

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

## Independent Auditor's Report

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

### Opinion

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2025, and its financial performance and its cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board ("IASB").

### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS Accounting Standards as issued by the IASB, 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.
- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the Company as a basis for forming an opinion on the financial statements. We are responsible for the direction, supervision and review of the audit work performed for purposes of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

*Deloitte LLP*

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


<i>As at December 31 (millions of Canadian dollars)</i>	Notes	2025	2024
<b>ASSETS</b>			(Note 2.3)
Current assets			
Cash and cash equivalents	5	1,054	1,164
Restricted cash		1,352	1,326
Short-term investments	10	176	77
Trade and other receivables	6	288	259
Inventories	7	151	155
Prepayments		17	18
Total current assets		3,038	2,999
Non-current assets			
Property, plant and equipment	8	17,897	17,848
Intangible assets	9	59	65
Investments	10	277	417
Other long-term assets		5	5
Total assets		21,276	21,334
Regulatory deferrals	11	1,721	1,493
Total assets and regulatory deferrals		22,997	22,827
<b>LIABILITIES AND EQUITY</b>			
Current liabilities			
Short-term borrowings	14	250	590
Trade and other payables	12	400	356
Current portion of long-term debt	14	296	70
Current portion of Class B limited partnership units	15	95	95
Current portion of deferred credits	16	99	104
Other current liabilities	13	25	26
Total current liabilities		1,165	1,241
Non-current liabilities			
Long-term debt	14	11,015	10,865
Class B limited partnership units	15	873	885
Deferred credits	16	1,494	1,528
Decommissioning liabilities	17	122	104
Employee future benefits	18	126	125
Other long-term liabilities	19	90	89
Total liabilities		14,885	14,837
Shareholder's equity			
Share capital	21	123	123
Shareholder contributions		4,859	4,859
Reserves		(20)	(29)
Retained earnings		3,100	2,985
Total equity		8,062	7,938
Total liabilities and equity		22,947	22,775
Regulatory deferrals	11	50	52
Total liabilities, equity and regulatory deferrals		22,997	22,827

Commitments and contingencies (Note 32)

See accompanying notes

On behalf of the Board:

  
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 DIRECTOR

  
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 DIRECTOR

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

<i>For the year ended December 31 (millions of Canadian dollars)</i>	Notes	<b>2025</b>	2024
			(Note 2.3)
Energy sales	23	<b>1,420</b>	1,349
Other revenue	24	<b>57</b>	68
<b>Revenue</b>		<b>1,477</b>	1,417
Fuels		<b>171</b>	169
Power purchased		<b>107</b>	111
Operating costs	25	<b>356</b>	366
Production, marketing and transportation costs	26	<b>31</b>	39
Transmission rental		<b>25</b>	32
Depreciation, depletion, amortization and impairment		<b>438</b>	423
Net finance expense	27	<b>417</b>	367
Rate mitigation expense	28	<b>704</b>	240
Other expense	29	<b>48</b>	27
<b>Expenses</b>		<b>2,297</b>	1,774
<b>Loss for the year before regulatory adjustments</b>		<b>(820)</b>	(357)
Regulatory adjustments	11	<b>(935)</b>	(836)
<b>Profit for the year</b>		<b>115</b>	479
<b>Other comprehensive income</b>			
Total items that may or have been reclassified to profit or loss:			
Actuarial loss on employee future benefits regulatory adjustment	18	<b>(2)</b>	(1)
Actuarial gain (loss) on employee future benefits	18	<b>5</b>	(4)
Net fair value gain on reserve fund	10	<b>2</b>	2
Reclassification adjustments related to:			
Cash flow hedges recognized in profit		<b>4</b>	4
<b>Other comprehensive income for the year</b>		<b>9</b>	1
<b>Total comprehensive income for the year</b>		<b>124</b>	480

*See accompanying notes*

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

*(millions of Canadian dollars)*

	Share Capital	Shareholder Contributions	Fair Value Reserve	Employee Benefit Reserve	Retained Earnings	Total
<b>Balance at January 1, 2025</b>	<b>123</b>	<b>4,859</b>	<b>(44)</b>	<b>15</b>	<b>2,985</b>	<b>7,938</b>
<b>Profit for the year</b>	-	-	-	-	<b>115</b>	<b>115</b>
<b>Other comprehensive income</b>	-	-	<b>6</b>	<b>3</b>	-	<b>9</b>
<b>Total comprehensive income for the year</b>	-	-	<b>6</b>	<b>3</b>	<b>115</b>	<b>124</b>
<b>Balance at December 31, 2025</b>	<b>123</b>	<b>4,859</b>	<b>(38)</b>	<b>18</b>	<b>3,100</b>	<b>8,062</b>
Balance at January 1, 2024	123	4,859	(50)	20	2,506	7,458
Profit for the year	-	-	-	-	479	479
Other comprehensive income	-	-	6	(5)	-	1
Total comprehensive income for the year	-	-	6	(5)	479	480
Balance at December 31, 2024	123	4,859	(44)	15	2,985	7,938

*See accompanying notes*

## NEWFOUNDLAND AND LABRADOR HYDRO CONSOLIDATED STATEMENT OF CASH FLOWS

<i>For the year ended December 31 (millions of Canadian dollars)</i>	Notes	2025	2024
Operating activities			
Profit for the year		<b>115</b>	479
Adjustments to reconcile profit to cash provided from operating activities:			
Depreciation, depletion, amortization and impairment		<b>438</b>	423
Amortization of deferred credits	16	<b>(99)</b>	(113)
Loss on disposal of assets	29	<b>19</b>	21
Maritime Link operating costs		<b>20</b>	22
Regulatory adjustments	11	<b>(935)</b>	(836)
Rate mitigation expense	11	<b>704</b>	240
Finance income	27	<b>(101)</b>	(137)
Finance expense	27	<b>518</b>	504
Other		<b>7</b>	2
		<b>686</b>	605
Changes in non-cash working capital balances	33	<b>14</b>	(44)
Interest received		<b>90</b>	125
Interest paid		<b>(418)</b>	(426)
<b>Net cash provided from operating activities</b>		<b>372</b>	260
Investing activities			
Additions to property, plant and equipment and intangible assets	34	<b>(476)</b>	(366)
Decrease in investments		<b>41</b>	22
Changes in non-cash working capital balances	33	<b>4</b>	15
Other		<b>(1)</b>	-
<b>Net cash used in investing activities</b>		<b>(432)</b>	(329)
Financing activities			
Proceeds from long-term debt	14	<b>447</b>	150
Repayment of long-term debt		<b>(62)</b>	(63)
Increase in restricted cash		<b>(26)</b>	(102)
Additions to deferred credits		<b>32</b>	22
Contributions of Class B limited partnership units	15	<b>-</b>	233
(Decrease) increase in short-term borrowings		<b>(340)</b>	360
Distribution of Class B limited partnership units	15	<b>(96)</b>	(77)
Other		<b>(5)</b>	16
<b>Net cash (used in) provided from financing activities</b>		<b>(50)</b>	539
Net (decrease) increase in cash and cash equivalents		<b>(110)</b>	470
Cash and cash equivalents, beginning of the year		<b>1,164</b>	694
<b>Cash and cash equivalents, end of the year</b>		<b>1,054</b>	1,164

See accompanying notes

# NEWFOUNDLAND AND LABRADOR HYDRO

## NOTES TO THE 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 the former Newfoundland and Labrador Hydro and Nalcor Energy legal entities effective January 1, 2025, under a special act of the Legislature of the Province of Newfoundland and Labrador (the Province). As of the effective date, the former operations of Nalcor Energy and former Newfoundland and Labrador Hydro continue under the name "Newfoundland and Labrador Hydro" and its business remains the development, generation, transmission and sale of electricity including energy trading; and the development, production and sale of oil and gas. 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.

## **NEWFOUNDLAND AND LABRADOR HYDRO**

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

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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.

#### **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).

#### **1.3 Structured Entities**

Hydro consolidates the results of structured entities in which it holds a financial interest and is the primary beneficiary. Hydro has determined that it is not the primary beneficiary of the Muskrat Falls/Labrador Transmission Assets (MF/LTA) Funding Trust or the Labrador-Island Link Funding Trust and therefore the operations of these trusts are not reflected in these annual audited consolidated financial statements.

## **2. MATERIAL ACCOUNTING POLICIES**

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

These annual audited consolidated financial statements (financial statements) have been prepared in accordance with IFRS® Accounting Standards, as issued by the International Accounting Standards Board (IASB), consistent with those used in the preparation of the annual audited consolidated financial statements of the former Nalcor Energy for the year ended December 31, 2024.

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

#### **2.2 Basis of Consolidation**

The financial statements include the financial statements of Hydro and its subsidiary companies and proportionate consolidation for those which are jointly owned with non-affiliated entities. Intercompany transactions and balances have been eliminated upon consolidation.

#### **2.3 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". The amalgamated company ("Hydro") continues to be 100% controlled by the Province. Hydro holds the combined assets and liabilities of the former Newfoundland and Labrador Hydro and the former Nalcor Energy legal entities and is bound by any previously existing contracts and agreements from the former entities. As well, the security or guarantees provided by the Provincial Government to the former Hydro entity continues with Hydro after the amalgamation.

