finance expense	26	124	131
Loss on disposal of property, plant and equipment	28	18	6
Other		4	5
		<b>(772)</b>	<b>(687)</b>
Changes in non-cash working capital balances	33	30	(41)
Increase in contract liability	30	423	274
(Increase) decrease in contract asset	30	(2)	10
Interest received		21	35
Interest paid		(122)	(128)
<b>Net cash used in operating activities</b>		<b>(422)</b>	<b>(537)</b>
<b>Investing activities</b>			
Additions to property, plant and equipment and intangible assets	34	(273)	(183)
Dividends from subsidiaries	12	270	231
Distributions from subsidiary	12	139	245
Changes in non-cash working capital balances	33	15	13
Other		(5)	(5)
<b>Net cash provided from investing activities</b>		<b>146</b>	<b>301</b>
<b>Financing activities</b>			
Proceeds from long-term debt	16	297	-
(Decrease) increase in short-term borrowings	16	(340)	360
Proceeds from related party promissory note	30	150	150
(Decrease) increase in long-term payable		(3)	10
Increase in deferred credits		51	41
Increase in deferred contributions	18	4	5
<b>Net cash provided from financing activities</b>		<b>159</b>	<b>566</b>
<b>Net (decrease) increase in cash</b>		<b>(117)</b>	<b>330</b>
Cash, beginning of the year		775	445
<b>Cash, end of the year</b>		<b>658</b>	<b>775</b>

*See accompanying notes*

## NEWFOUNDLAND AND LABRADOR HYDRO

### NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS

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#### 1. DESCRIPTION OF BUSINESS

Newfoundland and Labrador Hydro (Hydro or the Company) is a Crown corporation, formed through the amalgamation of former Newfoundland and Labrador Hydro and Nalcor Energy under a special act of the Legislature of the Province of Newfoundland and Labrador (the Province). The Company continues under the name "Newfoundland and Labrador Hydro". The principal activity of Hydro is the generation, transmission and sale of electricity. Hydro's operations include both regulated and non-regulated activities. Hydro's head office is located at 500 Columbus Drive in St. John's, Newfoundland and Labrador, A1B 0C9, Canada.

##### 1.1 Subsidiaries

Pursuant to the amalgamation, effective January 1, 2025, Hydro held interests in the following subsidiaries:

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 Hydro'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, 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 consolidated Labrador-Island Link Holding (2021) Corporation (LIL Holdco (2021)), created to control, manage and hold Hydro's interest in the LIL (2021) Limited Partnership (the 2021 Partnership or LIL (2021) LP). The consolidated LIL Holdco (2021) includes the financial statements of LIL Holdco (2021) and its subsidiary companies LIL (2021) LP, LIL Holdco, and LIL 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 Hydro'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. KKR Island Link Incorporated (KKR) holds 25 Class B units.

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

## **NEWFOUNDLAND AND LABRADOR HYDRO**

### **NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS**

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#### **1.2 Investment in Joint Arrangement**

Hydro holds 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).

## **2. MATERIAL ACCOUNTING POLICIES**

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

These annual audited non-consolidated financial statements (financial statements) have been prepared in accordance with IFRS® Accounting Standards, as issued by the International Accounting Standards Board (IASB) with the exception of Hydro's investments in joint arrangements and Hydro's investments in subsidiaries and related disclosures. These statements are non-consolidated as the investments in joint arrangement and investments in subsidiaries have been accounted for using the equity method of accounting, as described in Note 2.9 and Note 2.10. Hydro consolidated financial statements for the same period have been prepared for December 31, 2025.

These financial statements have been prepared on a historical cost basis, except for financial instruments at fair value through profit or loss (FVTPL) which have been measured at fair value. The financial statements are presented in Canadian Dollars (CAD) and all values rounded to the nearest million, except when otherwise noted. The financial statements were approved by Hydro's Board of Directors (the Board) on March 13, 2026.

#### **2.2 Business Combination**

Effective January 1, 2025, Nalcor Energy and its wholly owned subsidiary Newfoundland and Labrador Hydro were legislatively amalgamated into Hydro, a new legal corporation that continues under the name "Newfoundland and Labrador Hydro" (Hydro). Hydro continues to be 100% controlled by the Province. The Company holds the combined assets and liabilities of the former Newfoundland and Labrador Hydro legal entity and the former Nalcor Energy legal entity and is bound by any previously existing contracts and agreements from the former entities. As well, the security or guarantees provided by the Province to former Nalcor Energy continues with the Company after Amalgamation. The Amalgamation was accounted for as a business combination under common control.

Common control business combinations fall outside the scope of IFRS 3 Business Combinations and therefore management used its judgment to determine the appropriate accounting policy by applying other relevant guidance and conceptual framework principles under IFRS to reflect the economic reality of the transaction. Hydro's accounting policy is to use predecessor or book value accounting and record the assets and liabilities of the combined entities at the existing carrying values.

The comparative figures included in the Non-Consolidated Statement of Financial Position are the combination of the non-consolidated balances of former Newfoundland and Labrador Hydro and the non-consolidated balances of former Nalcor Energy as at December 31, 2024 and January 1, 2024 with any intercompany balances eliminated. The comparative figures in the Non-Consolidated Statement of Profit and Comprehensive Income are the combination of the non-consolidated amounts of former Newfoundland and Labrador Hydro and the non-consolidated amounts of former Nalcor Energy with any intercompany transactions eliminated for the year ended December 31, 2024. The comparative figures reflect the results of the amalgamated entities for all periods presented irrespective of when the amalgamation took place since throughout these periods the entities were under the common control of the Province.

The post-amalgamation Hydro non-consolidated financial statements cannot be read in conjunction with the pre-amalgamated Hydro non-consolidated financial statements since the amalgamation resulted in a newly formed entity that is a combination of two former entities.

#### **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.

## NEWFOUNDLAND AND LABRADOR HYDRO

### NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS

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#### 2.4 Inventories

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

#### 2.5 Property, Plant and Equipment

Items of property, plant and equipment are recognized at cost less accumulated depreciation and accumulated impairment losses. Cost includes materials, labour, contracted services, professional fees and, for qualifying assets, borrowing costs capitalized in accordance with Hydro's accounting policy outlined in Note 2.7. Costs capitalized with the related asset include all those costs directly attributable to bringing the asset into operation.

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

Depreciation commences when the assets are ready for their intended use. Residual values and useful lives are reviewed at the end of each year and adjusted prospectively, if appropriate. Depreciation is calculated on a straight-line basis over the estimated useful lives for all segments except Hydro Regulated, 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 13. The depreciation lives used are as follows:

Generation plant	3 to 110 years
Transmission and distribution	10 to 75 years
Other assets	3 to 75 years

Generation plant is comprised of hydroelectric, thermal and diesel generation. Hydroelectric generation plant includes the powerhouse, turbines, governors and generators, as well as water conveying and control structures, including dams, dykes, tailraces, penstocks and intake structures. Thermal generation plant is comprised of the powerhouse, turbines and generators, boilers, oil storage tanks, stacks, and auxiliary systems. Diesel generation plant includes the buildings, engines, generators, switchgear, fuel storage and transfer systems, dykes and liners and cooling systems.

Transmission and distribution include transmission and distribution lines and terminal stations. Transmission lines include the support structures, foundations and insulators associated with lines at voltages of 230, 138 and 69 kilovolt (kV). Terminal station assets are used to step up voltages of electricity for transmission and to step down voltages for distribution. Distribution system assets include poles, transformers, insulators, and conductors.

Other assets include telecontrol, buildings, vehicles, furniture, tools and equipment.

The carrying amount of a replaced asset is derecognized when replaced. Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recorded in Other expense (income). Pursuant to Board Order No. P.U. 30 (2019), Hydro Regulated's gains and losses are deferred on retirement of property, plant and equipment. The deferral will be recovered through future depreciation expense.

#### 2.6 Intangible Assets

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

## NEWFOUNDLAND AND LABRADOR HYDRO

### NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS

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

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

Computer software	7 to 10 years
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#### 2.7 Borrowing Costs

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

#### 2.8 Impairment of Non-Financial Assets

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

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

#### 2.9 Investments in Joint Arrangement

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

Hydro's investment in Churchill Falls is recorded using the equity method of accounting. Under the equity method, the interest in the investment is carried in the Non-Consolidated Statement of Financial Position at cost plus post acquisition changes in Hydro's share of net assets of the investment. The Non-Consolidated Statement of Profit and Comprehensive Income reflects the share of the profit or loss of the joint operation, adjusted for preferred dividends received.

#### 2.10 Investments in Subsidiaries

A subsidiary is an entity that is controlled by another entity. Hydro controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Hydro accounts for its investment in subsidiaries using the equity method of accounting. Under the equity method, the interest in the subsidiary is carried in the Non-Consolidated Statement of Financial Position at cost plus post acquisition changes in Hydro's share of net assets of the subsidiary. The Non-Consolidated Statement of Profit and Comprehensive Income reflects the share of the profit or loss of the subsidiary.

