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QH Financial Update

newfoundland labrador hydro

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INTERIM MANAGEMENT DISCUSSION & ANALYSIS

This Management Discussion and Analysis (MD&A) should be read in conjunction with the unaudited condensed consolidated interim financial statements (interim financial statements) of Newfoundland and Labrador Hydro (Hydro) for the period ended June 30, 2026, and the annual audited consolidated financial statements (annual financial statements) and MD&A (annual MD&A) of Hydro for the year ended December 31, 2025. Unless otherwise noted, all financial information has been prepared in accordance with IFRS® Accounting Standards as issued by the International Accounting Standards Board and reported in Canadian dollars (CAD).

The following discussion and analysis include results as of June 30, 2026, with subsequent events and outlook information updated to August 13, 2026. The MD&A is the responsibility of Management, and the Board of Directors carries out its responsibility for review of this disclosure principally through its Audit Committee. This MD&A was reviewed by the Audit Committee and subsequently approved by the Board of Directors on August 13, 2026.

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

Throughout this MD&A, "Company" and "Hydro" refer to the Newfoundland and Labrador Hydro Group of Companies.

OUR COMPANY

Hydro is a provincial crown Corporation, providing safe, cost-conscious, reliable electricity while harnessing sustainable energy opportunities to benefit the people of Newfoundland and Labrador (the Province). Our business includes the development, generation, transmission and sale of electricity including energy trading; and the development, production and sale of oil and gas.

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

We are the people's crown utility. For more than 50 years Hydro has provided safe, cost-effective electricity to customers in over 200 communities throughout the Province. We deliver over 90 per cent renewable energy to the people of Newfoundland and Labrador. We are a proud, diverse energy company whose people are committed to continuing to harness energy opportunities to benefit the people of the Province.

Hydro's profitability can be impacted by seasonal weather patterns and events along with the timing of application and approval of regulatory deferrals and rate orders. In addition, Hydro has and will continue to experience variability in earnings as a result of the implementation of the Province's rate mitigation plan, oil price and sales volumes, and electricity export price and volumes.

AT A GLANCE

For the periods ended June 30 (millions of Canadian dollars)	Three months ended		Six months ended	
	2026	2025	**2026**	2025
Profit	**181**	122	**165**	70
Operating profit[1]	**181**	155	**114**	103
Revenue	**337**	330	**861**	784
Operating costs	**89**	89	**173**	171
Cash provided from operations	**67**	70	**293**	280
Capital expenditures	**109**	115	**175**	179
Electricity sales (GWh)	**6,938**	7,778	**18,705**	19,877
Oil sales volume (thousands of bbls)	**1,154**	876	**2,132**	1,531
Realized oil price (CAD/bbl)	**143**	93	**129**	99

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

Profit

Hydro's profit for the three months ended June 30, 2026 was $181 million, an increase of $59 million compared to the same period in 2025. The primary driver of the increase in profit for the quarter is stronger Oil and Gas earnings as a result of higher oil prices and production levels.

Hydro's profit for the six months ended June 30, 2026 was $165 million, an increase of $95 million compared to the same period in 2025. The increase in year-to-date earnings was driven by improved results in the Oil and Gas segment due to higher production levels and higher oil prices which also led to a non-cash impairment reversal in Q1 2026, as well as lower rate mitigation expense. The improvements were partially offset by lower regulatory deferrals.

RECENT DEVELOPMENTS

HYDRO REGULATED

Rate Mitigation, the Recovery of LCP Costs

In March 2026, Hydro applied $350 million of rate mitigation funding against the balance of the Supply Cost Variance Deferral Account (the "Deferral Account") in accordance with the Province's Rate Mitigation Plan. The plan ensures domestic residential rate increases, for customers subject to Island Interconnected System rates, attributable to Hydro's costs are targeted at 2.25% annually up to and including 2030. The plan also requires that any additional rate mitigation funding required come from Hydro's own sources to the extent possible, and for Hydro to retire the 2023 ending Deferral Account balance of $271 million over the 2024–2026 period. The March 2026 payment retires the last $90 million of the 2023 balance.

Customer Rate Changes

On June 5, 2026, the Public Utilities Board (PUB) approved Hydro Regulated's annual utility rate application, effective July 1, 2026 which included a wholesale rate increase to Newfoundland Power Inc. ("Newfoundland Power"), consistent with the Rate Mitigation Plan. This past April, the Province wrote Hydro and advised them to apply to the PUB requesting to use the $45 million credit balance associated with the Rural Rate Alteration ("RRA") component of the Deferral Account to offset the July 1, 2026 rate increase stemming from Newfoundland Power's cost recovery. Without this action, electricity rates were projected to increase by seven per cent on July 1. By applying the RRA credit the overall rate increase for island domestic customers was limited to 2.25%. The July 1, 2026 increase to Hydro Regulated's rural customer rates mirrors the PUB approved rate increase.

On June 11, 2026, the PUB approved Hydro Regulated's application for Island Industrial Customer Rate Adjustments effective July 1, 2026, resulting in a 3.0% overall rate increase in accordance with the Government of Newfoundland and Labrador's Rate Mitigation plan.

2026 General Rate Application (GRA)

On May 15, 2026, Hydro, Newfoundland Power Inc., the Island Industrial Customer Group and the Consumer Advocate signed a settlement agreement with respect to a number of proposals within Hydro's Cost of Service Methodology application and, on May 27, 2026 Hydro filed its 2026 GRA with the PUB seeking approval of updated rates effective July 1, 2027. The filing reflects Hydro's ongoing commitment to transparency, regulatory oversight, and accountability. The application reflects the first inclusion of Muskrat Falls supply costs in Hydro's revenue requirement and incorporates government directed rate mitigation measures designed to limit customer rate impacts. Hydro has continued to prioritize prudent cost management since its last GRA.

The proceeding for the GRA will unfold throughout the second half of 2026 and into 2027 and includes requests for information from parties and the PUB, settlement negotiations and the filing of expert reports followed by an anticipated public hearing.

Capital Budget and Major Projects Supplemental Applications

In 2026, Hydro Regulated continues to advance capital budget proposals associated with both ensuring adequate resources are available to respond to increasing customer electricity demand as well as ensuring that our existing infrastructure continues to permit reliable operations.

Hydro Regulated previously filed its 2025 Build Application that included proposals for Bay d'Espoir Unit 8 and the Avalon Combustion Turbine (the "Avalon CT"), two system additions that are in line with Hydro's Expansion Plan, as recommended in its 2024 Resource Adequacy Plan filed with the PUB. Hydro revised its application for the 2025 Build Application on April 16, 2026, with a budget totaling just under $2.1 billion, reflecting an increase of $100 million to the initial cost estimate of the Avalon CT due to market conditions. On June 8, 2026, the PUB released its expert's report in response to Hydro's revised application. The regulatory proceeding for the Avalon CT continued into July and is now closed while Hydro awaits a final order from the PUB. The regulatory proceeding for Bay d'Espoir Unit 8 is ongoing.

Hydro is proceeding with early execution work in order to mitigate scheduling delays prior to approval of the overall projects. The total budget of all early execution work related to the Avalon CT and the Bay d'Espoir Unit 8 is currently $118 million, all of which has been approved by the PUB. While these costs are approved to be incurred, they have not yet been approved to be recovered from customers.

Hydro Regulated's appeal of the PUB decision on the application for Long-Term Supply for Southern Labrador to the Provincial Court of Appeal was heard on June 16, 2026 with a decision anticipated in the coming months. In the interim, Hydro is reviewing, studying and implementing ways to ensure the communities of the southern region of Labrador receive safe, reliable service now, and long-term. Work is underway to examine all supply options for a future application.

On July 9, 2026, Hydro Regulated's supplemental capital application for section replacement and weld refurbishment of Penstock 3 at the Bay d'Espoir Hydro-electric Generating Facility was approved by the PUB. Project execution is expected to take three years with an estimated project cost of $77 million.

Hydro Regulated's 2027 Capital Budget Application with total proposed capital expenditures of $156 million was filed on July 14, 2026, and excludes supplemental capital expenditures as well as Major Projects exceeding $50 million. Over half of the budget is dedicated to the renewal of aging infrastructure, which aligns with Hydro's ongoing commitment to ensuring the reliability of the system at least-cost. The regulatory proceeding is ongoing.

OTHER RECENT EVENTS

On June 30, 2026, the Lieutenant-Governor in Council issued Order in Council OC2026-133 directing Hydro to extend the current interim Power Purchase Agreement with Kruger Inc. for Corner Brook Pulp and Paper Limited (CBPP) for the supply to Hydro of up to 280 GWh of energy at a price of $187 per megawatt hour from July 1, 2026 to June 30, 2027.