The Amalgamation was accounted for as a business combination under common control. The comparative figures for the December 31, 2025 consolidated financial statements of Hydro are those of the December 31, 2024 Nalcor Energy consolidated financial statements. The Consolidated Statement of Profit and Comprehensive Income was adjusted for a change in the classification of rate mitigation accounting, as noted below.

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

## NEWFOUNDLAND AND LABRADOR HYDRO

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As a result of amalgamation, the rate mitigation expense incurred in 2024 has been adjusted to conform with the post-amalgamation accounting. The result is an income statement reclassification from Regulatory adjustments to Rate mitigation expense. The following table summarizes the adjustments from the previously issued December 31, 2024 financial statements to the current year:

#### Consolidated Statement of Profit and Comprehensive Income

<i>For the year ended December 31, 2024 (millions of Canadian dollars)</i>	As previously reported	Adjustment	<b>Post- amalgamation</b>
Rate mitigation expense	-	240	<b>240</b>
Regulatory adjustments	(596)	(240)	<b>(836)</b>

#### **2.4 Cash and Cash Equivalents and Short-term Investments**

Cash and cash equivalents consist of amounts on deposit with Schedule 1 Canadian Chartered banks, as well as highly liquid investments with maturities of three months or less. Investments with maturities greater than three months and less than twelve months are classified as short-term investments.

#### **2.5 Restricted Cash**

Restricted cash consists of cash held on deposit with Schedule 1 Canadian Chartered banks and administered by the Collateral Agent for the sole purpose of funding construction, financing, operating, maintenance and sustaining costs related to the LIL, LTA and MF Plant, including reserve accounts required under the Labrador-Island Link Project Finance Agreement (LIL PFA) and MF/LTA Project Finance Agreement (MF/LTA PFA). Restricted cash also includes funds held in trust by solicitors of the LCP companies.

#### **2.5 Inventories**

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

#### **2.6 Property, Plant and Equipment**

Items of property, plant and equipment are recognized at cost less accumulated depreciation and accumulated impairment losses. Cost includes materials, labour, contracted services, professional fees and, for qualifying assets, borrowing costs capitalized in accordance with Hydro's accounting policy outlined in Note 2.8. Costs capitalized with the related asset include all those costs directly attributable to bringing the asset into operation.

When significant parts of property, plant and equipment, including petroleum and natural gas properties, are required to be replaced at intervals, 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 repair and maintenance costs are recognized in profit or loss as incurred.

Depreciation commences when the assets are ready for their intended use. Residual values and useful lives are reviewed at the end of each year and adjusted prospectively, if appropriate. Depreciation is calculated on a straight-line basis over the estimated useful lives for all segments except Hydro, where depreciation is calculated based on the average group methodology. As per Board Order P.U. 30 (2019), Hydro was approved to recover gains and losses through accumulated amortization and to record removal costs through depreciation. To comply with International Accounting Standard (IAS) 16, the adjustments related to the recovery of gains and losses through accumulated amortization and removal depreciation are presented as a regulatory adjustment in Note 11. The depreciation lives used are as follows:

## NEWFOUNDLAND AND LABRADOR HYDRO

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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Generation plant	3 to 110 years
Transmission and distribution	10 to 75 years
Other assets	3 to 100 years

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

Transmission and distribution include transmission and distribution lines and terminal stations. Transmission lines and terminal stations include the support structures, foundations, conductors and insulators associated with lines at voltages from 69 to 735 kilovolt. Terminal station assets which are used to step up voltages of electricity for transmission and to step down voltages for distribution, provide switching and protection functions, and include HVDC Converters to convert between AC and DC voltages, synchronous condensers and auxiliary systems. Distribution system assets include poles, transformers, insulators, conductors, subsea cables, and electrode equipment.

Other assets include service facilities, roads, telecontrol, buildings, airport, aircraft, vehicles, heavy equipment, furniture, tools and equipment, and the Churchill Falls town site, including municipal water and sanitary sewer systems.

The carrying amount of a replaced asset is derecognized when replaced. Gains and losses on disposal of an item of property, plant and equipment, including petroleum and natural gas interests, are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recorded in Other (income) expense. Pursuant to Board Order P.U. 30 (2019), Hydro's gains and losses are deferred on retirement of property, plant and equipment. The deferral will be recovered through future depreciation expense.

#### Petroleum and Natural Gas Properties

Petroleum and natural gas development and production assets are carried at cost less accumulated depreciation, depletion and impairment losses or reversals. Development and production assets are grouped into cash-generating units (CGUs) for impairment testing.

Expenditures on the construction, installation or completion of infrastructure facilities such as processing facilities and the drilling of development wells, including unsuccessful development or delineation wells, are capitalized within property, plant and equipment, as long as it is technically feasible and economically viable to extract identified reserves.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the decommissioning costs and, for qualifying assets, borrowing costs in accordance with Hydro's accounting policy in Note 2.8. The purchase price or constructed cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Capitalized petroleum and natural gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis.

Costs incurred subsequent to the determination of technical feasibility and commercial viability are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to the Company and the cost can be measured reliably.

## NEWFOUNDLAND AND LABRADOR HYDRO

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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#### Depletion

The net carrying value of development and production assets is depleted using the unit of production method by reference to the ratio of production in the year to the related proved and probable reserves, and considering estimated future development costs necessary to bring those reserves into production. Future development costs are estimated, taking into account the level of development required to produce the reserves. These estimates are reviewed by independent reserve engineers, at least annually.

Proved and probable reserves are estimated using independent reserve engineer reports and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate, with a specified degree of certainty, to be recoverable in future years from known reservoirs and which are considered commercially viable. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves.

Such reserves are considered commercially producible when Management has the intention of developing and producing them and such intention is based upon:

- a reasonable assessment of the future economics of such production;
- a reasonable expectation that there is a market for all (or substantially all) of the expected petroleum and natural gas production; and
- evidence that the necessary production, transshipment and transportation facilities are available or can be made available.

#### **2.7 Intangible Assets**

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

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

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

Computer software	7 to 10 years
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#### **2.8 Borrowing Costs**

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

#### **2.9 Impairment of Non-Financial Assets**

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

## **NEWFOUNDLAND AND LABRADOR HYDRO**

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

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

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately in the Consolidated Statement of Profit and Comprehensive Income.

#### **2.10 Investments in Joint Arrangements**

A joint arrangement is an arrangement of which two or more parties have joint control. Control exists when 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 holds interests in the Hebron, Hibernia South Extension and White Rose Extension projects. These projects are classified as joint operations as multiple parties hold joint control and stakeholders have rights to the project assets and obligations for its liabilities. Hydro accounts for its oil and gas investments by recognizing its share of assets, liabilities and profit or loss in relation to its interest in the joint operation.

Hydro accounts for its investment in Churchill Falls by recognizing its share of assets, liabilities and profit or loss in relation to its interest in the joint operation.

#### **2.11 Employee Future Benefits**

##### Pension Plan

Employees participate in the Province's Public Service Pension 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.

##### 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 Hydro's employee future benefit actuarial gains and losses in the Consolidated Statement of Profit and Comprehensive Income as a regulatory adjustment.

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

#### **2.12 Provisions**

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

## NEWFOUNDLAND AND LABRADOR HYDRO

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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#### 2.13 Decommissioning, Restoration and Environmental Liabilities

Legal and constructive obligations associated with the retirement of property, plant and equipment are recorded as liabilities when those obligations are incurred and are measured as the present value of the expected costs to settle the liability, discounted at a rate specific to the liability. The liability is accreted up to the date the liability will be incurred with a corresponding charge to Net finance expense. The carrying amount of decommissioning, restoration and environmental liabilities is reviewed annually with changes in the estimates of timing or amount of cash flows added to or deducted from the cost of the related asset or expensed in the Consolidated Statement of Profit and Comprehensive Income if the liability is short-term in nature.

#### 2.14 Revenue Recognition

##### Revenue from Contracts with Customers

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.

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

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

##### Revenue from Crude Oil Sales

Revenue from the sale of crude oil is recognized when the amount of revenue can be reasonably measured, the significant risks and rewards of ownership have passed to the buyer and collection is reasonably assured. This typically occurs when the oil has been produced and delivered to the buyer in accordance with contracted shipping terms.

Revenue from properties in which Hydro has an interest with other producers is recognized on the basis of Hydro's sales to customers. Under this method, when Hydro sells less crude oil production than its net working interest (under-lift), it has a right to future production of the joint operation and the under-lift portion is recognized as inventory that represents crude oil production not yet received. Similarly, an over-lift position is recognized as a liability that represents an accrual for crude oil production received but not yet paid, measured at cost.

#### 2.15 Leasing

##### Lessee Accounting

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.

## NEWFOUNDLAND AND LABRADOR HYDRO

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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 impairment losses.

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

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

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

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

#### **2.16 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 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 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, FVTOCI, FVTPL or as derivatives designated as hedging instruments in an effective hedge. Financial liabilities are classified at amortized cost, FVTPL or as derivatives designated as hedging instruments in an effective hedge. Transaction costs that are directly attributable to the acquisition or issue

## **NEWFOUNDLAND AND LABRADOR HYDRO**

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

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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 and cash equivalents, restricted cash, short-term investments, trade and other receivables, sinking fund investments, long-term receivables and long-term investments with the exception of reserve fund investments.