**NEWFOUNDLAND AND LABRADOR HYDRO**  
**NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS**

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**2.11 Employee Future Benefits**

(i) Pension Plan

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

(ii) Other Benefits

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

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

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

The retirement benefit obligation recognized in the Non-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 Hydro has a present legal obligation or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognized for future operating losses. The provision is measured at the present value of the best estimate of the expenditures expected to be required to settle the obligation using a discount rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. Provisions are re-measured at each Non-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 Non-Consolidated Statement of Profit and Comprehensive Income if the liability is short-term in nature.

**2.14 Revenue from Contracts with Customers**

Hydro recognizes revenue from contracts with customers related to the sale of electricity to regulated Provincial industrial, utility and direct customers in rural Newfoundland and Labrador and to non-regulated industrial, utility and external market customers. In addition, Hydro recognizes revenue from the sale of Greenhouse Gas performance credits.

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

## NEWFOUNDLAND AND LABRADOR HYDRO

### NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS

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Revenue from the sale of energy is recognized when Hydro satisfies its performance obligation by transferring energy to the customer. Sales within the Province are primarily at rates approved by the Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB), whereas export sales and sales to other certain major industrial customers are either at rates under the terms of the applicable contracts, or at market rates. Hydro recognizes revenue at the amount to which it has the right to invoice, which corresponds directly to the value of Hydro's performance to date.

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

#### 2.15 Leasing

##### Lessee Accounting

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

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

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

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

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

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

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

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

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

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

#### 2.16 Foreign Currencies

Transactions in currencies other than Hydro's functional currency (foreign currencies) are recognized using the exchange rate in effect at the date of transaction, approximated by the prior month end close rate. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates of exchange in effect at the period end date. Foreign exchange gains and losses not included in regulatory deferrals are recorded in the Non-Consolidated Statement of Profit and Comprehensive Income as Other expense (income).

#### 2.17 Income Taxes

Hydro 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 Non-Consolidated Statement of Financial Position when Hydro becomes a party to the contractual provisions of the instrument and are initially measured at fair value.

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

##### Financial Assets at Amortized Cost

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

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

##### Financial Assets at 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 a part of a designated hedging relationship. Currently, Hydro has no financial assets measured at FVTPL.

##### Financial Liabilities at Amortized Cost

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

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

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### NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS

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#### Financial Liabilities at FVTPL

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

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

#### Derecognition of Financial Instruments

Hydro derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

Hydro derecognizes financial liabilities when, and only when, its obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

#### Impairment of Financial Assets

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

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

For all other financial instruments, Hydro recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, Hydro measures the loss allowance for that financial instrument at an amount equal to the 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, the 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

#### **2.19 Government Grants**

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

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

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

## NEWFOUNDLAND AND LABRADOR HYDRO

### NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS

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#### 2.20 Regulatory Deferrals

Hydro's revenues from its electrical sales to most customers within the Province are subject to rate regulation by the PUB. Hydro's borrowing and capital expenditure programs are also subject to review and approval by the PUB. Rates are set through periodic general rate applications utilizing a cost of service methodology. Hydro's rate of return on average rate base approved in Board Order No. P.U. 10 (2025) is 5.45% in 2025 (2024 - 5.43%). 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 13.

### 3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

#### 3.1 Use of Judgments

(i) Property, Plant and Equipment

Hydro's accounting policy relating to property, plant and equipment is described in Note 2.5. In applying this policy, judgment is used in determining whether certain costs are additions to the carrying amount of the property, plant and equipment as opposed to repairs and maintenance. If an asset has been developed, judgment is required to identify the point at which the asset is capable of being used as intended and to identify the directly attributable borrowing costs to be included in the carrying value of the development asset. Judgment is also used in determining the appropriate componentization structure for Hydro's property, plant and equipment.

(ii) Revenue

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

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

(iii) Determination of CGUs

Hydro's accounting policy relating to impairment of non-financial assets is described in Note 2.8. In applying this policy, Hydro groups assets into the smallest identifiable group for which cash flows are largely independent of the cash flows from other assets or groups of assets. Judgment is used in determining the level at which cash flows are largely independent of other assets or groups of assets.

(iv) Discount Rates

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

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**NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS**

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(v) 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.

(vi) Joint Operation

Management applies its judgment when applying the criteria outlined in IFRS 11 to determine whether joint arrangements constitute joint ventures or joint operations.

**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 Hydro's assets. The useful lives of property, plant and equipment and intangible assets are determined by independent specialists and reviewed annually by Hydro. These useful lives are Management's best estimate of the service lives of these assets. Changes to these lives could materially affect the amount of depreciation and amortization recorded.

(ii) Decommissioning Liabilities

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

(iii) Employee Future Benefits

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

(iv) Deferred Assets and Derivative Liabilities

Effective October 1, 2015, Hydro entered into a power purchase agreement (PPA) with Energy Marketing which allows for the purchase of available Recapture energy from Hydro for resale by Energy Marketing. Additionally, the PPA allows for the use of Hydro's transmission service rights by Energy Marketing to deliver electricity, through rights which are provided to Hydro pursuant to a Transmission Service Agreement with Hydro-Québec dated April 1, 2009. The current terms of the PPA require a 60 day termination notice by either party. Management's assumption is that the term of the PPA, which commenced on January 1, 2026, will continue for at least the next 12 months.

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

## NEWFOUNDLAND AND LABRADOR HYDRO

### NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS

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

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

#### 4. CURRENT AND FUTURE CHANGES IN ACCOUNTING POLICIES

The following is a list of applicable standards/amendments that have been issued and are effective for accounting periods commencing on or after January 1, 2025, as specified.

- *Amendments to IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosure - Amendments to the Classification and Measurement of Financial Instruments*<sup>1</sup>
- *Amendments to IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosure - Contracts Referencing Nature-dependent Electricity*<sup>1</sup>
- *IFRS 18 – Presentation and Disclosures in Financial Statements*<sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after January 1, 2026, with earlier application permitted.

<sup>2</sup> Effective for annual periods beginning on or after January 1, 2027, with earlier application permitted.

##### 4.1 Amendments to IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosure - Amendments to the Classification and Measurement of Financial Instruments

The IASB issued amendments to IFRS 9 and IFRS 7 to provide clarification and enhancement on classification and measurement of financial instruments. The amendments permit an entity to deem a financial liability or part of a financial liability that is settled using an electronic payment system to be discharged and derecognized before the settlement date if specified criteria are met. The amendments also provide guidance on how an entity should assess whether contractual cash flows of a financial asset are consistent with a basic lending arrangement, enhance the description of the term 'non-recourse', and clarify the characteristics of contractually linked instruments that distinguish them from other transactions. Furthermore, the amendments add new disclosure requirements for investments in equity instruments designated at FVTOCI and contractual terms that could change the timing or amount of contractual cash flows. The amendments are required to be applied retrospectively. The application of these amendments will not have a material impact on Hydro's financial statements.

##### 4.2 Amendments to IFRS 9 - Financial Instruments and IFRS 7 - Financial Instruments: Disclosure – Contracts Referencing Nature-dependent Electricity

The IASB issued amendments to IFRS 9 and IFRS 7 to provide a reasonable basis for an entity to determine the required accounting for contracts referencing nature-dependent electricity which are often structured as power purchase agreements. The amendments include clarifying the application of the 'own-use' requirements, permitting hedge accounting if these contracts are used as hedging instruments, and adding new disclosure requirements to enable investors to understand the effect of these contracts on a company's financial performance and cash flows. The amendments are applied retrospectively upon adoption. The application of these amendments will not have a material impact on Hydro's financial statements.

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**4.3 IFRS 18 – Presentation and Disclosures in Financial Statements**

IFRS 18 replaces IAS 1, carrying forward many of the requirements of IAS 1 unchanged and introducing new requirements to present specified categories and defined subtotals in the statement of profit or loss. As well, entities will be required to provide disclosures on management-defined performance measures in the notes to the financial statements and improve aggregation and disaggregation. In addition, some IAS 1 paragraphs have been moved to IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors and IFRS 7. Furthermore, the IASB has made minor amendments to IAS 7 – Statement of Cash Flows.

An entity is required to apply IFRS 18 for annual reporting periods beginning on or after January 1, 2027, with earlier application permitted. The amendments to IAS 7, as well as the revised IAS 8 and IFRS 7, become effective when an entity applies IFRS 18. IFRS 18 requires retrospective application with specific transition provisions. Management is currently assessing the potential impact on Hydro’s financial statements and expects adoption of the standard to result in significant changes to presentation and disclosure, especially as it relates to the presentation of the Non-Consolidated Statement of Profit and Comprehensive Income.