CONSOLIDATED FINANCIAL RESULTS

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

CONSOLIDATED STATEMENT OF PROFIT HIGHLIGHTS

	Three months ended			Six months ended		
For the periods ended June 30 (millions of Canadian dollars)	**2026**	2025	Variance	**2026**	2025	Variance
Revenue	**337**	330	7	**861**	784	77
Fuels	**21**	21	-	**88**	99	(11)
Power purchased	**26**	19	7	**76**	51	25
Operating costs	**89**	89	-	**173**	171	2
Production, marketing and transportation costs	**10**	7	3	**18**	14	4
Transmission rental	**6**	6	-	**12**	13	(1)
Depreciation, depletion, amortization and impairment	**116**	140	(24)	**177**	239	(62)
Net finance expense	**104**	104	-	**212**	206	6
Rate mitigation expense	**-**	-	-	**350**	441	(91)
Other expense	**20**	13	7	**28**	18	10
Loss for the period before regulatory adjustments	**(55)**	(69)	14	**(273)**	(468)	195
Regulatory adjustments	**(236)**	(191)	(45)	**(438)**	(538)	100
Profit for the period	**181**	122	59	**165**	70	95

Non-GAAP Operating Profit Disclosure

Reconciliation of the Company's profit to operating profit for the three months and six months ended June 30, 2026 and 2025 is as follows:

	Three months ended			Six months ended		
For the periods ended June 30 (millions of Canadian dollars)	**2026**	2025	Variance	**2026**	2025	Variance
Profit for the period	**181**	122	59	**165**	70	95
Impairment expense (reversal)	**-**	33	(33)	**(51)**	33	(84)
Operating profit for the period	**181**	155	26	**114**	103	11

Revenue

	Three months ended			Six months ended		
For the periods ended June 30 (millions of Canadian dollars)	**2026**	2025	Variance	**2026**	2025	Variance
Electricity sales	**220**	260	(40)	**654**	648	6
Petroleum and natural gas sales, net of royalty expense	**107**	59	48	**190**	114	76
Other revenue	**10**	11	(1)	**17**	22	(5)
Total revenue	**337**	330	7	**861**	784	77

Electricity sales

Electricity sales for the three months ended June 30, 2026 were $220 million, a decrease of $40 million compared to the same period in 2025. The decrease for the quarter was primarily due to the credit applied to Newfoundland Power as directed by the Province and approved by the PUB. Electricity sales for the six months ended June 30, 2026 were comparable to the same period in 2025. Certain variances in revenue are offset in the regulatory adjustments line.

Electricity sales volume is summarized in the table below:

For the periods ended June 30 (GWh)	Three months ended **2026**	2025	Six months ended **2026**	2025
Regulated	**1,813**	1,696	**4,410**	4,193
Hydro-Québec	**3,682**	4,614	**11,412**	12,832
Emera - NS Block	**217**	244	**598**	631
Other export	**791**	771	**1,346**	1,235
Other domestic	**435**	453	**939**	986
	6,938	7,778	**18,705**	19,877

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

For the periods ended June 30	Three months ended **2026**	2025	Six months ended **2026**	2025
Average Export Electricity Price (USD/MWh)[1]	**46**	40	**68**	54
Realized Export Electricity Price (USD/MWh)[2]	**46**	40	**68**	54
Realized Export Electricity Price (CAD/MWh)[3]	**64**	55	**93**	76

[1]The Average Export Electricity Price reflects actual market prices achieved for all Other exports.

[2]The Realized Export Electricity Price (USD) includes the impact of financial transmission rights for all periods.

[3]The Realized Export Electricity Price (CAD) includes the impact of financial transmission rights for all periods and foreign exchange.

Average and realized USD export electricity prices for the three and six months ended June 30, 2026 were higher compared to the same periods in 2025 primarily due to elevated prices in the export markets due to reduced Canadian hydro energy supply, colder than normal weather for the first quarter of 2026, increasing regional demand, and rising natural gas prices in the Northeastern U.S.

Petroleum and natural gas sales, net of royalty expense

Petroleum and natural gas sales, net of royalty expense for the three months ended June 30, 2026 was $107 million, an increase of $48 million compared to the same period in 2025. Petroleum and natural gas sales, net of royalty expense for the six months ended June 30, 2026 was $190 million, an increase of $76 million compared to the same period in 2025. The increase for the three and six months ended is driven by higher oil prices as a result of global supply disruption and market uncertainty due to the ongoing conflict in Iran and higher volumes for Hebron and Hibernia Southern Extension ("HSE") due to new well production and higher operation efficiency.

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

For the periods ended June 30	Three months ended **2026**	2025	Six months ended **2026**	2025
Average Dated Brent Price (USD/bbl)[1]	**104**	67	**94**	70
Realized Price (CAD/bbl)[2]	**143**	93	**129**	99
Oil Sales Volume (thousands of bbls)	**1,154**	876	**2,132**	1,531

[1]The Average Dated Brent Price reflects prices available in the market adjusted for any premium or discount.

[2]The Realized Price (CAD) includes the conversion of oil price from USD to CAD.

Other revenue

Other revenue for the three and six months ended June 30, 2026 was comparable to the same period in 2025.

Fuels

Fuel costs for the three months ended June 30, 2026 were comparable to the same period in 2025. Fuel costs for the six months ended June 30, 2026 were $88 million, a decrease of $11 million compared to the same period in 2025. The decrease was due to lower No.6 fuel costs. Certain variances in fuels are offset through regulatory mechanisms in the regulatory adjustments line.

Power purchased

Power purchased for the three months ended June 30, 2026 was $26 million, an increase of $7 million compared to the same period in 2025. The increase was due to higher purchases from a non-utility generator. Power purchased for the six months ended June 30, 2026 was $76 million, an increase of $25 million compared to 2025. The increase was due to higher purchases from a non-utility generator, as well as increased imports over the Maritime Link due to the frazil ice event in January 2026 at Bay d'Espoir.

Operating costs

	Three months ended			**Six months ended**		
For the periods ended June 30 (millions of Canadian dollars)	**2026**	2025	Variance	**2026**	2025	Variance
Salaries and benefits	**48**	47	1	**97**	91	6
Maintenance and materials	**19**	19	-	**35**	36	(1)
Professional services	**10**	11	(1)	**16**	21	(5)
Impacts and Benefits amendment	**4**	4	-	**7**	7	-
Insurance	**4**	3	1	**7**	7	-
Travel and transportation	**3**	3	-	**5**	5	-
Other operating costs	**1**	2	(1)	**6**	4	2
Total operating costs	**89**	89	-	**173**	171	2

Operating costs for the three and six months ended June 30, 2026 were comparable to the same periods in 2025.

Production, marketing and transportation costs

Production, marketing and transportation costs for the three and six months ended June 30, 2026 were comparable to the same periods in 2025.

Transmission rental

Transmission rental for the three and six months ended June 30, 2026 was comparable to the same periods in 2025.

Depreciation, depletion, amortization and impairment

Depreciation, depletion, amortization and impairment for the three months ended June 30, 2026 was $116 million, a decrease of $24 million compared to the same period in 2025. The decrease was mainly due to last year's Q2 impairment expense in the oil and gas segment. Depreciation, depletion, amortization and impairment for the six months ended June 30, 2026 was $177 million, a decrease of $62 million compared to the same period in 2025. The decrease was largely due to the Q1 2026 impairment reversal related to White Rose. Fluctuations in impairment expenses and reversals in the oil and gas segment are not uncommon.

Net finance expense

Net finance expense for the three and six months ended June 30, 2026 was comparable to the same period in 2025.

Other expense

	Three months ended			Six months ended		
For the periods ended June 30 (millions of Canadian dollars)	**2026**	2025	Variance	**2026**	2025	Variance
Rental and royalty	**4**	5	(1)	**10**	11	(1)
Loss on disposal of assets	**-**	3	(3)	**3**	3	-
Other	**16**	5	11	**15**	4	11
Total other expense (income)	**20**	13	7	**28**	18	10

Other expense for the three months ended June 30, 2026 was comparable to the same period in 2025. Other expense for the six months ended June 30, 2026 was $28 million, an increase of $10 million compared to the same period in 2025. The variance was due to a claim settlement partially offset by favorable foreign exchange fluctuations.