#### Financial Assets at FVTOCI

Financial assets measured at FVTOCI are those that have contractual cash flows arising on specific dates, consisting solely of principal and interest, and that are held within a business model whose objective is to collect the contractual cash flows and to sell the financial asset. Any change in the carrying amount of these assets other than foreign exchange gains and losses, impairment gains and losses, and interest income are recognized in other comprehensive income accumulated in the fair value reserve. When these assets are derecognized, the cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss.

Hydro's financial assets measured at FVTOCI include reserve fund investments.

#### Financial Assets at FVTPL

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

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

#### Financial Liabilities at Amortized Cost

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

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

#### Financial Liabilities at FVTPL

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

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

## NEWFOUNDLAND AND LABRADOR HYDRO

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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 the 12-month ECL for those financial assets which have low credit risk and where the low credit risk exemption has been applied. The classes of financial assets that have been identified to have low credit risk are cash and cash equivalents, restricted cash, short-term investments, long-term investments, sinking funds and the reserve fund.

For all other financial instruments, Hydro recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, Hydro measures the loss allowance for that financial instrument at an amount equal to 12-month ECL. The assessment of whether lifetime ECL should be recognized is based on significant increases in the likelihood or risk of a default occurring since initial recognition instead of on evidence of a financial asset being credit-impaired at the reporting date or an actual default occurring.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of a financial instrument. In contrast, 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.

#### Hedges

Hydro may choose to designate derivative instruments as hedges and apply hedge accounting if there is an economic relationship between the hedged item and the hedging instrument; the effect of credit risk does not dominate the value changes that result from that economic relationship; and the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that Hydro actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item. Hydro formally documents all hedges and the related risk management objectives at the inception of the hedge. Derivative instruments that have been designated and qualify for hedge accounting are classified as either cash flow or fair value hedges.

The effective portion of the gain or loss on a cash flow hedging instrument is recognized directly in Other comprehensive income (loss), while any ineffective portion is recognized immediately in the Consolidated Statement of Profit and Comprehensive Income for the period in Other expense (income). Amounts recognized in other comprehensive income are transferred to the Consolidated Statement of Profit and Comprehensive Income for the period when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognized or when a forecast sale occurs.

#### **2.19 Government Grants**

Government grants are recognized when there is reasonable assurance that 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 Consolidated Statement of Financial Position and transferred to the Consolidated Statement of Profit and Comprehensive Income on a systematic and rational basis over the useful lives of the related assets.

## NEWFOUNDLAND AND LABRADOR HYDRO

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

#### 2.20 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 rate base approved in Board Order No. P.U. 30 (2019) is 5.45% in 2025 and 5.43% in 2024. 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 11.

### 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) Asset Impairment and Reversals

Hydro applies judgment in evaluating impairment and impairment reversal indicators based on various internal and external factors.

The recoverable amount of a CGU or asset is determined based on the higher of fair value less costs of disposal and its value in use. For example, with respect to petroleum and natural gas properties, Management uses factors including expected future oil and gas prices, reserves from third party specialists and discount rates to determine the recoverable amount, as well as judgments regarding the occurrence of future events. Changes in these factors will affect the recoverable amount of CGUs and assets, which may result in a material adjustment to their carrying value and volatility in the Consolidated Statement of Profit and Comprehensive Income.

(ii) Property, Plant and Equipment

Hydro's accounting policy relating to property, plant and equipment is described in Note 2.6. In applying this policy, judgment is used in determining whether certain costs are additions to the carrying amount of the property, plant and equipment as opposed to repairs and maintenance. If an asset has been developed, judgment is required to identify the point at which the asset is capable of being used as intended and to identify the directly attributable borrowing costs to be included in the carrying value of the development asset. Judgment is also used in determining the appropriate componentization structure for Hydro's property, plant and equipment.

(iii) Revenue

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

## NEWFOUNDLAND AND LABRADOR HYDRO

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(iv) Functional Currency

Functional currency was determined by evaluating the primary economic environment in which Hydro operates. As Hydro enters into transactions in multiple currencies, judgment is used in determining the functional currency. Management considered factors regarding currency of sales, costs incurred, and operating and financing activities and determined the functional currency to be CAD.

(v) Determination of CGUs

Hydro's accounting policy relating to impairment of non-financial assets is described in Note 2.9. In applying this policy, Hydro groups assets into the smallest identifiable groups for which cash flows are largely independent of the cash flows from other assets or groups of assets. Judgment is used in determining the level at which cash flows are largely independent of other assets or groups of assets.

(vi) Discount Rates

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

(vii) Consolidation

Management applies its judgment when determining whether to consolidate structured entities in accordance with the criteria outlined in IFRS 10 and when applying the criteria outlined in IFRS 11 to determine whether joint arrangements constitute joint ventures or joint operations.

(viii) Regulatory adjustments

Regulatory assets and liabilities recorded in Hydro arise due to the rate setting process for regulated utilities governed by the PUB. The amounts relate to costs or credits which Management believes will be recovered or settled through customer rates in future periods, pursuant to the proceedings and outcomes of future PUB orders. Certain estimates are necessary since the regulatory environment often requires amounts to be recognized at estimated values until these amounts are finalized pursuant to regulatory decisions or other regulatory proceedings. The final amounts approved by the PUB for deferral as regulatory assets and liabilities and the approved recovery or settlement periods may differ from those originally expected. Any resulting adjustments to original estimates could have a material impact and are recognized in profit or loss in the period in which they become known.

### 3.2 Use of Estimates

(i) Property, Plant and Equipment and Intangible Assets

Amounts recorded for depreciation and amortization are based on the useful lives of 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) Oil and Natural Gas Reserves

Oil and natural gas reserves are evaluated by independent reserve engineers. Reserve estimates are used in calculating depletion, impairment and decommissioning liabilities. Estimates of recoverable reserves are based upon variable factors and assumptions regarding historical production, production rates, ultimate reserve recovery, marketability of petroleum and natural gas, and timing and amount of future cash expenditures. Changes to these amounts could materially affect these calculations.

## NEWFOUNDLAND AND LABRADOR HYDRO

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(iii) Decommissioning Liabilities

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

(iv) Employee Future Benefits

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

#### 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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### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 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 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 Consolidated Statement of Profit and Comprehensive Income.

#### 5. CASH AND CASH EQUIVALENTS

As at December 31, 2025 and 2024, cash and cash equivalents consisted entirely of cash.

#### 6. TRADE AND OTHER RECEIVABLES

<i>As at December 31 (millions of Canadian dollars)</i>	<b>2025</b>	2024
Trade receivables	<b>265</b>	234
Other receivables (a)	<b>54</b>	55
Loss allowance	<b>(31)</b>	(30)
	<b>288</b>	259

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

<i>As at December 31 (millions of Canadian dollars)</i>	<b>2025</b>	2024
0-60 days	<b>286</b>	256
60+ days	<b>2</b>	3
	<b>288</b>	259

<i>As at December 31 (millions of Canadian dollars)</i>	<b>2025</b>	2024
Loss allowance, beginning of the year	<b>(30)</b>	(29)
Change in balance during the year	<b>(1)</b>	(1)
Loss allowance, end of the year	<b>(31)</b>	(30)

#### 7. INVENTORIES

<i>As at December 31 (millions of Canadian dollars)</i>	<b>2025</b>	2024
Materials and other	<b>97</b>	92
Fuel	<b>49</b>	59
Crude oil	<b>5</b>	4
	<b>151</b>	155

The amount of inventory recognized as an expense during the year was \$183.3 million (2024 - \$181.6 million) and is included in fuels, operating costs and other expense.