**5. TRADE AND OTHER RECEIVABLES**

<i>(millions of Canadian dollars)</i>	Note	<b>December 31 2025</b>	December 31 2024	January 1 2024
Trade receivables		<b>177</b>	158	138
Due from related parties	30	<b>34</b>	54	17
Other receivables		<b>22</b>	25	10
Loss allowance		<b>(25)</b>	(24)	(23)
		<b>208</b>	213	142

<i>(millions of Canadian dollars)</i>	<b>December 31 2025</b>	December 31 2024	January 1 2024
0-60 days	<b>206</b>	210	140
60+ days	<b>2</b>	3	2
	<b>208</b>	213	142

<i>(millions of Canadian dollars)</i>	<b>December 31 2025</b>	December 31 2024
Loss allowance, beginning of the year		(24)
Change in balance during the year		(1)
Loss allowance, end of the year		(25)

**6. INVENTORIES**

<i>(millions of Canadian dollars)</i>	<b>December 31 2025</b>	December 31 2024	January 1 2024
Fuel	<b>49</b>	59	59
Materials and other	<b>49</b>	47	44
	<b>98</b>	106	103

The cost of inventories recognized as an expense during the year is \$174.4 million (2024 - \$173.1 million) and is included in operating costs and fuels.

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**7. DEFERRED ASSET**

The deferred asset is related to Hydro's Power Purchase Agreement (PPA) with Energy Marketing. In December 2025, Management assessed the anticipated contract term and determined that a new deferred asset and derivative liability was required. This resulted in a deferred asset addition of \$109.8 million (2024 - \$83.9 million) to be amortized into income on a straight-line basis over the assumed twelve month term, commencing on January 1, 2026. The components of change are as follows:

<i>As at December 31 (millions of Canadian dollars)</i>	<b>2025</b>	2024
Deferred asset, beginning of the year	<b>84</b>	68
Additions	<b>110</b>	84
Amortization	<b>(84)</b>	(68)
Deferred asset, end of the year	<b>110</b>	84

**8. 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, 2024	1,538	3,077	172	299	5,086
Additions	2	-	-	186	188
Disposals	(15)	(2)	(9)	-	(26)
Transfers	101	75	33	(209)	-
Decommissioning liabilities and revisions	1	-	-	-	1
Other adjustments	(4)	-	-	1	(3)
Balance at December 31, 2024	1,623	3,150	196	277	5,246
<b>Additions</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>281</b>	<b>282</b>
<b>Disposals</b>	<b>(29)</b>	<b>(2)</b>	<b>(7)</b>	<b>-</b>	<b>(38)</b>
<b>Transfers</b>	<b>155</b>	<b>57</b>	<b>28</b>	<b>(241)</b>	<b>(1)</b>
<b>Decommissioning liabilities and revisions</b>	<b>6</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6</b>
<b>Other adjustments</b>	<b>-</b>	<b>(1)</b>	<b>-</b>	<b>-</b>	<b>(1)</b>
<b>Balance at December 31, 2025</b>	<b>1,756</b>	<b>3,204</b>	<b>217</b>	<b>317</b>	<b>5,494</b>
<b>Depreciation</b>					
Balance at January 1, 2024	407	338	67	55	867
Depreciation	40	64	9	-	113
Disposals	(11)	-	(8)	-	(19)
Impairment	1	-	-	-	1
Balance at December 31, 2024	437	402	68	55	962
<b>Depreciation</b>	<b>46</b>	<b>66</b>	<b>11</b>	<b>-</b>	<b>123</b>
<b>Disposals</b>	<b>(14)</b>	<b>-</b>	<b>(6)</b>	<b>-</b>	<b>(20)</b>
<b>Balance at December 31, 2025</b>	<b>469</b>	<b>468</b>	<b>73</b>	<b>55</b>	<b>1,065</b>
<b>Carrying value</b>					
Balance at January 1, 2024	1,131	2,739	105	244	4,219
Balance at December 31, 2024	1,186	2,748	128	222	4,284
<b>Balance at December 31, 2025</b>	<b>1,287</b>	<b>2,736</b>	<b>144</b>	<b>262</b>	<b>4,429</b>

Capitalized interest for the year ended December 31, 2025 was \$3.4 million (2024 - \$2.0 million) related to assets under development.

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**9. INTANGIBLE ASSETS**

<i>(millions of Canadian dollars)</i>	Computer Software	Assets Under Development	Total
<b>Cost</b>			
Balance at January 1, 2024	57	9	66
Additions	-	1	1
Disposals	-	(3)	(3)
Transfers	3	(3)	-
<b>Balance at December 31, 2024</b>	<b>60</b>	<b>4</b>	<b>64</b>
<b>Additions</b>	<b>1</b>	<b>1</b>	<b>2</b>
<b>Disposals</b>	<b>(1)</b>	<b>-</b>	<b>(1)</b>
<b>Transfers</b>	<b>1</b>	<b>-</b>	<b>1</b>
<b>Balance at December 31, 2025</b>	<b>61</b>	<b>5</b>	<b>66</b>
<b>Amortization</b>			
Balance at January 1, 2024	32	-	32
Amortization	5	-	5
<b>Balance at December 31, 2024</b>	<b>37</b>	<b>-</b>	<b>37</b>
<b>Amortization</b>	<b>5</b>	<b>-</b>	<b>5</b>
<b>Disposals</b>	<b>(1)</b>	<b>-</b>	<b>(1)</b>
<b>Balance at December 31, 2025</b>	<b>41</b>	<b>-</b>	<b>41</b>
<b>Carrying value</b>			
Balance at January 1, 2024	25	9	34
Balance at December 31, 2024	23	4	27
<b>Balance at December 31, 2025</b>	<b>20</b>	<b>5</b>	<b>25</b>

**10. SINKING FUND INVESTMENTS**

As at December 31, 2025, sinking funds include \$214.0 million (2024 - \$211.2 million) related to repayment of Hydro's long-term debt and \$32.6 million (2024 - \$33.5 million) related to funding of Hydro's long-term payable under the Upper Churchill Redress Agreement (UCRA). 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 2026 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 Non-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 6.25% (2024 - 1.42% to 6.82%).

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

<i>As at December 31 (millions of Canadian dollars)</i>	2025	2024
Sinking funds, beginning of the year	245	240
Contributions	7	7
Change in sinking fund investments in own debentures	(20)	(17)
Earnings	17	17
Disposals and maturities	(2)	(2)
Sinking funds, end of the year	247	245
Less: sinking fund investments maturing within one year	(115)	(22)
	132	223

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

<i>(millions of Canadian dollars)</i>	2026	2027	2028	2029	2030
Sinking fund instalments	9	9	9	9	9

**11. INVESTMENT IN JOINT ARRANGEMENT**

<i>(millions of Canadian dollars)</i>	Ownership Interest	December 31 2025	December 31 2025	January 1 2024
Churchill Falls	65.8%			
Shares, at cost		167	167	167
Equity in retained earnings, beginning of the year		607	561	531
Accumulated other comprehensive income, beginning of year		4	3	4
Equity in profit for the year		43	46	30
Other comprehensive income (loss)		3	1	(1)
		824	778	731

**12. INVESTMENTS IN SUBSIDIARIES**

Hydro held a 100% ownership interest in the following subsidiaries. The movement in the investment balances during the year were as follows:

<i>As at December 31 (millions of Canadian dollars)</i>	Energy Marketing	Muskrat Falls	Labrador Transco	LCMC	LILLIL Holdco Opco (2021)	Oil and Gas	Total
Balance at January 1, 2024	39	3,005	554	1	21	327	4,650
Equity in profit for the year	50	348	68	-	5	149	737
Dividends	(48)	(85)	(12)	-	-	(86)	(231)
Non-cash distribution from subsidiary <sup>1</sup>	-	(110)	-	-	-	-	(110)
Equity contributions (distributions)	-	1	-	-	-	(246)	(245)
Other comprehensive income	-	3	1	-	-	-	4
Balance at December 31, 2024	41	3,162	611	1	26	230	4,805
Equity in profit for the year	83	452	69	-	3	139	844
Dividends	(81)	(78)	(12)	-	-	(99)	(270)
Non-cash distribution from subsidiary <sup>1</sup>	-	(93)	-	-	-	-	(93)
Equity distributions	-	-	-	-	-	(139)	(139)
Other comprehensive income	-	2	1	-	-	-	3
Balance at December 31, 2025	43	3,445	669	1	29	230	5,150

<sup>1</sup> The non-cash distribution from subsidiary relates to the reduction in the deferred credits for the delivery of the Nova Scotia Block.