Regulatory adjustments

Regulatory recoveries for the three months ended June 30, 2026 were $236 million, an increase of $45 million compared to the same period in 2025. The increase for the quarter was primarily due to the disposition of the RRA component of a Supply Deferral balance to Newfoundland Power to limit customer rate impacts. Regulatory recoveries for the six months ended June 30, 2026 were $438 million, a decrease of $100 million compared to the same period in 2025. The decrease was primarily due to lower deferrals for the power purchase costs under the Muskrat Falls Power Purchase agreement (MF PPA) primarily due to lower volume of deferred energy recognized in the period partially offset by disposition of the RRA component of a Supply Deferral balance to Newfoundland Power to limit customer rate impacts.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION HIGHLIGHTS

Significant changes in the Consolidated Statement of Financial Position between June 30, 2026 and December 31, 2025 include:

ASSETS *(millions of Canadian dollars)*	Increase (Decrease)	**Explanation**
Cash and cash equivalents	27	See Liquidity and Capital Resources for additional details on movement in cash during the period ended June 30, 2026.
Short-term investments	(115)	Decrease is due to a reduction of sinking funds which were used to repay principal on a matured Hydro Regulated debenture in February 2026.
Trade and other receivables	(113)	Decrease primarily due to lower power billings due to seasonality.
Inventories	44	Increase is due to variance in Bunker C fuel inventory.
Regulatory assets, net of regulatory liabilities	88	Increase due to deferral of costs associated with Muskrat Falls and LC Transmission, partially offset by rate mitigation funding.
LIABILITIES AND EQUITY *(millions of Canadian dollars)*		
Short-term borrowings	100	Increase is due to draw of promissory note and short-term credit facility to manage short-term cash requirements.
Trade and other payables	(73)	Decrease is primarily due to timing of payables and capital and operating accruals.
Current portion of long-term debt	(222)	Decrease is due to repayment of debt by Hydro Regulated during the period, partially offset by changes in the Sinking Fund.
Long-term debt	(31)	Decrease is due to bond payments in the period.
Retained earnings	165	Increase due to profit recorded for the period.

SEGMENTED RESULTS

The following presents an overview of the Company's profit or loss for the three and six months ended June 30, 2026, by operating segment, in comparison to the three and six months ended June 30, 2025. This discussion should be read in conjunction with Note 19 of the consolidated financial statements.

	Three months ended			**Six months ended**		
For the periods ended June 30 (millions of Canadian dollars)	**2026**	2025	Variance	**2026**	2025	Variance
Hydro Regulated	**11**	14	(3)	**19**	27	(8)
Muskrat Falls	**23**	36	(13)	**145**	274	(129)
LC Transmission	**54**	54	-	**103**	108	(5)
Churchill Falls	**1**	8	(7)	**21**	28	(7)
Energy Trading	**21**	15	6	**53**	35	18
Other Electric	**-**	2	(2)	**(349)**	(427)	78
Oil and Gas	**71**	(7)	78	**173**	25	148
Profit for the period	**181**	122	59	**165**	70	95

HYDRO REGULATED

The operations of Hydro Regulated are influenced by many external factors including regulation, performance of the domestic economy and weather patterns. The demand for electricity is met through a combination of hydroelectric generation, thermal generation and power purchases, including wind generation. Hydro Regulated is entitled to the opportunity to recover, through customer rates, all reasonable and prudent costs incurred in providing electricity service to its customers, in addition to a just and reasonable return on rate base. Hydro Regulated uses regulatory mechanisms, as directed by the PUB, to adjust customer rates, both to smooth rate impacts for island electricity customers and to protect Hydro Regulated's profit from the majority of variations in certain supply costs. Adjustments related to these regulatory mechanisms flow through the regulatory adjustments line in the financial results.

Financial Highlights

	Three months ended			**Six months ended**		
For the periods ended June 30 (millions of Canadian dollars)	**2026**	2025	Variance	**2026**	2025	Variance
Revenue	**146**	174	(28)	**501**	528	(27)
Expenses	**372**	352	20	**921**	1,040	(119)
Loss for the period before regulatory adjustments	**(226)**	(178)	(48)	**(420)**	(512)	92
Regulatory adjustments	**(237)**	(192)	(45)	**(439)**	(539)	100
Profit for the period	**11**	14	(3)	**19**	27	(8)

Hydro Regulated's profit for the three months ended June 30, 2026 was comparable to the same period in 2025. Hydro Regulated's profit for the six months ended June 30, 2026 was $19 million, a decrease of $8 million compared to the same period in 2025. The decrease primarily relates to higher depreciation expense due to planned growth in the asset base. Although revenue was lower primarily due to the RRA credit being applied to Newfoundland Power to further reduce electricity rates in 2026, this was deferred in the regulatory adjustments line. As well, year-to-date expenses were lower due to reduced power purchase costs which were also deferred during the period.

Regulated energy sales and supply are summarized below:

For the periods ended June 30 (GWh)	**Three months ended** **2026**	2025	**Six months ended** **2026**	2025
Customer Energy Sales:				
Utility	**1,377**	1,315	**3,394**	3,299
Rural	**273**	270	**686**	673
Industrial	**163**	111	**330**	221
Energy Sales	**1,813**	1,696	**4,410**	4,193
Generation:				
Hydraulic generation[1]	**1,116**	1,157	**2,469**	2,451
Holyrood generation	**47**	64	**360**	418
Standby generation[2]	**(2)**	-	**4**	1
Thermal diesel generation	**13**	12	**30**	28
Purchases:				
Domestic[3]	**464**	420	**1,113**	1,007
Off-Island[4]	**281**	169	**678**	540
Gross generation	**1,919**	1,822	**4,654**	4,445
Losses	**106**	126	**244**	252
Net generation	**1,813**	1,696	**4,410**	4,193

[1] Includes NL Hydro owned generation only.

[2] Includes gas turbine and diesel generation.

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

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

MUSKRAT FALLS

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

Muskrat Falls' profit for the three months ended June 30, 2026 was $23 million, a decrease of $13 million from the same period in 2025. The decrease was related to a claim settlement. Profit for the six months ended June 30, 2026 was $145 million, a decrease of $129 million compared to the same period in 2025. The decrease primarily relates to lower energy sales revenue from Hydro Regulated under the MF PPA due to lower volume of deferred energy recognized in 2026.

LC TRANSMISSION

LC Transmission includes the operation of the LIL and LTA, which connects the Muskrat Falls Generating Station, the Churchill Falls Generating Station, and portions of the transmission system in Labrador to the Island. Subsequent to the completion of the March 2026 900MW high power test, the LIL has been released for full operation up to 900MW by the NL System Operator. Profit for LC Transmission is driven by revenue earned from Hydro Regulated associated with the LIL under the Transmission Funding Agreement (TFA) and from Muskrat Falls for interconnection services provided by the LTA under the Generator Interconnection Agreement.

LC Transmission's profit for the three and six months ended June 30, 2026 was comparable to the same period in 2025.

CHURCHILL FALLS

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

The profit of Churchill Falls is reasonably stable given the take or pay clause of the main energy contract with Hydro-Québec, however, additional sales agreements, seasonal weather patterns and equipment outages can also affect results of operations.

Churchill Falls' profit for the three months ended June 30, 2026 was $1 million, a decrease of $7 million compared to the same period in 2025. Profit for the six months ended June 30, 2026 was $21 million, a decrease of $7 million compared to the same period in 2025. The decrease in profit for the quarter and year-to-date was due to lower exported volumes related to a short-term energy sales agreement.

ENERGY TRADING

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

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

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

Energy Trading's profit for the three months ended June 30, 2026 was $21 million, an increase of $6 million compared to the same period in 2025. The increase for the quarter is primarily due to higher export electricity prices in Q2 2026. Profit for the six months ended June 30, 2026 was $53 million, an increase of $18 million compared to the same period in 2025. The year-to-date increase is primarily due to higher export electricity prices, as well as higher volumes exported.

OTHER ELECTRIC

Other Electric includes non-cash revenues and expenditures associated with the delivery of the NS Block energy to Emera, non-cash expenditures associated with the Maritime Link, cash revenues and expenses associated with NL Hydro's unregulated operations, rate mitigation transactions and costs recovered from Hydro-Québec for 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.

Other Electric's profit for the three months ended June 30, 2026 was comparable to the same period in 2025. Other Electric's loss for the six months ended June 30, 2026 was $349 million, an improvement of $78 million compared to the same period in 2025. The variance primarily relates to lower rate mitigation expense, in accordance with the Province's Rate Mitigation Plan.

OIL AND GAS

Oil and Gas includes the Company's share of development, production, transportation and processing of its oil and gas investments. Oil and Gas is a joint venture working interest partner in three developments in the Newfoundland and Labrador offshore. It owns a 4.9% working interest in the Hebron oil field, a 5.0% working interest in White Rose and an 8.7% working interest in HSE.

Profit of Oil and Gas is primarily driven by global market oil prices and the volume of entitled production. Nearly all revenue generated by Oil and Gas is denominated in USD and therefore profitability is impacted by exchange rate fluctuations.