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

**8. PROPERTY, PLANT AND EQUIPMENT**

<i>(millions of Canadian dollars)</i>	Generation Plant	Transmission and Distribution	Petroleum and Natural Gas Properties	Other	Assets Under Development	Total
<b>Cost</b>						
Balance as at January 1, 2024	8,659	9,359	1,650	650	197	20,515
Additions	1	-	92	-	276	369
Disposals	(21)	(16)	-	(10)	(1)	(48)
Transfers	132	93	-	50	(275)	-
Decommissioning liabilities and revisions	1	-	-	-	-	1
Other adjustments	(4)	-	-	-	2	(2)
<b>Balance as at December 31, 2024</b>	<b>8,768</b>	<b>9,436</b>	<b>1,742</b>	<b>690</b>	<b>199</b>	<b>20,835</b>
<b>Additions</b>	<b>4</b>	<b>3</b>	<b>86</b>	<b>-</b>	<b>391</b>	<b>484</b>
<b>Disposals</b>	<b>(30)</b>	<b>(3)</b>	<b>-</b>	<b>(7)</b>	<b>-</b>	<b>(40)</b>
<b>Transfers</b>	<b>177</b>	<b>120</b>	<b>-</b>	<b>48</b>	<b>(346)</b>	<b>(1)</b>
<b>Decommissioning liabilities and revisions</b>	<b>6</b>	<b>-</b>	<b>8</b>	<b>-</b>	<b>-</b>	<b>14</b>
<b>Other adjustments</b>	<b>-</b>	<b>(1)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1)</b>
<b>Balance as at December 31, 2025</b>	<b>8,925</b>	<b>9,555</b>	<b>1,836</b>	<b>731</b>	<b>244</b>	<b>21,291</b>
<b>Depreciation, depletion and impairment</b>						
Balance as at January 1, 2024	857	532	907	243	55	2,594
Depreciation and depletion	131	179	53	18	-	381
Disposals	(13)	(1)	-	(9)	-	(23)
Other adjustments	-	-	14	-	-	14
Impairment expense	1	-	20	-	-	21
<b>Balance as at December 31, 2024</b>	<b>976</b>	<b>710</b>	<b>994</b>	<b>252</b>	<b>55</b>	<b>2,987</b>
<b>Depreciation and depletion</b>	<b>137</b>	<b>182</b>	<b>72</b>	<b>17</b>	<b>-</b>	<b>408</b>
<b>Disposals</b>	<b>(15)</b>	<b>-</b>	<b>-</b>	<b>(6)</b>	<b>-</b>	<b>(21)</b>
<b>Impairment expense</b>	<b>-</b>	<b>-</b>	<b>20</b>	<b>-</b>	<b>-</b>	<b>20</b>
<b>Balance as at December 31, 2025</b>	<b>1,098</b>	<b>892</b>	<b>1,086</b>	<b>263</b>	<b>55</b>	<b>3,394</b>
<b>Carrying value</b>						
Balance as at January 1, 2024	7,802	8,827	743	407	142	17,921
Balance as at December 31, 2024	7,792	8,726	748	438	144	17,848
<b>Balance as at December 31, 2025</b>	<b>7,827</b>	<b>8,663</b>	<b>750</b>	<b>468</b>	<b>189</b>	<b>17,897</b>

Capitalized interest for the year ended December 31, 2025 was \$3.4 million (2024 - \$2.0 million) related to Assets Under Development.

On a quarterly basis, the Company assesses its Cash Generating Units (CGUs) for indicators that events or changes in circumstances may have impacted the recoverable amount of the associated assets. The Company determines the recoverable amount of its CGUs using value in use, which is estimated using discounted future cash flows based on forecasted oil prices, forecasted remaining reserves, forecasted future operating and capital costs and a discount rate derived from post-tax weighted average cost of capital, adjusted to reflect specific risks to the CGUs. For the year ended December 31, 2025, the Company recognized an impairment expense of \$20.4 million (2024 - impairment expense of \$19.6 million). The impairment expense is related to the White Rose Extension due to the decrease in oil and gas price forecasts and revised cash flow estimates, updated for changes in market conditions and maturing of field lives and reserves.

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

**9. INTANGIBLE ASSETS**

<i>(millions of Canadian dollars)</i>	Computer Software	Assets Under Development	Total
Cost			
Balance as at January 1, 2024	102	12	114
Additions	-	3	3
Transfers	4	(4)	-
Balance as at December 31, 2024	106	11	117
<b>Additions</b>	<b>1</b>	<b>2</b>	<b>3</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 as at December 31, 2025</b>	<b>107</b>	<b>13</b>	<b>120</b>
Amortization			
Balance as at January 1, 2024	39	-	39
Amortization	9	1	10
Disposals	-	3	3
Balance as at December 31, 2024	48	4	52
<b>Amortization</b>	<b>10</b>	<b>-</b>	<b>10</b>
<b>Disposals</b>	<b>(1)</b>	<b>-</b>	<b>(1)</b>
<b>Balance as at December 31, 2025</b>	<b>57</b>	<b>4</b>	<b>61</b>
Carrying value			
Balance as at January 1, 2024	63	12	75
Balance as at December 31, 2024	58	7	65
<b>Balance as at December 31, 2025</b>	<b>50</b>	<b>9</b>	<b>59</b>

**10. INVESTMENTS**

<i>As at December 31 (millions of Canadian dollars)</i>		2025	2024
Investments	(a)	156	199
Sinking Funds	(b)	247	245
Reserve Fund	(c)	50	50
Total investments		453	494
Less: amounts maturing within the next year, classified as short-term		(176)	(77)
		277	417

<i>(a) As at December 31 (millions of Canadian dollars)</i>	Year of Maturity	2025	2024
<b>Muskrat Falls/Labrador Transco</b>			
Amortizing Fixed Rate Deposit Notes with interest paid at a rate of 3.75% per annum.	2026-2029	156	199
Less: redemptions to be received within the next year, classified as short-term		(44)	(43)
		112	156

On March 31, 2022, Muskrat Falls and Labrador Transco jointly purchased structured deposit notes using the proceeds from issued long-term debt. The investments are restricted in nature and subject to the provisions contained within the MF/LTA PFA.

## NEWFOUNDLAND AND LABRADOR HYDRO

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

- (b) 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 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%).

LIL LP, Muskrat Falls and Labrador Transco are required to contribute to sinking funds as part of the federal loan guarantee on Tranche A, B and C debentures for LIL LP, and Tranche B, C and U debentures for Muskrat Falls and Labrador Transco. Sinking fund instalments commence in 2029 for Muskrat Falls and Labrador Transco.

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

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

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

<i>(millions of Canadian dollars)</i>	2026	2027	2028	2029	3030
Sinking fund instalments	72	72	72	72	72

- (c) Under the Shareholders' Agreement, Churchill Falls is required to maintain a \$75.0 million segregated reserve fund to contribute towards the funding of capital expenditures related to Churchill Falls' existing facilities and their replacement.

This fund must remain in place until the end of the Shareholders' Agreement in 2041. Any amounts removed to fund capital expenditures must be replaced. Reserve fund holdings consist of securities issued by the Government of Canada, various provinces of Canada and Schedule 1 and 2 Canadian Chartered Banks.

The movement in Hydro's proportionate share of the reserve fund for the year is as follows:

<i>As at December 31 (millions of Canadian dollars)</i>	<b>2025</b>	2024
Reserve fund, beginning of the year	<b>50</b>	50
Investment income withdrawn	<b>(2)</b>	(2)
Mark-to-market adjustment	<b>2</b>	2
Reserve fund, end of the year	<b>50</b>	50
Less: amounts classified as short-term	<b>(17)</b>	(12)
	<b>33</b>	38

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

**11. REGULATORY DEFERRALS**

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

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

**11.1 Regulatory Adjustments Recorded in the 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)	-	4
Other	(e,g,i,o)	<b>(3)</b>	(1)
		<b>(935)</b>	(836)

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 \$935.2 million (2024 - \$836.2 million).

## **NEWFOUNDLAND AND LABRADOR HYDRO**

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

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#### **11.(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).

#### **11.(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 28, 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).

#### **11.(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).

#### **11.(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.

#### **11.(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.

## **NEWFOUNDLAND AND LABRADOR HYDRO**

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

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

#### **11.(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).

#### **11.(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).

#### **11.(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).

#### **11.(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).

#### **11.(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).

#### **11.(l) Rate Mitigation Funding Revenue Recognition**

Upon amalgamation, as described in Note 2.3, 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

## NEWFOUNDLAND AND LABRADOR HYDRO

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

in the SCVDA (2024 - \$240.3 million). Please refer to Note 11(b) for further information.

#### 11.(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 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).

#### 11.(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.

#### 11.(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).

## 12. TRADE AND OTHER PAYABLES

<i>As at December 31 (millions of Canadian dollars)</i>	<b>2025</b>	2024
Trade payables and accruals	<b>250</b>	222
Other payables	<b>97</b>	84
Accrued interest payable	<b>53</b>	50
	<b>400</b>	356

## 13. OTHER CURRENT LIABILITIES

<i>As at December 31 (millions of Canadian dollars)</i>	Notes	<b>2025</b>	2024
Current portion of long-term payables	19(b)	<b>18</b>	18
Current portion of decommissioning liabilities	17	<b>1</b>	2
Current portion of deferred contributions	19(a)	<b>2</b>	2
Other		<b>4</b>	4
		<b>25</b>	26

## 14. DEBT

### 14.1 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).

## **NEWFOUNDLAND AND LABRADOR HYDRO**

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

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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 was \$250.0 million of promissory notes outstanding with a maturity date of January 2, 2026, bearing interest at a rate of 2.26% (2024 - \$300.0 million outstanding 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.

As a result of amalgamation, effective January 1, 2025 the level of short-term borrowings permitted by Hydro was \$1.0 billion. Effective January 1, 2026, the level reduced to \$800.0 million.

Churchill Falls maintains a \$10.0 million CAD or USD equivalent unsecured demand operating credit facility with its banker. There were no amounts drawn on this facility as at December 31, 2025 (2024 - \$nil). Churchill Falls has issued irrevocable letters of credit totalling \$2.0 million (2024 - \$2.0 million), \$1.0 million of which does not impact the borrowing limit of the operating facility (2024- \$1.0 million).

Oil and Gas maintains a \$40.0 million CAD or USD equivalent unsecured credit facility with its banker. As at December 31, 2025, there were no amounts drawn on this facility (2024 - \$nil). A total of \$17.1 million of the borrowing limit has been used to issue irrevocable letters of credit (2024 - \$16.4 million to issue irrevocable letters of credit) to ensure compliance with service agreements and regulations relating to petroleum and natural gas exploration and production activities.