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**13. REGULATORY DEFERRALS**

<i>(millions of Canadian dollars)</i>	Jan 1	Reclass &	Regulatory	Dec 31	Reclass &	Regulatory	Dec 31
	2024	Disposition	Activity	2024	Disposition	Activity	2025
<b>Regulatory asset deferrals</b>							
Power purchase expense recognition (a)	440	-	286	726	-	422	<b>1,148</b>
Supply cost variance deferral account (b)	271	-	261	532	(6)	(176)	<b>350</b>
Retirement asset pool (c)	40	-	6	46	-	18	<b>64</b>
Muskrat Falls PPA monetization (d)	13	-	61	74	-	(25)	<b>49</b>
Foreign exchange losses <sup>1</sup> (e)	39	-	(2)	37	-	(2)	<b>35</b>
Muskrat Falls PPA sustaining capital (f)	5	-	11	16	-	6	<b>22</b>
Business system transformation program (g)	9	-	2	11	-	2	<b>13</b>
Rate stabilization plan (RSP) (h)	47	12	(28)	31	6	(25)	<b>12</b>
Deferred energy conservation costs (i)	7	-	1	8	-	1	<b>9</b>
Supply deferral (j)	12	(12)	6	6	(6)	6	<b>6</b>
General expenses capitalized deferral account (k)	-	-	-	-	-	6	<b>6</b>
Other	6	-	-	6	-	1	<b>7</b>
Rate mitigation funding revenue recognition (l)	-	-	-	-	(704)	704	<b>-</b>
	<b>889</b>	<b>-</b>	<b>604</b>	<b>1,493</b>	<b>(710)</b>	<b>938</b>	<b>1,721</b>
<b>Regulatory liability deferrals</b>							
Removal provision (m)	(23)	-	(4)	(27)	-	(4)	<b>(31)</b>
Holyrood thermal generating station (TGS) accelerated depreciation deferral account (n)	(10)	-	(4)	(14)	-	-	<b>(14)</b>
Insurance amortization and proceeds (o)	(4)	-	-	(4)	-	-	<b>(4)</b>
Other	(6)	-	(1)	(7)	6	-	<b>(1)</b>
	<b>(43)</b>	<b>-</b>	<b>(9)</b>	<b>(52)</b>	<b>6</b>	<b>(4)</b>	<b>(50)</b>

<sup>1</sup> Remaining recovery settlement period of 16.0 years.

**13.1 Regulatory Adjustments Recorded in the Non-Consolidated Statement of Profit and Comprehensive Income**

<i>For the year ended December 31 (millions of Canadian dollars)</i>		<b>2025</b>	2024
Rate mitigation funding revenue recognition (l)		<b>(704)</b>	(240)
Power purchase expense recognition (a)		<b>(422)</b>	(286)
Supply cost variance deferral account (b)		<b>176</b>	(261)
Muskrat Falls PPA monetization (d)		<b>25</b>	(61)
RSP (h)		<b>25</b>	28
Retirement asset pool (c)		<b>(18)</b>	(6)
Muskrat Falls PPA sustaining capital (f)		<b>(6)</b>	(11)
Supply deferral (j)		<b>(6)</b>	(6)
General expenses capitalized deferral account (k)		<b>(6)</b>	-
Removal provision (m)		<b>4</b>	4
Holyrood TGS accelerated depreciation deferral account (n)		<b>-</b>	4
Other (e,g,i,o)		<b>(4)</b>	(2)
		<b>(936)</b>	(837)

The following section describes Hydro's regulatory assets and liabilities which will be, or are expected to be, reflected in customer rates in future periods and have been established through the rate setting process. In the absence of rate regulation, these amounts would be reflected in operating results in the year and profit for 2025 would have decreased by \$936.2 million (2024 - \$837.2 million).

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**13.(a) Power Purchase Expense Recognition**

In Board Order No's. P.U. 9 (2021) and P.U. 33 (2021), the PUB approved Hydro's proposal to deviate from IFRS to allow recognition of expenses related to the purchase of energy in accordance with the commercial terms of the Muskrat Falls Power Purchase Agreement and Labrador-Island Link Transmission Funding Agreement (TFA). For the year ended December 31, 2025, IFRS power purchase expenses were \$421.7 million (2024 - \$286.2 million) higher than commercial payments which resulted in a total regulatory asset of \$1.1 billion (2024 - \$726.5 million). Costs associated with the contract payments made under the Muskrat Falls PPA and Labrador-Island Link TFA for the year were \$772.7 million (2024 - \$710.6 million).

**13.(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.

On May 16, 2024, the Province announced the finalization of its Rate Mitigation Plan. The Plan ensures domestic rate increases, for customers subject to Island Interconnected System rates, attributable to Hydro's costs are targeted at 2.25% per year up to and including 2030. The Plan also requires that any additional rate mitigation funding required to mitigate Lower Churchill costs for the period up to and including 2030 to come from Hydro's own sources to the extent possible. The Province has also directed Hydro to retire the ending 2023 Supply Cost Variance Deferral Account (SCVDA) balance of \$271.3 million over the 2024-2026 period. As described in Note 27, Hydro Regulated applied \$704.4 million (2024 - \$240.3 million) of rate mitigation funding from internal sources to reduce the balance in the SCVDA.

In Board Order No. P.U. 21 (2025), the PUB approved the transfer of the \$5.7 million credit balance, as of December 31, 2023, in the Hydraulic Resources Optimization Deferral Account (included in "Other" in Regulatory liability deferrals) to the SCVDA. The transfer, along with the rate mitigation funding offset by normal activity of the SCVDA of \$528.8 million (2024 - \$500.8 million) resulted in a net decrease in the account of \$181.3 million (2024 - \$260.4 million increase). The total balance owing from customers at December 31, 2025 is \$350.4 million (2024 - \$531.7 million).

**13.(c) Retirement Asset Pool**

In 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 2025, Hydro deferred \$17.5 million (2024 - \$5.8 million) of asset retirement activity resulting in a total balance of \$63.4 million (2024 - \$45.9 million).

**13.(d) 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. On December 31, 2025, Hydro recorded an estimate for monetization related to the 2025 undelivered Schedule II energy of \$48.8 million, resulting in a regulatory receivable. The December 31, 2024 monetization of \$73.8 million was reversed upon actual monetization in 2025 of \$73.8 million.

**13.(e) 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 2025, amortization expense of \$2.2 million (2024 - \$2.2 million) was recorded.

**13.(f) 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 2025, Hydro has deferred \$6.3 million (2024 - \$11.0 million) in contribution activity

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resulting in a total balance of \$22.2 million (2024 - \$15.9 million).

**13.(g) Business System Transformation Program**

In 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. In 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. During the year, Hydro deferred \$1.5 million (2024 - \$1.5 million), resulting in a total deferral of \$12.2 million (2024 - \$10.7 million).

**13.(h) 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 2025, Hydro recovered \$26.1 million (2024 - \$30.2 million) from customers and recorded \$1.2 million in interest for future recovery from customers (2024 - \$2.2 million). As well, Board Order No. P.U. 13 (2025) approved the recovery of the 2024 Isolated Systems Supply Cost Variance Deferral from the RSP Current Plan resulting in an increase to the RSP of \$6.5 million (2024 - \$11.6 million). This activity resulted in a remaining balance for future recovery from customers of \$12.6 million (2024 - \$31.0 million).

**13.(i) Deferred Energy Conservation Costs**

In 2025, Hydro deferred \$1.7 million (2024 - \$1.4 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) and Board Order No. P.U. 37 (2022), Hydro recovered \$1.1 million (2024 - \$0.9 million) of the balance through a rate rider which resulted in a total deferred balance of \$8.4 million (2024 - \$7.8 million).

**13.(j) Supply Deferral**

During 2025, Hydro deferred costs of \$6.3 million (2024 - \$5.6 million) and per Board order No. P.U. 13 (2025), recorded the disposal of the 2024 Isolated Systems Supply Cost Variance Deferral balance of \$6.7 million (2024 - \$11.6 million) with \$6.5 million recovered from the current RSP Plan. This activity resulted in a balance receivable from customers of \$6.3 million (2024 - \$6.7 million).

**13.(k) General Expenses Capitalized Deferral Account (GEC)**

In Board Order No. P.U. 32 (2025), the PUB approved Hydro's proposal to establish an account to defer the portion of labour expenses which are directly attributable to Hydro's capital program but cannot, based on their general nature, be assigned to a specific capital project. In 2025, Hydro deferred \$6.3 million as a regulatory asset relating to GEC costs incurred (2024 - \$nil).

**13.(l) Rate Mitigation Funding Revenue Recognition**

Upon amalgamation, as described in Note 2.2, rate mitigation funding from internally generated funds no longer qualifies as revenue for Hydro Regulated under IFRS Accounting Standards. In Board Order No. P.U. 34 (2025), effective January 1, 2025, the PUB approved Hydro Regulated's accounting of rate mitigation funding as revenue, consistent with the treatment prior to amalgamation. Accordingly, Hydro Regulated recognized \$704.4 million in rate mitigation funding received from Hydro Non-Regulated as revenue for regulatory purposes and deferred this in the SCVDA (2024 - \$240.3 million). Please refer to Note 13(b) for further information.

**13.(m) Removal Provision**

In 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 2025 activity of \$3.8 million (2024 - \$4.1 million) resulting in a total balance of \$30.7 million (2024 - \$26.9 million). The increase was driven by

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removal depreciation of \$6.0 million (2024 - \$5.8 million) which was partially offset by removal costs of \$2.2 million (2024 - \$1.7 million).

**13.(n) 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 2024 and 2025 and the accelerated depreciation expense included in the approved 2019 Test Year. For the year ended December 31, 2025, the Holyrood accelerated depreciation expense was within the ±\$2.5 million threshold (2024 - \$4.3 million) in comparison to the 2019 Test Year depreciation resulting in no change to the regulatory liability of \$14.1 million (2024 - \$14.1 million). The disposition of the balance of this account is subject to a future Board Order from the PUB.

**13.(o) 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 2025, Hydro recorded a net decrease of \$0.1 million (2024 - \$0.1 million) to the regulatory liability resulting in a balance of \$3.8 million (2024 - \$3.9 million). The decrease was driven by amortization of \$0.1 million (2024 - \$0.1 million).