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

Non-GAAP Operating Profit Disclosure

Reconciliation of Oil and Gas profit to operating profit for the three and six months ended June 30, 2026 and 2025 is as follows:

	Three months ended			**Six months ended**		
For the periods ended June 30 (millions of Canadian dollars)	**2026**	2025	Variance	**2026**	2025	Variance
Profit (Loss) for the period	**71**	(7)	78	**173**	25	148
Impairment expense (Reversal of impairment)	**-**	33	(33)	**(51)**	33	(84)
Operating profit for the period	**71**	26	45	**122**	58	64

Oil and Gas's profit for the three months ended June 30, 2026 was $71 million, an improvement of $78 million compared to the same period in 2025. The profit for the six months ended June 30, 2026 was $173 million, an increase of $148 million compared to the same period in 2025. The increases for the three and six months ended were due to variations in impairment expense calculations for the White Rose Extension assets due to higher forecasted oil prices, as well as higher sales volumes and higher oil prices year-to-date as a result of global supply disruption and market uncertainty due to the ongoing conflict in Iran.

LIQUIDITY AND CAPITAL RESOURCES

CASH FLOW HIGHLIGHTS

For the period ended June 30 (millions of Canadian dollars)	Six months ended **2026**	2025	Variance	**Explanation**
Cash and cash equivalents, beginning of the period	**1,054**	1,164	(110)	
Net cash provided from operating activities	**293**	280	13	Increase in cash primarily driven by higher energy sales.
Net cash provided from (used in) investing activities	**10**	(158)	168	Increase in cash driven by scheduled withdrawal from sinking fund for debt payment.
Net cash used in financing activities	**(276)**	(266)	(10)	Decrease in cash driven by principal repayment on matured debentures and variations in short-term borrowing requirements.
Cash and cash equivalents, end of the period	**1,081**	1,020	61	

CAPITAL RESOURCES

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

Cash from operations is a primary source of funding and depends on a number of factors including electricity demand, regulatory outcomes and commodity price and volume. The Company monitors cash from operations, and where necessary, additional sources of liquidity are put in place. Hydro also has access to long-term debt financing and equity from the Province. Hydro has not requested or received equity contributions from the Province since 2021.

Short-term and long-term borrowings are restricted by legislation that currently limits Hydro and its subsidiaries short-term borrowings to $800 million and total borrowings to $3.2 billion (excluding CF and LCP entities).

Outstanding commitments for capital projects, excluding those related to Oil and Gas, total approximately $178 million as at June 30, 2026 (December 31, 2025 - $131 million). The Company has the available capital resources to sufficiently fund these requirements.

As at June 30, 2026, the Company's short-term credit facilities are as follows:

(millions of Canadian dollars)	Limit	Drawn	Letters of Credit	Available Limit
Revolving Term Facilities:				
Hydro[1]	**740**	**50**	**6**	**684**
Demand Operating Facilities:				
Churchill Falls	**10**	**-**	**1**	**9**
Energy Trading	**20**	**-**	**4**	**16**
Oil and Gas	**40**	**-**	**17**	**23**
Promissory Notes:				
Hydro Regulated	**300**	**300**	**-**	**-**
Total credit facilities	**1,110**	**350**	**28**	**732**

[1]On July 31, 2026 the maturity of these credit facilities was extended to July 31, 2028. The total amount of the credit facility was reduced from $740 million to $600 million.

CAPITAL STRUCTURE

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

As at (millions of Canadian dollars)	**June 30 2026**	December 31 2025
Short-term borrowings	**350**	250
Long-term debt (net of sinking funds)[1]	**10,950**	11,097
Class B limited partnership units[1]	**961**	968
Lease liabilities[1]	**5**	5
Total debt	**12,266**	12,320
Total shareholder's equity	**8,229**	8,062
Debt to capital	**60%**	60%

[1]Includes current portion.

CAPITAL EXPENDITURES

	Three months ended			**Six months ended**		
For the periods ended June 30 (millions of Canadian dollars)	**2026**	2025	Variance	**2026**	2025	Variance
Hydro Regulated	**61**	57	4	**94**	82	12
Muskrat Falls	**1**	1	-	**1**	1	-
LC Transmission	**3**	5	(2)	**11**	9	2
Churchill Falls	**24**	20	4	**34**	31	3
Other Electric	**7**	6	1	**9**	8	1
Oil and Gas	**13**	26	(13)	**26**	48	(22)
Total capital expenditures	**109**	115	(6)	**175**	179	(4)

Total capital expenditures for the three and six months ended June 30, 2026 were comparable to the same period in 2025.

KEY BUSINESS RISKS

Hydro operates in various industry segments that have a variety of risk factors and uncertainties. The risks and uncertainties that could materially affect the business, financial condition and results of operations are described in Hydro's annual MD&A for the year ended December 31, 2025.

Hydro's key business risks remain substantially unchanged from those disclosed in the annual MD&A.

MATERIAL ACCOUNTING POLICIES AND SIGNIFICANT JUDGMENTS AND ESTIMATES

MATERIAL ACCOUNTING POLICIES

The Company's material accounting policies are described in Note 2 of the Hydro consolidated annual financial statements for the year ended December 31, 2025. The company's material accounting policies remain substantially unchanged from those disclosed in the Hydro consolidated annual financial statements.

SIGNIFICANT JUDGMENTS AND ESTIMATES

The preparation of the interim financial statements in conformity with IFRS requires Management to make judgments and estimates that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results could differ materially from estimates.

A description of significant accounting judgments and estimates is provided in Note 3 of the Hydro consolidated annual financial statements for the year ended December 31, 2025. There were no material changes to the nature of significant accounting judgments and estimates for the six month period ended June 30, 2026.

RELATED PARTY TRANSACTIONS

The Company enters into various transactions with its shareholder and other related parties. Refer to Note 16 in the interim financial statements for further information regarding transactions with related parties. Unless otherwise noted, these transactions occur within the normal course of operations and are measured at the exchange amount, which is the amount of consideration agreed to by the related parties. Outstanding balances due to or from related parties are non-interest bearing with settlement normally within 30 days.

OUTLOOK

As Newfoundland and Labrador's Crown utility, Hydro remains committed to serving our customers and supporting a sustainable future for generations to come. As Hydro advances its vision and supports the transformation of our industry, we will continue to proactively navigate global, national, and provincial economic conditions, including the evolving geopolitical landscape, supply chain dynamics, and a competitive labour market. We will continue to approach opportunities and challenges with a solution-focused mindset, driving outcomes that benefit the people of our province.

Building on the foundation of our 2023-2025 Strategic Plan, a new strategic plan has been developed for 2026-2030. As we look to 2030, we aspire to be a more harmonized, trusted utility that generates sustainable value in Newfoundland and Labrador. To achieve this, Hydro will prioritize:

1. **Safety, Health & Engagement**

Hydro is focused on a holistic approach to safety, health and engagement as these mutually reinforcing priorities are central to a strong organizational culture. When employees feel safe, supported, valued, and recognized, they are better able to maintain focus, reduce distractions, and apply safe work practices consistently. This, in turn, improves both safety and operational outcomes.