Energy Marketing maintains a \$20.0 million CAD or USD equivalent demand operating credit facility with its banker, and as at December 31, 2025, there were no amounts drawn on this facility (2024 - \$nil). This facility has an unconditional and irrevocable guarantee from Hydro. Borrowings in CAD may take the form of Prime Rate Advances, and letters of credit. Borrowings in USD may take the form of Base Rate Advances and letters of credit. However, \$3.5 million CAD equivalent of the limit is used to issue irrevocable letters of credit (2024 - \$3.7 million CAD equivalent for irrevocable letters of credit).

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

**14.2 Long-term Debt**

<i>As at December 31 (millions of Canadian dollars)</i>	Face Value	Coupon Rate %	Year of Issue	Year of Maturity	2025	2024
<b>Hydro</b>						
Y*	300	8.40	1996	2026	300	299
AB*	300	6.65	2001	2031	303	303
AD*	125	5.70	2003	2033	124	124
AF	500	3.60	2014/2017	2045	484	483
1A	600	3.70	2017/2018	2048	634	636
2A	300	1.75	2021	2030	293	291
3A*	300	4.60	2025	2055	297	-
<b>LIL LP</b>						
Tranche A*	725	3.76	2013	2033	725	725
Tranche B*	600	3.86	2013	2045	600	600
Tranche C*	1,075	3.85	2013	2053	1,075	1,075
Tranche 10	-	1.75	2017	2025	-	11
Tranche 11-20	95	1.90-2.37	2017	2026-2030	95	105
Tranche 21-30	105	2.41-2.64	2017	2030-2035	105	105
Tranche 31-40	105	2.66-2.80	2017	2035-2040	105	105
Tranche 41-50	105	2.81-2.86	2017	2040-2045	105	105
Tranche 51-60	105	2.84-2.86	2017	2045-2050	105	105
Tranche 61-70	105	2.85	2017	2050-2055	105	105
Tranche 71-74	315	2.85	2017	2055-2057	316	316
<b>Labrador Transco/Muskrat Falls</b>						
Tranche A*	650	3.63	2013	2029	650	650
Tranche B*	675	3.83	2013	2037	675	675
Tranche C*	1,275	3.86	2013	2048	1,275	1,275
Tranche 10	-	1.75	2017	2025	-	21
Tranche 11-20	203	1.90-2.37	2017	2026-2030	203	224
Tranche 21-30	253	2.41-2.64	2017	2030-2035	253	253
Tranche 31-40	288	2.66-2.80	2017	2035-2040	288	289
Tranche 41-50	331	2.81-2.86	2017	2040-2045	331	331
Tranche 51-60	381	2.84-2.86	2017	2045-2050	382	382
Tranche 61-64	168	2.85	2017	2050-2052	168	168
Tranche A-T	500	3.35-3.39	2022	2037-2047	500	500
Tranche U	500	3.38	2022	2057	500	500
<b>LIL (2021) LP</b>						
Convertible debenture	445	3.03	2023	2071	463	302
<b>Total</b>					<b>11,459</b>	<b>11,063</b>
Less: sinking fund investments in own debentures					<b>(148)</b>	<b>(128)</b>
					<b>11,311</b>	<b>10,935</b>
Less: repayment of debt due within one year					<b>(296)</b>	<b>(70)</b>
					<b>11,015</b>	<b>10,865</b>

\*Sinking funds are required to be 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

## NEWFOUNDLAND AND LABRADOR HYDRO

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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.

In July 2023, LIL (2021) LP and the Government of Canada executed an agreement which allows LIL (2021) LP access to a \$1.0 billion unsecured convertible debenture with compounding interest at 3.03%, maturing on December 31, 2071, with payments of principal and accrued interest starting in 2042. Under the terms of the agreement, the debenture is convertible into Class B Limited partnership units of LIL (2021) LP at the option of the holder at the earlier of the date in which the debenture is fully drawn and December 31, 2041. LIL (2021) LP received a drawing on the convertible debenture in 2025 amounting to \$150.0 million (2024 - \$150.0 million). Cumulative accrued interest on the convertible debenture as at December 31, 2025 is \$17.8 million (2024 - \$7.3 million) and is included in the life to date balance.

The LIL LP, Labrador Transco/Muskrat Falls funding benefits from a direct, absolute, unconditional and irrevocable guarantee from the Government of Canada, and thereby carries its full faith and credit (AAA rating or equivalent).

#### 15. CLASS B LIMITED PARTNERSHIP UNITS

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

The Class B limited partnership units represent KKR ownership interest in LIL LP. As described in the Labrador-Island Link Partnership Agreement (Partnership Agreement), these units have certain rights and obligations, including mandatory distributions, that indicate that the substance of the units represent a financial liability and are measured at amortized cost using the effective interest rate method.

<i>As at December 31 (millions of Canadian dollars)</i>	<b>Units</b>	<b>2025</b>	Units	2024
Class B limited partnership units, beginning of the year	<b>25</b>	<b>980</b>	25	757
Contributions (a)	-	-	-	233
Distributions	-	<b>(96)</b>	-	(77)
Accrued interest	-	<b>84</b>	-	67
Class B limited partnership units, end of the year	<b>25</b>	<b>968</b>	25	980
Less: Maturities within one year		<b>(95)</b>		(95)
		<b>873</b>		885

(a) On November 25, 2024, KKR provided a contribution of \$233.1 million to LIL LP in order to adjust its proportionate share of investment in LIL LP in accordance with the Newfoundland and Labrador Development Agreement.

## NEWFOUNDLAND AND LABRADOR HYDRO

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 16. DEFERRED CREDITS

Deferred credits primarily consist of deferred energy sales to Emera Inc. (Emera), deferred revenue related to Menihek assets for the sale of energy to Hydro-Québec, deferrals related to telecommunications services to be provided by Churchill Falls to Hydro-Québec and contributions from customers to complete interconnection studies.

<i>As at December 31, 2025 (millions of Canadian dollars)</i>	Deferred Energy Sales	Deferred Lease Revenue	Other	Total
Deferred credits, beginning of the year	1,531	78	23	1,632
Additions	28	31	1	60
Amortization	(94)	(3)	(2)	(99)
Deferred credits, end of the year	1,465	106	22	1,593
Less: current portion	(88)	(4)	(7)	(99)
	<b>1,377</b>	<b>102</b>	<b>15</b>	<b>1,494</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.

Included in other are deferred credits relating to Churchill Falls' obligation to provide required telecommunications services to Hydro-Québec in exchange for significant upgrades to the microwave telecommunications equipment linking the Churchill Falls Generating Station to Hydro-Québec's transmission system.

#### 17. DECOMMISSIONING LIABILITIES

Hydro has recognized liabilities associated with the retirement of portions of the Holyrood TGS, disposal of Polychlorinated Biphenyls (PCB) and decommissioning liabilities resulting from its net ownership interests in petroleum and natural gas properties and related well sites.

The reconciliation of the beginning and ending carrying amounts of decommissioning liabilities as at December 31, 2025 and 2024 are as follows:

<i>As at December 31 (millions of Canadian dollars)</i>	Note	<b>2025</b>	2024
Decommissioning liabilities, beginning of the year		<b>106</b>	102
Accretion		<b>5</b>	5
Liabilities settled		<b>(2)</b>	(1)
Revisions		<b>14</b>	-
Decommissioning liabilities, end of the year		<b>123</b>	106
Less: current portion	13	<b>(1)</b>	(2)
		<b>122</b>	104

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.

Oil and Gas' decommissioning liabilities result from net ownership interests in petroleum and natural gas

## NEWFOUNDLAND AND LABRADOR HYDRO

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

properties and related well sites. The total undiscounted estimated cash flows required to settle the obligations, including a rate of inflation of 2%, at December 31, 2025 are \$169.4 million (2024 - \$162.7 million). Payments to settle the liabilities are expected to occur between 2038 and 2040. The fair value of the decommissioning liabilities was determined using the present value of future cash flows discounted at rates ranging from 4.9% to 5.0% (2024 - 4.7% to 5.1%). Oil and Gas has recorded \$88.7 million (2024 - \$77.1 million) related to HSE, Hebron and White Rose.

A significant number of 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.

#### 18. EMPLOYEE FUTURE BENEFITS

##### 18.1 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 \$15.5 million (2024 - \$14.5 million) are expensed as incurred.

##### 18.2 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 to for its unfunded other employee future benefits were \$4.8 million (2024 - \$3.9 million). An actuarial valuation was performed as at December 31, 2025.

<i>As at December 31 (millions of Canadian dollars)</i>	<b>2025</b>	2024
Accrued benefit obligation, beginning of the year	<b>125</b>	116
Current service cost	<b>4</b>	4
Interest cost	<b>6</b>	5
Benefits paid	<b>(4)</b>	(4)
Actuarial (gain) loss	<b>(5)</b>	4
	(a)	
Accrued benefit obligation, end of the year	<b>126</b>	125

(a) In addition, pursuant to Board Order No. P.U. 36 (2015), Hydro recorded \$2.0 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.