**14. TRADE AND OTHER PAYABLES**

<i>(millions of Canadian dollars)</i>	Note	December 31 2025	December 31 2024	January 1 2024
Trade payables		156	130	109
Due to related parties	30	57	64	39
Other payables		41	27	29
Accrued interest payable		17	17	17
		<b>271</b>	<b>238</b>	<b>194</b>

**15. OTHER CURRENT LIABILITIES**

<i>(millions of Canadian dollars)</i>	Notes	December 31 2025	December 31 2024	January 1 2024
Current portion of long-term debt	16	231	7	7
Derivative liability	29	110	84	68
Current portion of deferred credits	17	100	105	100
Current portion of long-term payables	22 (a)	18	18	8
Current portion of deferred contributions	18	1	1	1
Current portion of decommissioning liabilities	19	1	2	-
		<b>461</b>	<b>217</b>	<b>184</b>

**16. DEBT**

**16.1 Short-term Borrowings**

Hydro maintains a \$740.0 million committed revolving term credit facility with its banker with a maturity date of July 31, 2026. As at December 31, 2025 there was no balance drawn on this facility (2024 - \$290.0 million CORRA advance with a maturity date of January 2, 2025 bearing interest at a rate of 4.09%). A total of \$6.1 million of the borrowing limit has been used to issue letters of credit (2024 - \$6.3 million CAD equivalent to issue letters of credit).

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Hydro utilized its \$300.0 million government guaranteed promissory note program to fulfil its short-term funding requirements. As of December 31, 2025, there were promissory notes outstanding totalling \$250.0 million with a maturity date of January 2, 2026, bearing interest at a rate of 2.26% (2024 - promissory notes outstanding totalling \$300.0 million with a maturity date of January 2, 2025 bearing interest at rates ranging from 3.31% to 3.36%). Upon maturity, the promissory notes were reissued.

**16.2 Long-term Debt**

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

<i>(millions of Canadian dollars)</i>	Face Value	Coupon Rate %	Year of Issue	Year of Maturity	<b>December 31 2025</b>	December 31 2024	January 1 2024
Y *	300	8.40	1996	2026	<b>300</b>	299	298
AB *	300	6.65	2001	2031	<b>303</b>	303	304
AD *	125	5.70	2003	2033	<b>124</b>	124	124
AF	500	3.60	2014/2017	2045	<b>484</b>	483	483
1A	600	3.70	2017/2018	2048	<b>634</b>	636	636
2A	300	1.75	2021	2030	<b>293</b>	291	290
3A *	300	4.60	2025	2055	<b>297</b>	-	-
<b>Total</b>	<b>2,425</b>				<b>2,435</b>	2,136	2,135
<b>Less: Sinking fund investments in own debentures</b>					<b>148</b>	128	111
					<b>2,287</b>	2,008	2,024
Maturities of debentures within					<b>300</b>	-	-
Sinking fund payments due within					<b>9</b>	7	7
Maturities of sinking funds in own debentures					<b>(78)</b>	-	-
<b>Less: Repayment of debt</b>					<b>231</b>	7	7
<b>Total</b>					<b>2,056</b>	2,001	2,017

\*Sinking funds have been established for these issues.

With the exception of Series 1A, 2A and 3A, 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. Series 1A, 2A and 3A bonds were issued by the Province and lent to Hydro on the same terms and conditions. The Province charges Hydro a guarantee fee of 25 basis points annually on the total debt (net of sinking funds) with a remaining term to maturity of less than or equal to 10 years and 50 basis points annually on total debt (net of sinking funds) with a remaining term to maturity greater than 10 years for debt outstanding as of December 31, 2010. For debt issued subsequent to December 31, 2010, the guarantee rate is 25 basis points annually on the total debt (net of sinking funds) with an original term to maturity of less than or equal to 10 years and 50 basis points annually on total debt (net of sinking funds) with an original term to maturity greater than 10 years. The guarantee fee recorded for the year ended December 31, 2025 was \$9.0 million (2024 - \$8.9 million).

On November 21, 2025 the Province issued long-term debt with a face value of \$300.0 million, specifically on Hydro's behalf. The debt matures on October 17, 2055, has a coupon rate of 4.60% paid semi-annually, and a sinking fund contribution requirement of 1.5% paid annually.

On February 27, 2026 Hydro's \$300.0 million long-term debt, Series Y, matured. Sinking fund disposals and coupon payments received subsequent to year end in the amount of \$184.4 million were used to repay the Series Y maturity.

**17. DEFERRED CREDITS**

Deferred credits primarily consist of deferred energy sales to Emera Inc. (Emera), deferred revenue related to Menihék assets for the sale of energy to Hydro-Québec, contributions received from customers to complete interconnection studies and obligations to provide future transmission services to Energy Marketing.

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<i>(millions of Canadian dollars)</i>	Deferred Energy Sales	Deferred Revenue	Other	Total
Balance at January 1, 2024	1,615	63	3	1,681
Additions	26	17	24	67
Amortization	(110)	(2)	(19)	(131)
Balance at December 31, 2024	1,531	78	8	1,617
<b>Additions</b>	<b>28</b>	<b>31</b>	<b>21</b>	<b>80</b>
<b>Amortization</b>	<b>(94)</b>	<b>(3)</b>	<b>(20)</b>	<b>(117)</b>
<b>Revisions</b>	<b>-</b>	<b>-</b>	<b>(1)</b>	<b>(1)</b>
<b>Balance at December 31, 2025</b>	<b>1,465</b>	<b>106</b>	<b>8</b>	<b>1,579</b>
<b>Less: current portion</b>	<b>(88)</b>	<b>(4)</b>	<b>(8)</b>	<b>(100)</b>
	<b>1,377</b>	<b>102</b>	<b>-</b>	<b>1,479</b>

Hydro has recorded deferred energy sales of \$1,465.1 million (2024 - \$1,530.8 million) which represents Hydro's obligation to deliver the Nova Scotia Block to Emera in exchange for construction and operation and maintenance of the Maritime Link. Hydro 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.

**18. DEFERRED CONTRIBUTIONS**

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

<i>As at December 31 (millions of Canadian dollars)</i>	2025	2024
Deferred contributions, beginning of the year	42	38
Additions	4	5
Amortization	(1)	(1)
Deferred contributions, end of the year	45	42
Less: current portion	(1)	(1)
	44	41

**19. DECOMMISSIONING LIABILITIES**

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

The reconciliation of the beginning and ending carrying amounts of decommissioning liabilities are as follows:

<i>As at December 31 (millions of Canadian dollars)</i>	2025	2024
Decommissioning liabilities, beginning of the year	29	27
Liabilities settled	(2)	-
Accretion	1	1
Revisions	6	1
Decommissioning liabilities, end of the year	34	29
Less: current portion	(1)	(2)
	33	27

The total estimated undiscounted cash flows required to settle the Holyrood TGS obligations at December 31, 2025 are \$39.8 million (2024 - \$34.9 million). Payments to settle the liability are expected to occur between 2026 and 2031. 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 3.2% (2024 - 3.4%). Hydro has recorded \$33.8 million (2024 - \$28.5 million) related to Holyrood TGS obligations.

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The total estimated undiscounted cash flows required to settle the PCB obligations at December 31, 2025 are \$nil (2024 - \$0.2 million). Final payments to settle the liability were complete as of December 31, 2025.

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

**20. LEASES**

**Amounts Recognized in the Non-Consolidated Statement of Profit and Comprehensive Income**

<i>For the year ended December 31 (millions of Canadian dollars)</i>	<b>2025</b>	<b>2024</b>
Variable lease payments not included in the measurement of leases	(a) <b>25</b>	<b>28</b>

- (a) Variable lease payments not included in the measurement of leases include purchases of power generated from assets which are owned by the Province. These assets are operated on behalf of the Province on a cost recovery basis, as disclosed in Note 30.

The total cash outflow for leases for the year ended December 31, 2025 amount to \$25.0 million (2024 - \$28.4 million).

**21. EMPLOYEE FUTURE BENEFITS**

**21.1 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, 2025 of \$13.4 million (2024 - \$12.5 million) were expensed as incurred.

**21.2 Other Benefits**

Hydro provides group life insurance and health care benefits on a cost shared basis to retired employees, and in certain cases their surviving spouses, in addition to a retirement allowance. In 2025, cash payments for its unfunded other employee future benefits were \$3.9 million (2024 - \$3.3 million). An actuarial valuation was performed as at December 31, 2025.

<i>As at December 31 (millions of Canadian dollars)</i>	<b>2025</b>	<b>2024</b>
Accrued benefit obligation, beginning of the year	<b>105</b>	97
Current service cost	<b>4</b>	3
Interest cost	<b>5</b>	5
Benefits paid	<b>(4)</b>	(3)
Actuarial (gain) loss	(a) <b>(4)</b>	3
Accrued benefit obligation, end of the year	<b>106</b>	105

- (a) Pursuant to Board Order No. P.U. 36 (2015), Hydro recorded \$0.7 million (2024 - \$1.0 million) of employee future benefits losses as a regulatory adjustment to decrease other comprehensive income and recognize the amount in profit or loss.