2. **Reliability & Readiness**

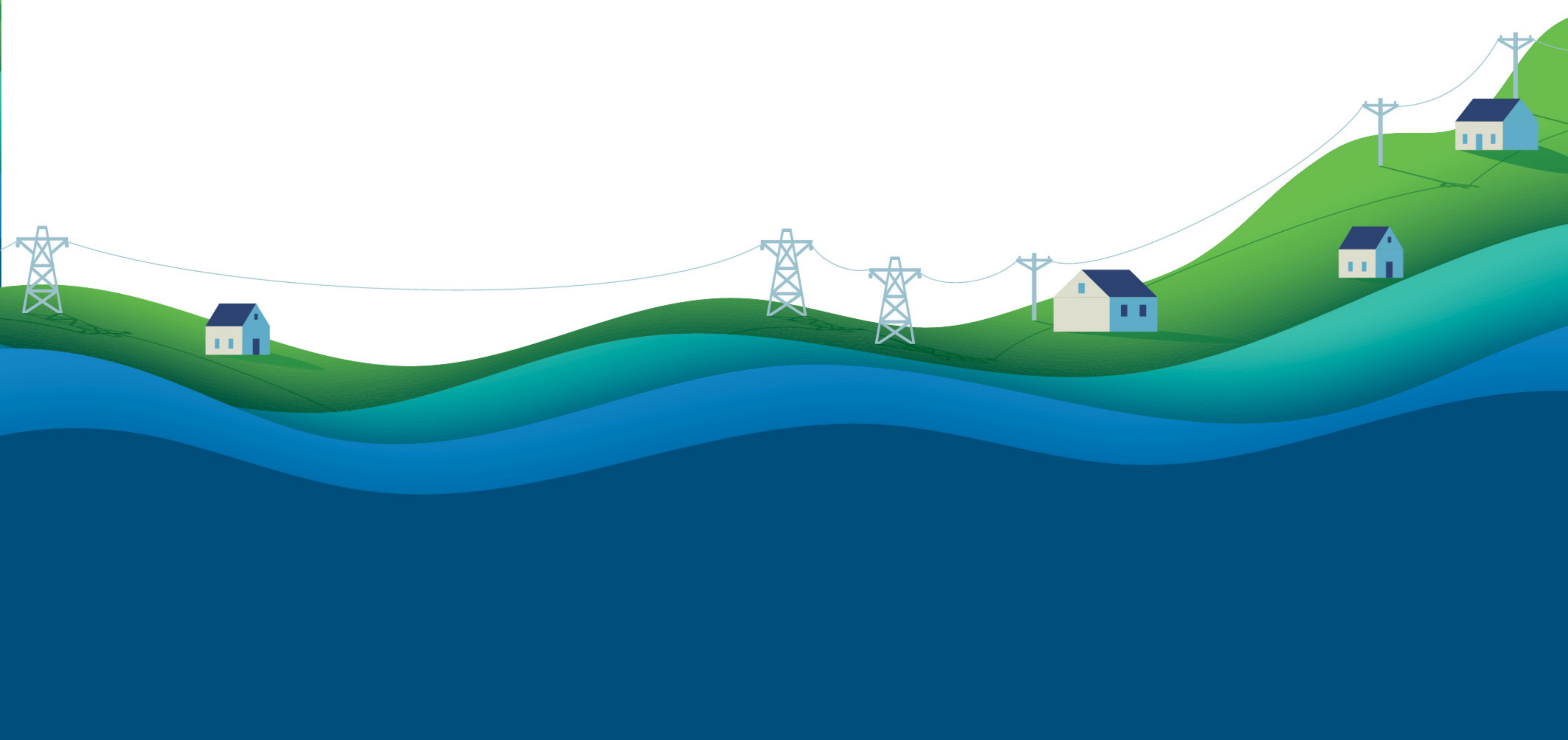
During a period of transformation in the electricity sector, Hydro will prioritize reliability today while preparing its people and electrical system for the future. Given the long planning horizons of electric utilities, this dual focus supports dependable service that withstands and recovers from disruptions and positions Hydro to meet future system requirements and capitalize on opportunities for the province.

3. **Sustainable Value Generation**

Hydro has a responsibility to manage provincial electrical assets in a way that serves customers and delivers broad value to the people of Newfoundland and Labrador. Working with the provincial government, Hydro enables economic development through the provision of electricity, contributes to sincere and meaningful relationships with Indigenous Peoples, and supports long-term socio-economic benefits.

Through delivery of essential electricity service, Hydro will continue to play a key role in supporting economic development in the province while safely and reliably meeting increasing demand. By aligning our processes, operating transparently, remaining accountable, and operating with good utility practice, we will optimize our provincial resources, manage costs, and maintain customer and stakeholder confidence.

APPENDIX 1



NEWFOUNDLAND AND LABRADOR HYDRO
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
June 30, 2026
(Unaudited)

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

As at (millions of Canadian dollars)	Notes	**June 30 2026**	December 31 2025
ASSETS			
Current assets			
Cash and cash equivalents		**1,081**	1,054
Restricted cash		**1,349**	1,352
Short-term investments		**61**	176
Trade and other receivables	3	**175**	288
Inventories	4	**195**	151
Prepayments		**16**	17
Total current assets		**2,877**	3,038
Non-current assets			
Property, plant and equipment	5	**17,894**	17,897
Intangible assets		**56**	59
Investments		**262**	277
Other long-term assets		**5**	5
Total assets		**21,094**	21,276
Regulatory deferrals	6	**1,811**	1,721
Total assets and regulatory deferrals		**22,905**	22,997
LIABILITIES AND EQUITY			
Current liabilities			
Short-term borrowings	8	**350**	250
Trade and other payables	7	**327**	400
Current portion of long-term debt	8	**74**	296
Current portion of Class B limited partnership units		**94**	95
Current portion of deferred credits	9	**84**	99
Other current liabilities		**23**	25
Total current liabilities		**952**	1,165
Non-current liabilities			
Long-term debt	8	**10,984**	11,015
Class B limited partnership units		**867**	873
Deferred credits	9	**1,472**	1,494
Decommissioning liabilities		**124**	122
Employee future benefits		**130**	126
Other long-term liabilities		**95**	90
Total liabilities		**14,624**	14,885
Shareholder’s equity			
Share capital		**123**	123
Shareholder contributions		**4,859**	4,859
Reserves		**(18)**	(20)
Retained earnings		**3,265**	3,100
Total equity		**8,229**	8,062
Total liabilities and equity		**22,853**	22,947
Regulatory deferrals	6	**52**	50
Total liabilities, equity and regulatory deferrals		**22,905**	22,997

Commitments and contingencies (Note 17)

See accompanying notes

NEWFOUNDLAND AND LABRADOR HYDRO

CONSOLIDATED STATEMENT OF PROFIT AND COMPREHENSIVE INCOME

(Unaudited)

		Three months ended		**Six months ended**	
For the period ended June 30 (millions of Canadian dollars)	Notes	**2026**	2025	**2026**	2025
Energy sales	10	**327**	319	**844**	762
Other revenue		**10**	11	**17**	22
Revenue		**337**	330	**861**	784
Fuels		**21**	21	**88**	99
Power purchased		**26**	19	**76**	51
Operating costs	11	**89**	89	**173**	171
Production, marketing and transportation costs		**10**	7	**18**	14
Transmission rental		**6**	6	**12**	13
Depreciation, depletion, amortization and impairment		**116**	140	**177**	239
Net finance expense	12	**104**	104	**212**	206
Rate mitigation expense	13	**-**	-	**350**	441
Other expense	14	**20**	13	**28**	18
Expenses		**392**	399	**1,134**	1,252
Loss for the period before regulatory adjustments		**(55)**	(69)	**(273)**	(468)
Regulatory adjustments	6	**(236)**	(191)	**(438)**	(538)
Profit for the period		**181**	122	**165**	70
Other comprehensive income					
Total items that may or have been reclassified to profit or loss:					
Net fair value gain on reserve fund		**-**	1	**-**	1
Reclassification adjustments related to:					
Cash flow hedges recognized in profit		**1**	-	**2**	1
Other comprehensive income for the period		**1**	1	**2**	2
Total comprehensive profit for the period		**182**	123	**167**	72

See accompanying notes

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

(millions of Canadian dollars)	**Share Capital**	**Shareholder Contributions**	**Fair Value Reserve**	**Employee Benefit Reserve**	**Retained Earnings**	**Total**
Balance at January 1, 2026	**123**	**4,859**	**(38)**	**18**	**3,100**	**8,062**
Profit for the period	**-**	**-**	**-**	**-**	**165**	**165**
Other comprehensive income	**-**	**-**	**2**	**-**	**-**	**2**
Total comprehensive profit for the period	**-**	**-**	**2**	**-**	**165**	**167**
Balance at June 30, 2026	**123**	**4,859**	**(36)**	**18**	**3,265**	**8,229**
Balance at January 1, 2025	123	4,859	(44)	15	2,985	7,938
Profit for the period	-	-	-	-	70	70
Other comprehensive income	-	-	2	-	-	2
Total comprehensive profit for the period	-	-	2	-	70	72
Balance at June 30, 2025	123	4,859	(42)	15	3,055	8,010

See accompanying notes

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

For the period ended June 30 (millions of Canadian dollars)	Notes	**Three months ended** **2026**	2025	**Six months ended** **2026**	2025
Operating activities					
Profit for the period		**181**	122	**165**	70
Adjustments to reconcile profit to cash provided from operating activities:					
Depreciation, depletion, amortization and impairment		**116**	140	**177**	239
Amortization of deferred credits	9	**(20)**	(19)	**(51)**	(50)
Loss on disposal of property, plant and equipment		**-**	6	**3**	6
Maritime Link operating costs		**6**	5	**11**	10
Regulatory adjustments	6	**(236)**	(191)	**(438)**	(538)
Rate mitigation expense	13	**-**	-	**350**	441
Finance income	12	**(20)**	(25)	**(43)**	(52)
Finance expense	12	**124**	129	**255**	258
Other		**8**	3	**9**	8
		159	170	**438**	392
Changes in non-cash working capital balances	18	**58**	42	**33**	56
Interest received		**19**	22	**40**	45
Interest paid		**(169)**	(164)	**(218)**	(213)
Net cash provided from operating activities		**67**	70	**293**	280
Investing activities					
Purchase of property, plant and equipment and intangible assets		**(101)**	(104)	**(197)**	(179)
Decrease in sinking fund		**22**	23	**207**	21
Net cash (used in) provided from investing activities		**(79)**	(81)	**10**	(158)
Financing activities					
Repayment of long-term debt		**(32)**	(33)	**(332)**	(33)
Decrease in restricted cash		**28**	42	**3**	8
Increase (decrease) in short-term borrowings		**228**	148	**100**	(198)
Distribution of Class B limited partnership units		**(15)**	(15)	**(47)**	(48)
Other		**(3)**	(2)	**-**	5
Net cash provided from (used in) financing activities		**206**	140	**(276)**	(266)
Net increase (decrease) in cash and cash equivalents		**194**	129	**27**	(144)
Cash and cash equivalents, beginning of the period		**887**	891	**1,054**	1,164
Cash and cash equivalents, end of the period		**1,081**	1,020	**1,081**	1,020