<i>For the year ended December 31 (millions of Canadian dollars)</i>	<b>2025</b>	2024
Component of benefit cost		
Current service cost	<b>4</b>	4
Interest cost	<b>6</b>	5
Total benefit expense for the year	<b>10</b>	9

## NEWFOUNDLAND AND LABRADOR HYDRO

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

	<b>2025</b>	2024
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>	2024
Initial health care expense trend rate	<b>5.70%</b>	5.85%
Cost trend decline to	<b>3.60%</b>	3.60%
Current rate 5.7%, reducing linearly to 3.6% 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>	2024
Current service and interest cost	<b>1.6</b>	1.4
Accrued benefit obligation	<b>15.7</b>	16.3
	<b>2025</b>	2024
<i>Decrease (millions of Canadian dollars)</i>		
Current service and interest cost	<b>(1.2)</b>	(1.1)
Accrued benefit obligation	<b>(12.5)</b>	(12.9)

#### 19. OTHER LONG-TERM LIABILITIES

<i>As at December 31 (millions of Canadian dollars)</i>		<b>2025</b>	2024
Deferred contributions	(a)	<b>49</b>	47
Long-term payables	(b)	<b>36</b>	37
Non-current lease liabilities		<b>5</b>	5
		<b>90</b>	89

(a) Deferred contributions:

<i>As at December 31 (millions of Canadian dollars)</i>	Note	<b>2025</b>	2024
Deferred contributions, beginning of the year		<b>49</b>	44
Additions		<b>4</b>	6
Amortization		<b>(2)</b>	(1)
Deferred contributions, end of the year		<b>51</b>	49
Less: current portion	13	<b>(2)</b>	(2)
		<b>49</b>	47

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.

## NEWFOUNDLAND AND LABRADOR HYDRO

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(b) Long-term payables:

<i>As at (millions of Canadian dollars)</i>	Note	2025	2024
Long-term payables, beginning of the year		55	60
Additions		-	6
Settlements		(18)	(20)
Accretion		2	2
Revisions		15	7
Long-term payables, end of the year		54	55
Less: current portion	13	(18)	(18)
		36	37

As at December 31, 2025, current portion of long-term payables primarily relates to payments owing to the Innu Nation under the IBA Amendment. Long-term payables primarily consist 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 these future obligations. The present value of the remaining payments using a discount rate of 3.8% (2024 - 4.5%) is \$35.3 million (2024 - \$36.4 million).

## 20. LEASES

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

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

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

## 21. SHAREHOLDER'S EQUITY

### 21.1 Share Capital

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

## 22. 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. The company'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 its 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 Class B limited partnership units) and equity (share capital, shareholder contributions, reserves and retained earnings).

## NEWFOUNDLAND AND LABRADOR HYDRO

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

A summary of the consolidated capital structure is outlined below:

<i>As at December 31 (millions of Canadian dollars)</i>	<b>2025</b>		2024	
<b>Debt</b>				
Sinking funds (Hydro portion only)	<b>(214)</b>		(211)	
Short-term borrowings	<b>250</b>		590	
Current portion of long-term debt	<b>296</b>		70	
Long-term debt	<b>11,015</b>		10,865	
Current portion of Class B limited partnership units	<b>95</b>		95	
Class B limited partnership units	<b>873</b>		885	
Lease liabilities	<b>5</b>		5	
	<b>12,320</b>	<b>60%</b>	12,299	61%
<b>Equity</b>				
Share capital	<b>123</b>		123	
Shareholder contributions	<b>4,859</b>		4,859	
Reserves	<b>(20)</b>		(29)	
Retained earnings	<b>3,100</b>		2,985	
	<b>8,062</b>	<b>40%</b>	7,938	39%
	<b>20,382</b>	<b>100%</b>	20,237	100%

Hydro's approach to capital management encompasses various factors including monitoring the percentage of floating rate debt in the total debt portfolio, the weighted average term to maturity of its overall debt portfolio, its percentage of debt to debt plus equity, and its interest coverage.

For the regulated portion of Hydro's operations, Management targets a capital structure comprised of 75% debt and 25% equity, a ratio which Management believes to be optimal with respect to its cost of capital. This capital structure is maintained by a combination of dividend policy, shareholder contributions and debt issuance. The issuance of any new debt with a term greater than one year requires prior approval of the PUB. Hydro's committed 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 December 31, 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. The limit decreased 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 was set to \$1.0 billion (previously \$700.0 million for Hydro and \$300.0 million for Nalcor Energy) until December 31, 2025. The limit decreased 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 (excluding Churchill Falls and Lower Churchill debt), 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. Any additional funding to address long-term capital funding requirements requires approval from the PUB.

## NEWFOUNDLAND AND LABRADOR HYDRO

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 23. ENERGY SALES

<i>For the year ended December 31 (millions of Canadian dollars)</i>	<b>2025</b>	2024
Electricity sales	<b>1,190</b>	1,134
Petroleum and natural gas sales	<b>308</b>	240
Royalty expense	<b>(78)</b>	(25)
Total energy sales	<b>1,420</b>	1,349

#### 24. OTHER REVENUE

<i>For the year ended December 31 (millions of Canadian dollars)</i>	<b>2025</b>	2024
Greenhouse Gas performance credit sales	<b>16</b>	20
Renewable energy credits	<b>10</b>	20
Lease revenue	<b>17</b>	15
Other	<b>14</b>	13
Total other revenue	<b>57</b>	68

#### 25. OPERATING COSTS

<i>For the year ended December 31 (millions of Canadian dollars)</i>	<b>2025</b>	2024
Salaries and benefits	<b>182</b>	168
Maintenance and materials	<b>86</b>	85
Professional services	<b>49</b>	46
Impacts and Benefits agreement and amendment	<b>14</b>	35
Insurance	<b>14</b>	15
Travel and transportation	<b>10</b>	11
Other operating costs	<b>1</b>	6
Total operating costs	<b>356</b>	366

#### 26. PRODUCTION, MARKETING AND TRANSPORTATION COSTS

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

<i>For the year ended December 31 (millions of Canadian dollars)</i>	<b>2025</b>	2024
Project operating costs	<b>20</b>	30
Transportation and transshipment	<b>9</b>	8
Processing and marketing	<b>2</b>	1
Total production, marketing and transportation costs	<b>31</b>	39

## NEWFOUNDLAND AND LABRADOR HYDRO

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 27. NET FINANCE EXPENSE

<i>For the year ended December 31 (millions of Canadian dollars)</i>	<b>2025</b>	2024
Finance income		
Interest on restricted cash	<b>50</b>	69
Interest on investments	<b>24</b>	25
Other interest income	<b>27</b>	43
	<b>101</b>	137
Finance expense		
Interest on long-term debt	<b>404</b>	399
Interest on Class B limited partnership units	<b>82</b>	67
Debt guarantee fee	<b>9</b>	9
Accretion	<b>10</b>	8
Other	<b>16</b>	23
	<b>521</b>	506
Interest capitalized during construction	<b>(3)</b>	(2)
	<b>518</b>	504
Net finance expense	<b>417</b>	367

#### 28. 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>	<b>2025</b>	2024
Government directed rate mitigation funding	<b>554</b>	90
Convertible debt funds used for rate mitigation	<b>150</b>	150
Total rate mitigation expense	<b>704</b>	240

#### 29. OTHER EXPENSE

<i>For the year ended December 31 (millions of Canadian dollars)</i>	<b>2025</b>	2024
Loss on disposal of property, plant and equipment	<b>19</b>	21
Rental and royalty	<b>19</b>	21
HSE Redetermination adjustment	-	(23)
Other	<b>10</b>	8
Total other expense	<b>48</b>	27

#### 30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

##### 30.1 Fair Value

The estimated fair values of financial instruments as at December 31, 2025 and, December 31, 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.

## NEWFOUNDLAND AND LABRADOR HYDRO

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 during the years ended December 31, 2025 and 2024.

	Level	Carrying Value December 31, 2025	Fair Value December 31, 2025	Carrying Value December 31, 2024	Fair Value December 31, 2024
<i>As at (millions of Canadian dollars)</i>					
Financial assets					
Sinking funds - investments in Hydro debt issue	2	148	148	128	129
Sinking funds - other investments	2	247	253	245	253
Investments, including short-term	2	156	159	199	200
Reserve fund	2	50	50	50	50
Financial liabilities					
Long-term debt including amount due within one year (before sinking funds)	2	11,458	10,300	11,063	10,331
Class B limited partnership units including amount due within one year	3	968	968	980	980
Long-term payables including amount due within one year	2	54	54	55	55

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

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

Level 3 financial instruments include Class B limited partnership units.

## NEWFOUNDLAND AND LABRADOR HYDRO

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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The Class B limited partnership units are carried at amortized cost, calculated using the effective interest method, which approximates fair value. The effective interest rate as at December 31, 2025 is 8.9% (2024 - 8.7%) which is the rate that discounts the estimated future cash flows to the amortized cost of the financial liabilities. Due to the unobservable nature of the effective interest rate and resulting discounted cash flows associated with the units, the instruments have been classified as Level 3.