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<i>For the year ended December 31 (millions of Canadian dollars)</i>	<b>2025</b>	<b>2024</b>
Component of benefit cost		
Current service cost	<b>4</b>	<b>3</b>
Interest cost	<b>5</b>	<b>5</b>
<b>Total benefit expense for the year</b>	<b>9</b>	<b>8</b>

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

	<b>2025</b>	<b>2024</b>
Discount rate - benefit cost	<b>4.70%</b>	4.65%
Discount rate - accrued benefit obligation	<b>4.95%</b>	4.70%
Rate of compensation increase	<b>3.50%</b>	3.50%

Assumed healthcare trend rates:

	<b>2025</b>	<b>2024</b>
Initial health care expense trend rate	<b>5.70%</b>	5.85%
Cost trend decline to	<b>3.60%</b>	3.60%
Current rate 5.70%, reducing linearly to 3.60% in 2040 and thereafter.		

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

<i>Increase (millions of Canadian dollars)</i>	<b>2025</b>	<b>2024</b>
Current service and interest cost	<b>1.3</b>	1.2
Accrued benefit obligation	<b>13.3</b>	13.7
<i>Decrease (millions of Canadian dollars)</i>	<b>2025</b>	<b>2024</b>
Current service and interest cost	<b>(1.0)</b>	(0.9)
Accrued benefit obligation	<b>(10.6)</b>	(10.9)

**22. OTHER LONG-TERM LIABILITIES**

<i>(millions of Canadian dollars)</i>	Note	<b>December 31 2025</b>	December 31 2024	January 1 2024
Long-term payables	(a)	<b>36</b>	37	36
Non-current lease liabilities		<b>3</b>	3	3
		<b>39</b>	40	39

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**(a) Long-term payables**

<i>As at December 31 (millions of Canadian dollars)</i>	<b>2025</b>	<b>2024</b>
Long-term payables, beginning of the year	<b>55</b>	44
Additions	-	6
Settlements	<b>(18)</b>	(5)
Accretion	<b>2</b>	2
Revisions	<b>15</b>	8
Long-term payables, end of the year	<b>54</b>	55
Less: current portion	<b>(18)</b>	(18)
	<b>36</b>	37

As at December 31, 2025, current portion of long-term payables primarily relates to payments owing to the Innu Nation under the Amended IBA. Long-term payables primarily consists of a payable to the Innu Nation under the UCRA. Under the UCRA, Hydro is required to pay to the Innu Nation \$2.0 million annually, escalating by 2.5% annually until 2041. At December 31, 2025, \$2.8 million (2024 - \$2.8 million) of the amount is current and is recorded in Other current liabilities. Hydro has sinking funds in the amount of \$32.6 million (2024 - \$33.5 million) to fund UCRA obligations.

**23. SHAREHOLDER'S EQUITY**

**23.1 Share Capital**

<i>(millions of Canadian dollars)</i>	<b>December 31 2025</b>	December 31 2024	January 1 2024
Common shares of par value of \$1 each			
Authorized: unlimited			
Issued and outstanding: 122,500,000	<b>123</b>	123	123

**23.2 Shareholder Contributions**

<i>(millions of Canadian dollars)</i>	<b>December 31 2025</b>	December 31 2024	January 1 2024
Shareholder contributions, beginning of the year	<b>4,793</b>	4,793	4,793
Regulatory adjustment, beginning of the year	<b>(8)</b>	(7)	(6)
Amortization recognized as a regulatory adjustment	<b>(1)</b>	(1)	(1)
	<b>4,784</b>	4,785	4,786

**24. OTHER REVENUE**

<i>For the year ended December 31 (millions of Canadian dollars)</i>	Note	<b>2025</b>	<b>2024</b>
Transmission tariff revenue	30	<b>40</b>	37
Lease revenue		<b>17</b>	15
Greenhouse Gas performance credit sales		<b>16</b>	20
Other		<b>9</b>	6
Total other revenue		<b>82</b>	78

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**25. OPERATING COSTS**

<i>For the year ended December 31 (millions of Canadian dollars)</i>	Note	2025	2024
Salaries and benefits		123	112
Maintenance and materials		58	54
Professional services		37	33
Impacts and Benefits agreement and amendment	30	14	35
Other		3	8
<b>Total operating costs</b>		<b>235</b>	<b>242</b>

**26. NET FINANCE EXPENSE**

<i>For the year ended December 31 (millions of Canadian dollars)</i>	2025	2024
Finance income		
Bank interest income	18	32
Sinking fund interest	17	16
Other interest	3	3
	<b>38</b>	<b>51</b>
Finance expense		
Long-term debt	99	98
Short-term borrowings	14	21
Debt guarantee fee	9	9
Other	5	5
	<b>127</b>	<b>133</b>
Interest capitalized during construction	<b>(3)</b>	<b>(2)</b>
	<b>124</b>	<b>131</b>
Net finance expense	<b>86</b>	<b>80</b>

**27. RATE MITIGATION EXPENSE**

As part of the Province's Rate Mitigation Plan which was finalized in May 2024, Hydro is directed by the Province to apply internal funds towards mitigating customer rates in Hydro Regulated. In 2022, Hydro, the Province and the Government of Canada signed term sheets enabling access to a \$1.0 billion investment by the Government of Canada in the LIL in the form of convertible debenture, for use for rate mitigation. Hydro has the ability to draw up to \$150.0 million a year on the convertible debenture funding.

A summary of the rate mitigation funding applied is noted in the table below:

<i>For the year ended December 31 (millions of Canadian dollars)</i>	2025	2024
Government directed rate mitigation funding	554	90
Convertible debt funds used for rate mitigation	150	150
<b>Total rate mitigation expense</b>	<b>704</b>	<b>240</b>

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**28. OTHER EXPENSE (INCOME)**

<i>For the year ended December 31 (millions of Canadian dollars)</i>	Note	2025	2024
Loss on disposal of property, plant and equipment		18	6
Foreign exchange (gain) loss		(3)	3
Removal costs		2	2
Other		4	10
Impacts and Benefits agreement and amendment recovery	30	(14)	(35)
<b>Total other expense (income)</b>		<b>7</b>	<b>(14)</b>

**29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

**29.1 Fair Value**

The estimated fair values of financial instruments as at December 31, 2025 and 2024 are based on relevant market prices and information available at the time. Fair value estimates are based on valuation techniques which are significantly affected by the assumptions used including the amount and timing of future cash flows and discount rates reflecting various degrees of risk. As such, the fair value estimates below are not necessarily indicative of the amounts that Hydro might receive or incur in actual market transactions.

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

Establishing Fair Value

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

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

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

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

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value. For assets and liabilities that are recognized at fair value on a recurring basis, Hydro determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. There were no transfers between Level 1, 2 and 3 fair value measurement for the years ended December 31, 2025 and 2024.

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<i>As at (millions of Canadian dollars)</i>	<b>Level</b>	<b>Carrying Value</b>	<b>Fair Value</b>	<b>Carrying Value</b>	<b>Fair Value</b>	<b>Carrying Value</b>	<b>Fair Value</b>
		<b>December 31, 2025</b>	<b>December 31, 2025</b>	<b>December 31, 2024</b>	<b>December 31, 2024</b>	<b>January 1, 2024</b>	<b>January 1, 2024</b>
<b>Financial assets</b>							
Sinking funds - investments in Hydro debt issues	<b>2</b>	<b>148</b>	<b>148</b>	128	129	111	111
Sinking funds - other investments	<b>2</b>	<b>247</b>	<b>253</b>	245	253	240	248
<b>Financial liabilities</b>							
Derivative liability	<b>3</b>	<b>110</b>	<b>110</b>	84	84	68	68
Long-term debt (including amount due within one year before sinking funds)	<b>2</b>	<b>2,435</b>	<b>2,298</b>	2,136	2,063	2,135	2,066
Long-term payables (including amount due within one year)	<b>2</b>	<b>54</b>	<b>54</b>	55	55	44	44

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.

The following table summarizes quantitative information about the valuation techniques and unobservable inputs used in the fair value measurement of Level 3 financial instruments as at December 31, 2025:

<i>(millions of Canadian dollars)</i>	<b>Carrying Value</b>	<b>Valuation Techniques</b>	<b>Significant Unobservable Input(s)</b>	<b>Range</b>
Derivative liability (PPA)	110	Modelled pricing	Volumes (MWh)	37% to 38% of available generation

The derivative liability arising under the PPA with Energy Marketing is designated as a Level 3 instrument as certain forward market prices and related volumes are not readily determinable to estimate a portion of the fair value of the derivative liability. Hence, fair value measurement of this instrument is based upon a combination of internal and external pricing and volume estimates. As at December 31, 2025, the effect of using reasonably possible alternative assumptions for volume inputs to valuation techniques may have resulted in a +\$2.2 million to +\$4.1 million change in the carrying value of the derivative liability.