See accompanying notes

1. DESCRIPTION OF BUSINESS

Newfoundland and Labrador Hydro (Hydro or the Company) is a Crown corporation, formed under a special act of the Legislature of the Province of Newfoundland and Labrador (the Province) and its business includes the development, generation, transmission and sale of electricity including energy trading; and the development, production and sale of oil and gas. Hydro's head office is located at 500 Columbus Drive in St. John's, Newfoundland and Labrador, A1B 0C9, Canada.

2. MATERIAL ACCOUNTING POLICIES

2.1 Statement of Compliance and Basis of Measurement

These condensed consolidated interim financial statements (interim 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 for the year ended December 31, 2025. Hydro has adopted the amendments to IFRS 9 - Financial Instruments and IFRS 7 - Financial Instruments: Disclosure effective for annual periods beginning on or after January 1, 2026, which did not have a material impact on Hydro's interim financial statements.

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

These interim 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 interim financial statements are presented in Canadian Dollars (CAD) and all values rounded to the nearest million, except when otherwise noted. The interim financial statements were approved by Hydro's Board of Directors on August 13, 2026.

2.2 Basis of Consolidation

The interim financial statements include the financial statements of Hydro and its subsidiary companies, the equity method of accounting for entities over which Hydro has significant influence, but not control, and proportionate consolidation for those which are jointly owned with non-affiliated entities. In addition, the financial statements of all structured entities, for which Hydro has been determined the primary beneficiary, are included in these interim financial statements. Intercompany transactions and balances have been eliminated upon consolidation.

3. TRADE AND OTHER RECEIVABLES

As at (millions of Canadian dollars)	**June 30 2026**	December 31 2025
Trade receivables	**179**	265
Other receivables	**26**	54
Loss allowance	**(30)**	(31)
	175	288

4. INVENTORIES

As at (millions of Canadian dollars)	**June 30 2026**	December 31 2025
Materials and other	**107**	97
Fuel	**87**	49
Crude oil	**1**	5
	195	151

The amount of inventory recognized as an expense during the period was $98 million (June 30, 2025 - $106 million) and is included in fuels, operating costs and other expense.

5. PROPERTY, PLANT AND EQUIPMENT

(millions of Canadian dollars)	Generation Plant	Transmission and Distribution	Petroleum and Natural Gas Properties	Other	Assets Under Development	Total
Cost						
Balance as at January 1, 2025	8,768	9,436	1,742	690	199	20,835
Additions	4	3	86	-	391	484
Disposals	(30)	(3)	-	(7)	-	(40)
Transfers	177	120	-	48	(346)	(1)
Decommissioning liabilities and revisions	6	-	8	-	-	14
Other adjustments	-	(1)	-	-	-	(1)
Balance as at December 31, 2025	8,925	9,555	1,836	731	244	21,291
Additions	**-**	**1**	**26**	**-**	**147**	**174**
Disposals	**-**	**(4)**	**-**	**(1)**	**-**	**(5)**
Transfers	**24**	**(2)**	**-**	**2**	**(23)**	**1**
Other adjustments	**(1)**	**(2)**	**-**	**-**	**-**	**(3)**
Balance as at June 30, 2026	**8,948**	**9,548**	**1,862**	**732**	**368**	**21,458**
Depreciation, depletion and impairment						
Balance as at January 1, 2025	976	710	994	252	55	2,987
Depreciation and depletion	137	182	72	17	-	408
Disposals	(15)	-	-	(6)	-	(21)
Impairment expense	-	-	20	-	-	20
Balance as at December 31, 2025	1,098	892	1,086	263	55	3,394
Depreciation and depletion	**75**	**91**	**48**	**9**	**-**	**223**
Disposals	**(1)**	**-**	**-**	**(1)**	**-**	**(2)**
Impairment reversal	**-**	**-**	**(51)**	**-**	**-**	**(51)**
Balance as at June 30, 2026	**1,172**	**983**	**1,083**	**271**	**55**	**3,564**
Carrying value						
Balance as at January 1, 2025	7,792	8,726	748	438	144	17,848
Balance as at December 31, 2025	7,827	8,663	750	468	189	17,897
Balance as at June 30, 2026	**7,776**	**8,565**	**779**	**461**	**313**	**17,894**

Capitalized interest for the period ended June 30, 2026 was $2 million (December 31, 2025 - $3 million) related to Assets Under Development.

During the quarter, previously accrued capital additions were settled and new capital additions were accrued. The net change in capital accrual of $22 million (June 30, 2025 - $1 million) (Note 18) is adjusted on the statement of cash flows as non-cash transactions to purchases of property, plant and equipment and intangibles.

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 period ended June 30, 2026, the Company recognized an impairment reversal of $51 million (December 31, 2025 – impairment expense of $20 million). The impairment reversal was related to the White Rose Extension due to the recent increase in oil and gas prices, driven by major disruptions to global supply.

6. REGULATORY DEFERRALS

(millions of Canadian dollars)		January 1 2026	Reclass & Disposition	Regulatory Activity	**June 30 2026**
Regulatory asset deferrals					
Power purchase expense recognition	(a)	1,148	-	198	**1,346**
Supply cost variance deferral account	(b)	350	-	(63)	**287**
Retirement asset pool		64	-	-	**64**
Foreign exchange losses[1]		35	-	(2)	**33**
Muskrat Falls PPA sustaining capital		22	-	6	**28**
Business system transformation program		13	-	-	**13**
General expenses capitalized deferral account		6	-	5	**11**
Deferred energy conservation costs		9	-	(1)	**8**
Supply deferral		6	(6)	7	**7**
Rate stabilization plan (RSP)		12	7	(13)	**6**
Muskrat Falls PPA monetization	(c)	49	-	(49)	**-**
Rate mitigation funding revenue recognition	(d)	-	(350)	350	**-**
Other		7	-	1	**8**
		1,721	(349)	439	**1,811**
Regulatory liability deferrals					
Removal provision		(31)	-	(3)	**(34)**
Holyrood thermal generating station (TGS) accelerated depreciation deferral account		(14)	-	1	**(13)**
Insurance amortization and proceeds		(4)	-	-	**(4)**
Other		(1)	-	-	**(1)**
		(50)	-	(2)	**(52)**

[1] Remaining recovery settlement period of 15.5 years.

6.1

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

		Three months ended		Six months ended	
For the period ended June 30 (millions of Canadian dollars)		**2026**	2025	**2026**	2025
Rate mitigation funding revenue recognition	(d)	**-**	-	**(350)**	(441)
Power purchase expense recognition	(a)	**(41)**	(32)	**(198)**	(320)
Supply cost variance deferral account	(b)	**(191)**	(158)	**63**	136
Muskrat Falls PPA monetization	(c)	**-**	-	**49**	74
RSP		**5**	6	**13**	14
Muskrat Falls PPA sustaining capital		**(3)**	(5)	**(6)**	-
Supply deferral		**(4)**	(2)	**(7)**	(4)
Other		**(2)**	-	**(2)**	3
		(236)	(191)	**(438)**	(538)

Hydro's regulatory deferrals which will be, or are expected to be, reflected in customer rates in future periods have been established through the rate setting process. In the absence of rate regulation, these amounts would be reflected in operating results in the period and profit for the period ended June 30, 2026 would have decreased by $438 million (June 30, 2025 – $538 million).

6.(a) Power Purchase Expense Recognition

In Board Order No's. P.U. 9 (2021) and P.U. 33 (2021), the PUB approved Hydro's proposal to deviate from IFRS to allow recognition of expenses related to the purchase of energy in accordance with the commercial terms of the Muskrat Falls PPA and Labrador-Island Link Transmission Funding Agreement (TFA). For the period ended June 30, 2026, IFRS power purchase expenses were $198 million (June 30, 2025 - $320 million) higher than commercial payments which resulted in a total regulatory asset of $1.3 billion (December 31, 2025 - $1.1 billion). Costs associated with the contract payments made under the Muskrat Falls PPA and Labrador-Island Link TFA for the period were $380 million (June 30, 2025 - $402 million).