The table below sets forth a summary of changes in fair value of the Class B limited partnership units given a one percent change in the discount rate while holding other variables constant:

<i>(millions of Canadian dollars)</i>	1% Increase	1% Decrease
Class B limited partnership units	(77.4)	74.7

#### 30.2 Risk Management

Hydro is exposed to certain credit, liquidity and market risks through its operating, financing and investing activities. Financial risk is managed in accordance with a Board approved policy, which outlines the objectives and strategies for the management of financial risk, including the use of derivative contracts. Permitted financial risk management strategies are aimed at minimizing the volatility of 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, restricted cash, short-term investments and long-term investments, as well as from the sale of electricity to customers, including the associated accounts receivable, is determined by the financial capacity and stability of those customers and counterparties. The maximum exposure to credit risk on these financial instruments is represented by their carrying values on the Consolidated Statement of Financial Position at the reporting date.

Credit risk on cash and cash equivalents is considered to be minimal, as Hydro's cash deposits are held by a Schedule 1 Canadian Chartered bank with a rating of A+ (Standard and Poor's). Credit risk on restricted cash is considered to be minimal, as Hydro's restricted cash deposits are held by Schedule 1 Canadian Chartered banks with ratings of A+ (Standard and Poor's). Restricted cash also includes funds held in trust by solicitors of the Company. Credit risk on short-term investments is minimized by limiting holdings to high-quality, investment grade securities issued by the Federal and Provincial governments, as well as demand deposits, term deposits, commercial paper or structured deposits noted in Schedule 1 Canadian Chartered banks. The Financial Risk Management Policy as approved by the Board, also restricts the aggregate principal amount of permitted investments issued by a single Canadian Schedule 1 or 2 bank exceeding 30% of the total principal amount of all investments on a consolidated basis.

## NEWFOUNDLAND AND LABRADOR HYDRO

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 fund's portfolio:

	Issuer Credit Rating	Fair Value of Portfolio (%)	Issuer Credit Rating	Fair Value of Portfolio (%)
	2025		2024	
Federal government	AAA	0.98%	AAA	-
Provincial governments	AA- to AAA	3.40%	AA-to AAA	18.75%
Provincial governments	A- to A+	31.50%	A- to A+	19.34%
Provincially owned utilities	AA- to AAA	-	AA- to AAA	25.76%
Provincially owned utilities	A- to A+	64.12%	A- to A+	36.15%
		100.00%		100.00%

Credit exposure on the reserve fund is mitigated by adhering to an investment policy which restricts the holdings to long-term debt instruments issued or guaranteed by the Government of Canada or any province of Canada. Investments in the long-term debt instruments of Canadian banks are also permitted, provided the bank is rated A or higher by Standard and Poor's. With the exception of the Government of Canada, holdings of any one issuer are limited to 10.0% of the total principal amount of the portfolio. The following credit risk table provides information on credit exposures according to issuer type and credit rating for the reserve fund:

	Issuer Credit Rating	Fair Value of Portfolio (%)	Issuer Credit Rating	Fair Value of Portfolio (%)
	2025		2024	
Provincial governments	AA- to AAA	19.76%	AA- to AAA	31.17%
Provincially owned utilities	AA- to AAA	-	AA- to AAA	7.49%
Provincial governments	A- to A+	47.17%	A- to A+	29.63%
Provincially owned utilities	A- to A+	7.66%	A- to A+	3.30%
Schedule 1 Canadian banks	AA- to AAA-	5.30%	AA- to AAA-	9.50%
Schedule 1 Canadian banks	A- to A+	20.11%	A- to A+	18.91%
		100.00%		100.00%

Credit exposure on Hydro's long-term investments is considered to be limited as the investments are held by Schedule 1 Canadian Chartered banks and Provincially owned utilities with investment grade ratings of A or higher (Standard and Poor's). The following credit risk table provides information on long-term and short-term investment credit exposures according to issuer type and credit rating:

	Issuer Credit Rating	Fair Value of Portfolio (%)	Issuer Credit Rating	Fair Value of Portfolio (%)
	2025		2024	
Provincially owned utilities	A- to A+	0.13%	A- to A+	0.10%
Schedule 1 Canadian Banks	A- to A+	99.87%	A- to A+	99.90%
		100.00%		100.00%

Credit exposure on derivative assets is limited by a Financial Risk Management Policy as approved by the Board, which restricts available counterparties for hedge transactions to Schedule 1 Canadian Chartered banks and Federally Chartered US banks.

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### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Hydro does not have any significant amounts that are past due and uncollectable, for which a provision has not been recognized as at December 31, 2025.

#### Liquidity Risk

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

Short-term liquidity for Hydro and its subsidiaries is mainly provided through cash and cash equivalents on hand, funds from operations, operating credit facilities which Hydro and its subsidiaries maintain with its banker and shareholder contributions. Hydro and its subsidiaries maintain operating credit facilities as described in note 14.

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

Long-term liquidity risk for Hydro is managed by the issuance of a portfolio of debentures with maturity dates ranging from 2026 to 2055. Sinking funds have been established for these issues, with the exception of the issues maturing in 2030, 2045 and 2048. Churchill Falls, long-term liquidity risk is managed by maintenance of the reserve fund in accordance with the Shareholders' Agreement and a dividend management policy that meets long-term liquidity requirements associated with Churchill Falls' capital expenditure program.

Long-term liquidity is further supported through funding from Canada in the form of a \$1.0 billion convertible debenture for rate mitigation.

The following are 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	400	-	-	-	400
Short-term borrowings	250	-	-	-	250
Long-term debt (including sinking funds, interest and guarantee fees)	654	1,049	2,084	14,655	18,442
Class B limited partnership units (including interest)	95	186	182	2,692	3,155
Long-term payables	17	4	3	30	54
	1,416	1,239	2,269	17,377	22,301

#### 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 USD/CAD, and current commodity prices, most notably the spot prices for oil, No. 6 fuel, diesel fuel and electricity and any potential new or revised tariffs.

#### Interest Rates

The impact of interest rates on the expected future cash outflows related to short-term borrowings and long-term debt are managed through Hydro's debt portfolio. The impact of changes 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

## NEWFOUNDLAND AND LABRADOR HYDRO

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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time period to maturity. Hydro is not exposed to interest rate risk on its long-term debt as all of its long-term debt has fixed interest rates.

#### *Foreign Exchange and Commodity Exposure*

Hydro's primary exposure to both foreign exchange and commodity price risk arises from its purchases of fuel used in electricity generation, USD denominated electricity sales, capital purchases and the sale of crude oil. For the purchases of fuel used in electricity generation, these risks are mitigated through the operation of regulatory mechanisms. For the year ended December 31, 2024, total energy and Renewable energy certificates sales denominated in USD were \$130.2 million (2024 - \$99.8 million).

Hydro does not have significant exposure to fluctuations in foreign exchange with respect to its trade and other receivables and trade and other payables.

During 2025, total oil sales denominated in USD were \$220.7 million (2024 - \$175.9 million). Historically, cash flow variability related to commodity price exposure on USD denominated oil sales was mitigated through the use of fixed price commodity swaps and foreign exchange exposure on sales was partially offset by USD denominated capital expenditures and foreign exchange forward contracts. The Company has not entered into any new commodity price swaps or foreign exchange forward contracts since 2022, and the last contract matured in January 2024.

### 31. 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
Hydro-Québec	34.2% shareholder of Churchill Falls
Oil and Gas Corporation of Newfoundland and Labrador	Wholly-owned subsidiary of the Province
Bull Arm Fabrication Inc.	Wholly-owned subsidiary of Oil and Gas Corporation of Newfoundland and Labrador
KKR Island Link Incorporation	Limited Partner holding 25 Class B limited partnership units of LIL LP
Board of Commissioners of Public Utilities	Agency of the Province

## NEWFOUNDLAND AND LABRADOR HYDRO

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

<i>As at December 31 (millions of Canadian dollars)</i>	<b>2025</b>	2024
<b>Trade and other receivables:</b>		
Other related parties	<b>33</b>	24
The Province	<b>1</b>	2
<b>Trade and other payables:</b>		
The Province (a,b,c,e)	<b>58</b>	61
<b>Other current liabilities</b>		
Other related parties	<b>4</b>	4
<b>Long-term debt (including current portion):</b>		
The Province	<b>1,224</b>	927

<i>For the year ended December 31 (millions of Canadian dollars)</i>	<b>2025</b>	2024
<b>Energy sales:</b>		
Other related parties	<b>88</b>	144
The Province (d)	<b>(72)</b>	(22)
<b>Other revenue:</b>		
Other related parties	<b>1</b>	1
<b>Power purchased:</b>		
The Province (c)	<b>25</b>	28
<b>Operating costs (recoveries):</b>		
Other related parties	<b>4</b>	4
The Province (c)	<b>(25)</b>	(24)
<b>Net finance expense:</b>		
The Province	<b>38</b>	36
<b>Other expense:</b>		
The Province (a,b)	<b>19</b>	21

- (a) Churchill Falls is required to pay the Province an annual rental of 8% of the consolidated net profits before income taxes and an annual royalty of \$0.50 per horsepower year generated, which is payable on an annual basis before March 31 of the following fiscal year.
- (b) Muskrat Falls is required to pay the Province a water rental fee based on megawatt hours of energy generated, which is payable on an annual basis, in the first quarter of the following fiscal year.
- (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) Primarily consists of amounts expensed to the Province for royalties associated with Oil and Gas, which are presented net of Energy sales in the Consolidated Statement of Profit and Comprehensive Income.
- (e) During 2025, Oil and Gas incurred \$77.8 million (2024 - \$25.3 million) in royalty expenses of which \$74.8 million (2024 - \$25.2 million) were paid to the Province and \$3.0 million paid to Federal Government (2024 - \$0.1 million). Royalties payable at the end of year were \$6.4 million (2024 - \$10.2 million) of which were fully owed to the Province.