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The components of the change impacting the carrying value of the derivative liability for the years ended December 31, 2025 and 2024 are as follows:

<i>(millions of Canadian dollars)</i>	Level 3
<b>Balance at January 1, 2025</b>	<b>(84)</b>
<b>Additions</b>	<b>(110)</b>
<b>Changes in profit or loss</b>	
<b>Mark-to-market</b>	<b>(21)</b>
<b>Settlements</b>	<b>105</b>
<b>Total</b>	<b>84</b>
<b>Balance at December 31, 2025</b>	<b>(110)</b>

<i>(millions of Canadian dollars)</i>	Level 3
Balance at January 1, 2024	(68)
Additions	(84)
Changes in profit or loss	
Settlements	68
Total	68
Balance at December 31, 2024	(84)

**29.2 Risk Management**

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

Credit Risk

Hydro's expected future cash 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 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 Non-Consolidated Statement of Financial Position at the reporting date.

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

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

	Issuer Credit Rating	Fair Value of Portfolio (%)	Issuer Credit Rating	Fair Value of Portfolio (%)
	2025		2024	
Federal Government	AAA	0.98%	AAA	0.00%
Provincial Governments	AA- to AAA	3.40%	AA- to AAA	18.75%
Provincial Governments	A- to A+	31.50%	A- to A+	19.33%
Provincially owned utilities	AA- to AAA	0.00%	AA- to AAA	25.77%
Provincially owned utilities	A- to A+	64.12%	A- to A+	36.15%
		<b>100.00%</b>		<b>100.00%</b>

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Hydro's exposure to credit risk on its energy sales and associated accounts receivable is determined by the credit quality of its customers. Hydro's three largest customers account for 74.7% (2024 - 80.2%) of total energy sales and 50.0% (2024 - 39.4%) of accounts receivable.

**Liquidity Risk**

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

Short-term liquidity is mainly provided through cash on hand, funds from operations, a \$300.0 million promissory note program and a \$740.0 million committed revolving term credit facility with a maturity date of July 31, 2026. Long-term liquidity risk is managed by the issuance of a portfolio of debentures with maturity dates ranging from 2026 to 2055. Sinking funds have been established for certain issues.

The following are the contractual maturities of Hydro's financial liabilities, including principal and interest, as at December 31, 2025:

<i>(millions of Canadian dollars)</i>	< 1 Year	1-3 Years	3-5 Years	> 5 Years	Total
Trade and other payables	271	-	-	-	271
Short-term borrowings	250	-	-	-	250
Derivative liability	110	-	-	-	110
Debt guarantee fee	10	19	19	136	184
Long-term debt including sinking funds	124	18	318	1,581	2,041
Interest	99	173	170	1,056	1,498
	864	210	507	2,773	4,354

**Market Risk**

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

The derivative liability relates to the PPA with Energy Marketing and represents the future value provided to Energy Marketing through the contract. The PPA can be terminated by either party with notice provided 60 days prior to the intended termination date.

**Interest Rates**

Changes in prevailing interest rates will impact the fair value of financial assets and liabilities, which includes Hydro's cash and sinking funds. Expected future cash flows associated with those financial instruments can also be impacted. The impact of a 0.5% change in interest rates on net income and other comprehensive income associated with cash and short-term debt was negligible throughout 2025 due to the short time period to maturity. Hydro is not exposed to interest rate risk on its long-term debt as all of Hydro's long-term debt has fixed interest rates.

**Foreign Currency and Commodity Exposure**

Hydro is exposed to USD foreign exchange and commodity price risk arising from its purchases of fuel used in electricity generation. Hydro is also exposed to commodity price risk associated with electricity prices. These risks are mitigated through the operation of the regulatory mechanisms.

**NEWFOUNDLAND AND LABRADOR HYDRO**  
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**30. RELATED PARTY TRANSACTIONS**

Hydro 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 Hydro transacts are as follows:

Related Party	Relationship
The Province	100% shareholder of Hydro
Churchill Falls	Joint arrangement of Hydro
Oil and Gas	Wholly-owned subsidiary of Hydro
Energy Marketing	Wholly-owned subsidiary of Hydro
Muskrat Falls	Wholly-owned subsidiary of Hydro
Labrador Transco	Wholly-owned subsidiary of Hydro
LIL Opco	Wholly-owned subsidiary of Hydro
LCMC	Wholly-owned subsidiary of Hydro
LIL GP (2021)	Wholly-owned subsidiary of Hydro, general partner of LIL (2021) LP
LIL Holdco (2021)	Wholly-owned subsidiary of Hydro, limited partner of LIL (2021) LP
LIL Holdco	Wholly-owned subsidiary of Hydro
GIPCo	Wholly-owned subsidiary of Hydro
LIL (2021) LP	100% shareholder of LIL Holdco
LCDC	51% ownership interest by Hydro
LIL LP	Limited partnership between LIL Holdco and KKR
Oil and Gas Corporation of Newfoundland and Labrador	Wholly-owned subsidiary of the Province
PUB	Agency of the Province

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

<i>(millions of Canadian dollars)</i>	Notes	December 31 2025	December 31 2024	January 1 2024
<b>Trade and other receivables:</b>	5			
The Province		1	2	1
Subsidiaries		33	52	16
<b>Contract asset:</b>				
Subsidiaries	(a)	5	3	13
<b>Related party loan receivable:</b>				
Subsidiaries	(b)	555	705	855
<b>Deferred asset:</b>				
Subsidiary	7	110	84	68
<b>Trade and other payables:</b>	14			
Joint operation		4	15	5
The Province	(c)	33	30	25
Subsidiaries		19	19	9
Other related parties		1	-	-
<b>Contract liability:</b>				
Subsidiaries	(d)	1,149	726	452
<b>Derivative liability:</b>				
Subsidiary	29	110	84	68
<b>Long-term debt:</b>				
The Province	16	1,224	927	926
<b>Deferred Credits:</b>				
Subsidiaries		2	2	2

*For the year ended December 31 (millions of Canadian dollars)*

		2025	2024
<b>Energy sales:</b>			
The Province		3	3
Subsidiaries		100	39
<b>Other revenue:</b>			
Subsidiaries		40	37
<b>Power purchased:</b>			
Joint operation		56	53
The Province	(c)	25	28
Subsidiaries	(e)	1,223	1,027
<b>Net operating (recoveries) costs:</b>			
Joint operation		(6)	(6)
The Province	(c)	(25)	(24)
Subsidiaries	(f)	(15)	10
Other related parties		2	2
<b>Transmission rental:</b>			
Subsidiaries		22	19
<b>Net finance expense (income):</b>			
The Province		38	36
Subsidiaries		(1)	(2)
<b>Other income:</b>			
Subsidiary	(f)	(14)	(35)

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- (a) Payments under the Labrador-Island Link TFA commenced in April 2023. The contract asset balance represents the timing difference between the expense recognition of the value of the service delivered to Hydro and the contractual payments made under the agreement.
- (b) Hydro has a non-interest bearing loan receivable from LIL Holdco (2021) in relation to LIL Holdco (2021)'s purchase of the shares of LIL Holdco, which is payable to Hydro upon demand.
- (c) Hydro, as the operator of the Exploits assets, has a net payable to the Province which is included in Trade and other payables. For the year ended December 31, 2025, Hydro has purchased \$24.9 million (2024 - \$28.4 million) of power generated from assets related to Exploits Generation, which are held by the Province. These assets are operated on behalf of the Province on a cost recovery basis, as disclosed in Note 20.
- (d) Hydro entered into a PPA with Muskrat Falls for the purchase of energy and capacity from the MF Plant. The contract liability balance represents the timing difference between the value of the energy and capacity delivered to Hydro and the contractual payments made under the PPA.
- (e) For the year ended December 31, 2025, Hydro recognized power purchase expense of \$1,223.2 million (2024 - \$1,026.8 million) associated with the PPA with Muskrat Falls, the PPA for Labrador Residual Block Use and the Labrador-Island Link TFA. The majority of these power purchase expenses are deferred in either the Supply Cost Variance Deferral account or the Power Purchase Expense Recognition account as described in Note 13.
- (f) Included in Operating costs is the \$13.9 million payment made to the Innu Nation under the IBA Amendment (2024 - \$35.3 million). This is fully recoverable from Muskrat Falls.

**30.1 Key Management Personnel Compensation**

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

<i>For the year ended December 31 (millions of Canadian dollars)</i>	<b>2025</b>	<b>2024</b>
Salaries and employee benefits	<b>3</b>	<b>3</b>

**31. COMMITMENTS AND CONTINGENCIES**

- (a) Hydro is subject to legal claims with respect to impact on land use, energy and capacity delivery, construction and other various matters. For some legal claims, it is not possible at this time to predict with any certainty the outcome of such litigation. Should these claims result in an unfavorable outcome for Hydro, they may have a significant adverse impact on Hydro's financial position.
- (b) Outstanding commitments for capital projects total approximately \$49.4 million as at December 31, 2025 (2024 - \$82.9 million).