6.(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 million over the 2024-2026 period. As described in Note 13, Hydro Regulated applied $350 million (June 30, 2025 - $441 million) of rate mitigation funding from internal sources to reduce the balance in the SCVDA.

In April 2026, the Province instructed Hydro to work with the PUB and Newfoundland Power to provide a transfer of the $45 million RRA credit balance through the SCVDA- Utility Customer balance to Newfoundland Power in order to reduce the projected customer rate increase on July 1, 2026 from 7% to the targeted 2.25% domestic rate increase. In Board Order No. P.U. 15 (2026), the PUB approved the transfer of the $45 million RRA credit balance in the SCVDA to Newfoundland Power through a bill credit. The rate mitigation transfer was partially offset by the RRA transfer and normal activity of the SCVDA of $242 million (June 30, 2025 - $305 million), resulting in a net decrease in the account of $63 million (June 30, 2025 - $136 million). The total balance owing from customers at June 30, 2026 is $287 million (December 31, 2025 - $350 million).

6.(c) 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 $49 million (December 31, 2024 - $74 million) which was reversed upon actual monetization in 2026 of $49 million (June 30, 2025 - $74 million).

6.(d) Rate Mitigation Funding Revenue Recognition

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 $350 million in rate mitigation funding received from Hydro Non-Regulated as revenue for regulatory purposes and deferred this in the SCVDA (June 30, 2025 - $441 million). Please refer to Note 13 for further information.

7. TRADE AND OTHER PAYABLES

As at (millions of Canadian dollars)	**June 30 2026**	December 31 2025
Trade payables and accruals	**219**	250
Accrued interest payable	**44**	53
Other payables	**64**	97
	327	400

8. DEBT

8.1 Short-term Borrowings

Hydro maintains a $740 million committed revolving term credit facility with its banker with a maturity date of July 31, 2026. Hydro renewed its committed revolving term credit facility with its banker with a new maturity of July 31, 2028. The total amount of the credit facility was reduced from $740 million to $600 million. As at June 30, 2026 there was $50 million drawn on this facility (December 31, 2025 - $nil). A total of $6 million of the borrowing limit has been used to issue letters of credit (December 31, 2025 - $6 million CAD equivalent to issue letters of credit).

Hydro utilized its $300 million government guaranteed promissory note program to fulfil its short-term funding requirements. As of June 30, 2026, there were promissory notes outstanding totalling $300 million with a maturity date of July 20, 2026, bearing interest at rates ranging from 2.28% to 2.30% (December 31, 2025 - promissory notes outstanding totalling $250 million with a maturity date of January 2, 2026 bearing interest at a rate of 2.26%). Upon maturity, the promissory notes were reissued.

Effective January 1, 2025 the level of short-term borrowings permitted by Hydro was $1 billion, until January 1, 2026 at which time the level returned to $800 million.

Churchill Falls maintains a $10 million CAD or USD equivalent unsecured demand operating credit facility with its banker. There were no amounts drawn on this facility as at June 30, 2026 (December 31, 2025 - $nil). Churchill Falls has issued irrevocable letters of credit totalling $2 million (December 31, 2025 - $2 million), $1 million of which does not impact the borrowing limit of the operating facility (December 31, 2025- $1 million).

Oil and Gas maintains a $40 million CAD or USD equivalent unsecured credit facility with its banker. As at June 30, 2026, there were no amounts drawn on this facility (December 31, 2025 - $nil). A total of $17 million of the borrowing limit has been used to issue irrevocable letters of credit (December 31, 2025 - $17 million).

Energy Marketing maintains a $20 million CAD or USD equivalent demand operating credit facility with its banker, and as at June 30, 2026, there were no amounts drawn on this facility (December 31, 2025 - $nil). This facility has an unconditional and irrevocable guarantee from Hydro. A total of $4 million CAD equivalent of the limit is used to issue irrevocable letters of credit (December 31, 2025 - $4 million CAD equivalent).

As at June 30, 2026, Hydro, on behalf of Energy Marketing, has issued unconditional guarantees and sales contracts in the amount of $23 million CAD equivalent (December 31, 2025 - $23 million CAD).

8.2 Long-term Debt

As at (millions of Canadian dollars)	Face Value	Coupon Rate %	Year of Issue	Year of Maturity	**June 30 2026**	December 31 2025
Hydro						
Y[1]	-	8.40	1996	2026	**-**	300
AB[1]	300	6.65	2001	2031	**303**	303
AD[1]	125	5.70	2003	2033	**124**	124
AF	500	3.60	2014/2017	2045	**484**	484
1A[2]	600	3.70	2017/2018	2048	**634**	634
2A[2]	300	1.75	2021	2030	**293**	293
3A[1,2]	300	4.60	2025	2055	**297**	297
LIL LP						
Tranche A[1]	725	3.76	2013	2033	**725**	725
Tranche B[1]	600	3.86	2013	2045	**600**	600
Tranche C[1]	1,075	3.85	2013	2053	**1,075**	1,075
Tranche 13-20	84	1.99-2.37	2017	2026-2030	**84**	95
Tranche 21-30	105	2.41-2.64	2017	2030-2035	**105**	105
Tranche 31-40	105	2.66-2.80	2017	2035-2040	**105**	105
Tranche 41-50	105	2.81-2.86	2017	2040-2045	**105**	105
Tranche 51-60	105	2.84-2.86	2017	2045-2050	**105**	105
Tranche 61-70	105	2.85	2017	2050-2055	**105**	105
Tranche 71-74	315	2.85	2017	2055-2057	**316**	316
Labrador Transco/Muskrat Falls						
Tranche A	650	3.63	2013	2029	**650**	650
Tranche B[1]	675	3.83	2013	2037	**675**	675
Tranche C[1]	1,275	3.86	2013	2048	**1,275**	1,275
Tranche 13-20	181	1.99-2.37	2017	2025-2030	**182**	203
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**	288
Tranche 41-50	331	2.81-2.86	2017	2040-2045	**332**	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
LIL (2021) LP						
Convertible debenture	445	3.03	2023	2071	**469**	463
Total	11,096				**11,134**	11,459
Less: sinking fund investments in own debentures					**(76)**	(148)
					11,058	11,311
Less: repayment of debt due within one year					**(74)**	(296)
					10,984	11,015

[1] Sinking funds are required to be established for these issues.

[2] Bonds were issued by the Province and lent to Hydro on the same terms and conditions.

On February 27, 2026 Hydro's $300 million long-term debt, Series Y, matured. Sinking fund disposals and interest income received in the amount of $185 million were used to repay the Series Y maturity.

9. 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.

As at June 30, 2026 (millions of Canadian dollars)	Deferred Energy Sales	Deferred Lease Revenue	Other	Total
Deferred credits, beginning of the period	1,465	106	22	1,593
Additions	11	5	-	16
Revisions	-	-	(2)	(2)
Amortization	(46)	(3)	(2)	(51)
Deferred credits, end of the period	1,430	108	18	1,556
Less: current portion	(76)	(4)	(4)	(84)
	1,354	**104**	**14**	**1,472**

10. ENERGY SALES

	Three months ended		**Six months ended**	
For the period ended June 30 (millions of Canadian dollars)	**2026**	2025	**2026**	2025
Electricity sales	**220**	260	**654**	648
Petroleum and natural gas sales	**165**	81	**276**	151
Royalty expense	**(58)**	(22)	**(86)**	(37)
Total energy sales	**327**	319	**844**	762

11. OPERATING COSTS

	Three Months ended		**Six months ended**	
For the period ended June 30 (millions of Canadian dollars)	**2026**	2025	**2026**	2025
Salaries and benefits	**48**	47	**97**	91
Maintenance and materials	**19**	19	**35**	36
Professional services	**10**	11	**16**	21
Impacts and Benefits agreement and amendment	**4**	4	**7**	7
Insurance	**4**	3	**7**	7
Travel and transportation	**3**	3	**5**	5
Other operating costs	**1**	2	**6**	4
Total operating costs	**89**	89	**173**	171

12. NET FINANCE EXPENSE

For the period ended June 30 (millions of Canadian dollars)	**Three months ended** **2026**	2025	**Six months ended** **2026**	2025
Finance income				
Interest on restricted cash	**11**	12	**22**	26
Interest on investments	**5**	7	**9**	13
Other interest income	**4**	6	**12**	13
	20	25	**43**	52
Finance expense				
Interest on long-term debt	**99**	101	**201**	201
Interest on Class B limited partnership units	**21**	21	**41**	41
Debt guarantee fee	**2**	3	**5**	5
Accretion	**2**	1	**4**	4
Other	**1**	4	**6**	8
	125	130	**257**	259
Interest capitalized during construction	**(1)**	(1)	**(2)**	(1)
	124	129	**255**	258
Net finance expense	**104**	104	**212**	206

13. 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. Hydro Regulated applied $350 million (June 30, 2025 - $441 million) of Government directed rate mitigation funding from internal sources to reduce the balance in the SCVDA. Please refer to note 6(b).