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

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**31.1 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>	2024
Salaries and employee benefits	<b>3</b>	3

**32. COMMITMENTS AND CONTINGENCIES**

- (a) Hydro and its subsidiaries are subject to legal claims with respect to impact on land use, energy and capacity delivery, construction and other various matters. For some legal claims, it is not possible at this time to predict with any certainty the outcome of such litigation. Should these claims result in an unfavourable outcome for the Company, they may have a significant adverse effect on the Company's financial position.
- (b) Outstanding commitments for capital projects, excluding those related to Oil and Gas, total approximately \$130.8 million as at December 31, 2025 (2024 - \$169.0 million).
- (c) Hydro and its subsidiaries have issued irrevocable letters of credit with a total value of \$28.9 million as per Note 14.1.
- (d) Oil and Gas has the following capital and operating commitments as a result of its joint arrangement partnerships:

<i>(millions of Canadian dollars)</i>	Total Commitments
2026	24.6
2027	6.5
2028	6.1
2029	5.2
2030	4.8
Thereafter	14.2

## NEWFOUNDLAND AND LABRADOR HYDRO

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(e) The Company has entered into a number of long-term power purchase agreements as follows:

Type	Rating	Effective Date	Term
Hydroelectric	6.5 MW	2021	24 years
Hydroelectric	4 MW	2023	3 years
Hydroelectric	300 MW	1998	43 years
Hydroelectric	225 MW	2015	25 years
Cogeneration	15 MW	2023	10 years
Wind	390 kW	2004	Continual
Wind	27 MW	2008	20 years
Wind	27 MW	2009	20 years
Hydroelectric, Solar, Battery	240 kW Hydro 189 kW Solar 334.5 kW Battery	2019	15 years
Solar	103 kW	2022	Continual
Biomass	450 kW	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	3030
Power purchases	72	49	49	42	34

(f) 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.

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

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

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

(h) As part of the LIL PFA, the LIL LP has pledged its current and future assets as security to the Collateral Agent.

(i) As part of the MF/LTA PFA, Muskrat Falls and Labrador Transco have pledged its present and future assets as security to the Collateral Agent.

(j) LIL LP is required to make mandatory distributions as determined by LIL GP in accordance with the LIL LPA.

(k) 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 NL for any losses sustained.

(l) In July 2012, Hydro entered into the Energy and Capacity Agreement with Emera NL 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.

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### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

- (m) 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.
- (n) 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.
- (o) 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.
- (p) 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.

### 33. SUPPLEMENTARY CASH FLOW INFORMATION

<i>For the year ended December 31 (millions of Canadian dollars)</i>	<b>2025</b>	2024
Trade and other receivables	<b>(31)</b>	(77)
Prepayments	<b>1</b>	4
Inventories	<b>4</b>	(10)
Trade and other payables	<b>44</b>	54
<u>Changes in non-cash working capital balances</u>	<b>18</b>	(29)
Related to:		
Operating activities	<b>14</b>	(44)
Investing activities	<b>4</b>	15
	<b>18</b>	(29)

### 34. SEGMENT INFORMATION

The following summary provides a brief overview of the nature of operations included in each of the Company's operating segments as at December 31, 2025.

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

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

**LC Transmission** includes the operation of the LIL and the LTA, which consist of transmission lines connecting the Muskrat Falls Generating Station, the Churchill Falls Generating Station and certain portions of the transmission system in Labrador to the island of Newfoundland.

## NEWFOUNDLAND AND LABRADOR HYDRO

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

**Other Electric** includes revenues and expenditures associated with the delivery of the Nova Scotia Block of energy to Emera, expenditures associated with the Maritime Link (which is owned and managed by Emera, but consolidated by 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 that are not included in the Company's other operating segments.

**Oil and Gas** includes the Company's share in the development, production, transportation and processing of oil and gas from the Hebron, White Rose and HSE fields .

# NEWFOUNDLAND AND LABRADOR HYDRO

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

<i>(millions of Canadian dollars)</i>	Hydro Regulated	Muskrat Falls	LC Transmission	Churchill Falls	Energy Trading	Other Electric	Oil and Gas	Inter-Segment	Total
For the year ended December 31, 2025									
Energy sales	853	739	115	113	186	154	230	(970)	1,420
Other revenue	42	-	459	5	10	17	-	(476)	57
<b>Revenue</b>	<b>895</b>	<b>739</b>	<b>574</b>	<b>118</b>	<b>196</b>	<b>171</b>	<b>230</b>	<b>(1,446)</b>	<b>1,477</b>
Fuels	171	-	-	-	-	-	-	-	171
Power purchased	1,280	-	-	-	64	79	-	(1,315)	107
Operating costs	164	40	38	49	5	57	4	(1)	356
Production, marketing and transportation	-	-	-	-	-	-	31	-	31
Transmission rental	-	115	-	-	42	-	-	(132)	25
Depreciation, depletion, amortization and impairment	89	90	110	18	-	39	93	(1)	438
Net finance expense (income)	102	119	214	(3)	(1)	(17)	2	-	417
Rate mitigation expense	-	-	-	-	-	704	-	-	704
Other expense (income)	18	16	-	6	4	2	2	-	48
Preferred dividends	-	-	-	(3)	-	-	-	3	-
<b>Expenses</b>	<b>1,824</b>	<b>380</b>	<b>362</b>	<b>67</b>	<b>114</b>	<b>864</b>	<b>132</b>	<b>(1,446)</b>	<b>2,297</b>
(Loss) profit for the year before regulatory adjustments	(929)	359	212	51	82	(693)	98	-	(820)
Regulatory adjustments	(936)	-	-	-	-	-	-	1	(935)
<b>Profit (loss) for the year</b>	<b>7</b>	<b>359</b>	<b>212</b>	<b>51</b>	<b>82</b>	<b>(693)</b>	<b>98</b>	<b>(1)</b>	<b>115</b>
Capital expenditures*	247	3	23	91	-	37	86	-	487
Total assets	4,728	8,268	7,164	917	165	9,304	847	(8,397)	22,997
Total debt**	2,326	4,359	5,635	-	-	-	-	-	12,320

\*Capital expenditures (inclusive of property, plant and equipment and intangible assets) include non-cash contributions of \$7.7 million of non-cash additions and \$3.4 million of interest capitalized during construction.

\*\*Total debt includes short-term borrowings, long-term debt including current portion less Hydro's sinking funds of \$246.7 million, Class B limited partnership units, and lease liabilities of \$5.2 million.

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<i>(millions of Canadian dollars)</i>	Hydro Regulated	Muskrat Falls	LC Transmission	Churchill Falls	Energy Trading	Other Electric	Oil and Gas	Inter- Segment	Total
	For the year ended December 31, 2024								
Energy sales	740	630	114	108	118	167	215	(743)	1,349
Other revenue	45	-	458	15	20	15	-	(485)	68
Revenue	785	630	572	123	138	182	215	(1,228)	1,417
Fuels	169	-	-	-	-	-	-	-	169
Power purchased	1,083	-	-	-	41	86	-	(1,099)	111
Operating costs	150	61	41	47	5	58	4	-	366
Production, marketing and transportation costs	-	-	-	-	-	-	39	-	39
Transmission rental	-	114	-	-	50	-	-	(132)	32
Depreciation, depletion, amortization and impairment	80	90	110	22	-	42	81	(2)	423
Net finance expense (income)	110	105	188	(6)	(2)	(30)	2	-	367
Rate mitigation expense	-	-	-	-	-	240	-	-	240
Other expense (income)	10	21	11	8	(6)	11	(27)	(1)	27
Preferred dividends	-	-	-	(4)	-	-	-	4	-
Expenses	1,602	391	350	67	88	407	99	(1,230)	1,774
Profit (loss) for the year before regulatory adjustments	(817)	239	222	56	50	(225)	116	2	(357)
Regulatory adjustments	(837)	-	-	-	-	-	-	1	(836)
Profit (loss) for the year	20	239	222	56	50	(225)	116	1	479
Capital expenditures*	163	3	30	58	-	26	92	-	372
Total assets	4,342	7,977	7,147	871	133	3,536	840	(2,019)	22,827
Total debt**	2,390	4,395	5,514	-	-	-	-	-	12,299

\*Capital expenditures (inclusive of property, plant and equipment and intangible assets) include non-cash additions of \$4.0 million and \$2.0 million of interest capitalized during construction.

\*\*Total debt includes short-term borrowings, long-term debt including current portion less Hydro's sinking funds of \$211.2 million, Class B limited partnership units, and lease liabilities of \$5.2 million.