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(c) Hydro has entered into a number of long-term power purchase agreements as follows:

Type	Rating	Effective Date	Term
Hydroelectric	6.5 MW	2021	24 years
Hydroelectric	4 MW	2023	3 years
Hydroelectric	300 MW	1998	43 years
Hydroelectric	225 MW	2015	25 years
Hydroelectric	824 MW	2021	50 years
Cogeneration	15 MW	2023	10 years
Wind	390 kW	2004	Continual
Wind	27 MW	2008	20 years
Wind	27 MW	2009	20 years
Hydroelectric, Solar, Battery	240 kW Hydro, 189 kW Solar, 334.5 kW Battery	2019	15 years
Solar	103 kW	2022	Continual
Biomass	450 kW	2025	2 years

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

<i>(millions of Canadian dollars)</i>	2026	2027	2028	2029	2030
Power purchases	903	880	888	916	1,029

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

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

<i>(millions of Canadian dollars)</i>	2026	2027	2028	2029	2030
Transmission rental payments	21	21	21	5	-

(e) In 2023, Hydro entered into a new arrangement that updated the terms and conditions of the May 2021 amended Capacity Assistance Agreement with Corner Brook Pulp and Paper (CBPP) for the purchase of relief power during the winter period. Payment for services are made monthly at a rate of \$80 per kW, escalating by an annual consumer price index.

(f) 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 Hydro indemnifying the applicable counterparties for any losses sustained.

(g) In July 2012, Hydro 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 Hydro assigned this agreement to Muskrat Falls. As a result of this assignment, Hydro and Muskrat Falls are jointly liable for the delivery of the Nova Scotia Block to Emera.

(h) As at December 31, 2025, Hydro, on behalf of Energy Marketing, has issued unconditional guarantees and sales contracts in the amount of \$22.7 million CAD equivalent (2024 - \$23.0 million CAD), in order to guarantee amounts under power purchase and sale contracts with bilateral counterparties and sale of transmission rights.

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- (i) In 2015, the Energy Access Agreement (EAA) was signed between Hydro 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.
- (j) On October 24, 2024, Hydro and the Innu Nation amended the Lower Churchill Innu Impacts and Benefits Agreement (IBA) to reflect an agreement on rate mitigation. Under this agreement, Hydro has committed with Muskrat Falls to pay the Innu Nation an annual amount of \$12 million escalating at CPI, for a term of 50 years, replacing all other IBA payments associated with Muskrat Falls.
- (k) In 2025, Hydro entered into two PPA's with CBPP for energy generated from CBPP's existing power generation facilities. The first PPA covered the period October 1, 2025 to March 31, 2026, where Hydro will purchase up to 80,000 MWh of energy at \$275/MWh. The second PPA commenced in January 2026, immediately upon Hydro's receipt of 80,000 MWh under the October 2025 PPA. The second PPA covers the period up to June 30, 2026 for Hydro's purchase up to 140,000 MWh of energy at \$187/MWh.

**32. CAPITAL MANAGEMENT**

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

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

A summary of the capital structure is outlined below:

<i>As at (millions of Canadian dollars)</i>	<b>December 31</b>		December 31		January 1	
	<b>2025</b>		2024		2024	
<b>Debt</b>						
Sinking funds	<b>(214)</b>		(211)		(206)	
Short-term borrowings	<b>250</b>		590		230	
Current portion of long-term debt	<b>231</b>		7		7	
Long-term debt	<b>2,056</b>		2,001		2,017	
Lease liabilities	<b>3</b>		3		3	
	<b>2,326</b>	<b>22.3%</b>	2,390	23.0%	2,051	21.5%
<b>Equity</b>						
Share capital	<b>123</b>		123		123	
Shareholder contributions	<b>4,784</b>		4,785		4,786	
Reserves	<b>(20)</b>		(29)		(30)	
Retained earnings	<b>3,215</b>		3,100		2,621	
	<b>8,102</b>	<b>77.7%</b>	7,979	77.0%	7,500	78.5%
	<b>10,428</b>	<b>100.0%</b>	10,369	100.0%	9,551	100.0%

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.

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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 credit facility has a covenant requiring Hydro to ensure that its consolidated debt to total capitalization ratio does not exceed 70%. As at December 31, 2025 and 2024, 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 defined as those with a term not exceeding two years. On December 15, 2023, the Lieutenant-Governor in Council issued Order in Council OC2023-272, increasing the permitted level of short-term borrowings by Hydro to \$700.0 million until December 31, 2025. After this date, the limit will decrease to \$500.0 million effective January 1, 2026. With the amalgamation of Hydro and Nalcor Energy, effective January 1, 2025, the level of short-term borrowings permitted by Hydro has been set to \$1.0 billion (previously \$700.0 million for Hydro and \$300.0 million for Nalcor Energy) until December 31, 2025. After this date, the limit will decrease to \$800.0 million, effective January 1, 2026. As at December 31, 2025, \$250.0 million of short-term debt was outstanding (2024 - \$590.0 million).

The Hydro Corporation Act, 2024 (the Act) limits Hydro's total borrowings outstanding at any point in time, which includes both short-term borrowings and long-term debt to \$3.2 billion.

Historically, Hydro addressed longer-term capital funding requirements by issuing government guaranteed long-term debt in the domestic capital markets. Since 2017, the Province has instead issued debt in the domestic capital markets, on Hydro's behalf, and in turn loans the funds to Hydro on a cost recovery basis, plus guarantee fee. Any additional funding to address long-term capital funding requirements requires approval from the Province and the PUB.

**33. SUPPLEMENTARY CASH FLOW INFORMATION**

<i>For the year ended December 31 (millions of Canadian dollars)</i>	<b>2025</b>	<b>2024</b>
Trade and other receivables	<b>5</b>	(71)
Inventories	<b>8</b>	(3)
Prepayments	-	2
Trade and other payables	<b>32</b>	44
<b>Changes in non-cash working capital balances</b>	<b>45</b>	<b>(28)</b>
Related to:		
Operating activities	<b>30</b>	(41)
Investing activities	<b>15</b>	13
	<b>45</b>	<b>(28)</b>

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**34. SEGMENT INFORMATION**

Hydro operates in two 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 to export markets. Hydro Non-Regulated activities include expenditures associated with the Maritime Link (which is owned and managed by Emera, but consolidated by Hydro), 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. The segment also includes costs associated with shared services functions and community and business development.

	Hydro Regulated	Non-Regulated Activities	Inter-Segment	Total
<i>(millions of Canadian dollars)</i>	For the year ended December 31, 2025			
Energy sales	853	65	-	918
Other revenue	42	40	-	82
<b>Revenue</b>	<b>895</b>	<b>105</b>	<b>-</b>	<b>1,000</b>
Fuels	171	-	-	171
Power purchased	1,280	84	-	1,364
Operating costs	164	71	-	235
Transmission rental	-	22	-	22
Depreciation and amortization	89	39	-	128
Net finance expense (income)	102	(16)	-	86
Rate mitigation expense	-	704	-	704
Other expense (income)	18	(11)	-	7
<b>Expenses</b>	<b>1,824</b>	<b>893</b>	<b>-</b>	<b>2,717</b>
<b>Loss for the year from operations</b>	<b>(929)</b>	<b>(788)</b>	<b>-</b>	<b>(1,717)</b>
Share of profit of joint arrangement	-	43	-	43
Preferred dividends of joint arrangement	-	9	-	9
Share of profit of subsidiaries	-	844	-	844
<b>(Loss) profit for the year before regulatory adjustments</b>	<b>(929)</b>	<b>108</b>	<b>-</b>	<b>(821)</b>
<b>Regulatory adjustments</b>	<b>(936)</b>	<b>-</b>	<b>-</b>	<b>(936)</b>
<b>Profit for the year</b>	<b>7</b>	<b>108</b>	<b>-</b>	<b>115</b>
Capital expenditures*	247	37	-	284
<b>Total assets</b>	<b>4,728</b>	<b>9,317</b>	<b>(5)</b>	<b>14,040</b>

\*Capital expenditures include non-cash asset contributions of \$7.7 million and \$3.4 million of interest capitalized during construction.

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	Hydro Regulated	Non-Regulated Activities	Inter-Segment	Total
<i>(millions of Canadian dollars)</i>	For the year ended December 31, 2024			
Energy sales	740	62	-	802
Other revenue	45	33	-	78
Revenue	785	95	-	880
Fuels	169	-	-	169
Power purchased	1,083	90	-	1,173
Operating costs	150	92	-	242
Transmission rental	-	19	-	19
Depreciation and amortization	80	42	-	122
Net finance expense (income)	110	(30)	-	80
Rate mitigation expense	-	240	-	240
Other expense (income)	10	(24)	-	(14)
Expenses	1,602	429	-	2,031
Loss for the year from operations	(817)	(334)	-	(1,151)
Share of profit of joint arrangement	-	46	-	46
Preferred dividends of joint arrangement	-	10	-	10
Share of profit of subsidiaries	-	737	-	737
(Loss) profit for the year before regulatory adjustments	(817)	459	-	(358)
Regulatory adjustments	(837)	-	-	(837)
Profit for the year	20	459	-	479
Capital expenditures*	163	26	-	189
Total assets	4,342	9,189	(3)	13,528

\*Capital expenditures include non-cash asset contributions of \$4.2 million and \$2.0 million of interest capitalized during construction.