14. OTHER EXPENSE

For the period ended June 30 (millions of Canadian dollars)	**Three months ended** **2026**	2025	**Six months ended** **2026**	2025
Rental and royalty	**4**	5	**10**	11
Loss on disposal of property, plant and equipment	**-**	3	**3**	3
Other	**16**	5	**15**	4
Total other expense	**20**	13	**28**	18

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

15.1 Fair Value

The estimated fair values of financial instruments as at June 30, 2026 and, December 31, 2025 are based on relevant market prices and information available at the time. Fair value estimates are based on valuation techniques which are significantly affected by the assumptions used including the amount and timing of future cash flows and discount rates reflecting various degrees of risk. As such, the fair value estimates below are not necessarily indicative of the amounts that Hydro might receive or incur in actual market transactions.

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

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

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

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

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

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value. For assets and liabilities that are recognized at fair value on a recurring basis, Hydro determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. There were no transfers between Level 1, 2 and 3 during the period ended June 30, 2026 and year ended December 31, 2025.

	Level	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
As at (millions of Canadian dollars)			**June 30, 2026**		December 31, 2025
Financial assets					
Sinking funds - investments in Hydro debt issue	**2**	**76**	**76**	148	148
Sinking funds - other investments	**2**	**139**	**145**	247	253
Investments, including short-term	**2**	**134**	**136**	156	159
Reserve fund	**2**	**50**	**50**	50	50
Financial liabilities					
Long-term debt including amount due within one year (before sinking funds)	**2**	**11,134**	**10,242**	11,459	10,300
Class B limited partnership units including amount due within one year	**3**	**961**	**961**	968	968
Long-term payables including amount due within one year	**2**	**48**	**48**	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.

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 June 30, 2026 of 8.9% (December 31, 2025 - 8.9%)

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:

(millions of Canadian dollars)	1% increase	1% decrease
Class B limited partnership units	(82)	80

15.2 Risk Management

Hydro is exposed to certain credit, liquidity and market price 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.

<u>Credit Risk</u>

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, long-term investments and derivative assets as well as from the sale of electricity to customers, including the associated accounts receivable, is determined by the financial capacity and stability of those customers and counterparties. The maximum exposure to credit risk on these financial instruments is represented by their carrying values on the Consolidated Statement of Financial Position at the reporting date.

Hydro does not have any significant amounts that are past due and uncollectable, for which a provision has not been recognized as at June 30, 2026.

<u>Liquidity Risk</u>

Hydro is exposed to liquidity risk with respect to its contractual obligations and financial liabilities, including any derivative liabilities related to hedging activities (which there are currently none). 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, an operating credit facility which Hydro maintains with its banker, and short-term promissory notes.

Long-term liquidity is provided through prefunded equity reserves as well as equity support guarantees with the Province for Muskrat Falls Corporation (Muskrat Falls), Labrador Transmission Corporation (Labrador Transco), and Labrador-Island Link Limited Partnership (LIL LP), the issuance of a portfolio of debentures for Hydro and the maintenance of the reserve fund in Churchill Falls (Labrador) Corporation Limited (Churchill Falls). Long-term liquidity is further supported through funding from Canada in the form of a $1 billion convertible debenture for rate mitigation.

<u>Market Risk</u>

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. 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 period ended June 30 , 2026, total oil sales denominated in USD were $201 million (June 30, 2025 - $107 million USD).

16. 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 Incorporated	Limited Partner holding 25 Class B limited partnership units of LIL LP
Board of Commissioners of Public Utilities	Agency of the Province

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

As at (millions of Canadian dollars)		**June 30 2026**	December 31 2025
Trade and other receivables:			
Other related parties		**13**	33
The Province		**2**	1
Prepayments:			
The Province		**5**	-
Trade and other payables:			
The Province	(a,b,c,d)	**84**	58
Deferred revenue:			
Other related parties		**8**	4
Long-term debt (including current portion):			
The Province		**1,224**	1,224

For the period ended June 30 (millions of Canadian dollars)		**Three months ended 2026**	**Three months ended 2025**	**Six months ended 2026**	Six months ended 2025
Energy sales:					
Other related parties		**5**	22	**31**	48
The Province	(d)	**(53)**	(22)	**(80)**	(36)
Power purchased:					
The Province	(c)	**7**	7	**14**	15
Operating costs (recoveries):					
Other related parties		**-**	1	**-**	2
The Province	(c)	**(2)**	(5)	**(7)**	(10)
Net finance expense:					
The Province		**13**	9	**26**	18
Other expense:					
The Province	(a,b)	**4**	5	**10**	11

(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 June 30, 2026, Hydro has purchased $14 million (June 30, 2025 - $15 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.

(d) During the period ended June 30, 2026, Oil and Gas incurred $86 million (June 30, 2025 - $37 million) in royalty expenses of which $80 million (June 30, 2025 - $36 million) were paid to the Province and $6 million paid to Federal Government (June 30, 2025 - $1 million). Royalties payable at the end of the period were $33 million (December 31, 2025 - $6 million).

17. 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 $178 million as at June 30, 2026 (December 31, 2025 - $131 million).

(c) In April 2026, Hydro completed the remaining purchase of power under the CBPP PPA executed in 2025, where Hydro incurred power purchase expenses of $29 million for the period ended June 30, 2026 (June 30, 2025 – $9 million). In July 2026, Hydro extended the PPA as directed by the Lieutenant-Governor in Council issued Order in Council OC2026-133 dated June 30, 2026, covering the period from July 1, 2026 to June 30, 2027, where Hydro will purchase up to 280 GWh of energy at $187/MWh.

18. SUPPLEMENTARY CASH FLOW INFORMATION

	Three months ended		Six months ended	
For the period ended June 30 (millions of Canadian dollars)	**2026**	2025	**2026**	2025
Trade and other receivables	**90**	75	**113**	103
Prepayments	**9**	5	**6**	8
Inventories	**(51)**	(8)	**(44)**	(12)
Trade and other payables	**10**	(30)	**(42)**	(43)
Changes in non-cash working capital balances	**58**	42	**33**	56

19. 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 June 30, 2026.

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

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

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

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

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

Other Electric includes revenues and expenditures associated with the delivery of the Nova Scotia Block of energy to Emera, expenditures associated with the Maritime Link (which is owned and managed by Emera, but consolidated by 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 .

(millions of Canadian dollars)	Hydro Regulated	Muskrat Falls	LC Transmission	Churchill Falls	Energy Trading	Other Electric	Oil and Gas	Inter-Segment	Total
	For the six months ended June 30, 2026								
Energy sales	488	355	58	49	125	83	190	(504)	844
Other revenue	13	-	230	2	3	8	-	(239)	17
Revenue	501	355	288	51	128	91	190	(743)	861
Fuels	88	-	-	-	-	-	-	-	88
Power purchased	647	-	-	-	53	53	-	(677)	76
Operating costs	87	18	16	21	3	33	2	(7)	173
Production, marketing and transportation costs	-	-	-	-	-	-	18	-	18
Transmission rental	-	58	-	-	21	-	-	(67)	12
Depreciation, depletion, amortization and impairment	50	45	55	10	-	19	(1)	(1)	177
Net finance expense (income)	50	62	109	(2)	(1)	(7)	1	-	212
Rate mitigation	-	-	-	-	-	350	-	-	350
Other (income) expense	(1)	27	5	2	(1)	(8)	(3)	7	28
Preferred dividends	-	-	-	(1)	-	-	-	1	-
Expenses	921	210	185	30	75	440	17	(744)	1,134
(Loss) profit for the period before regulatory adjustments	(420)	145	103	21	53	(349)	173	1	(273)
Regulatory adjustments	(439)	-	-	-	-	-	-	1	(438)
Profit (loss) for the period	19	145	103	21	53	(349)	173	-	165
Capital expenditures*	94	1	11	34	-	9	26	-	175
Total assets	4,450	8,367	7,170	918	107	9,403	913	(8,423)	22,905
Total debt**	2,305	4,341	5,620	-	-	-	-	-	12,266

*Capital expenditures include non-cash additions of $2 million related to interest capitalized during construction.

**Total debt includes short-term borrowings, long-term debt including current portion less Hydro's sinking funds of $107 million, Class B limited partnership units, and lease liabilities.

(millions of Canadian dollars)	Hydro Regulated	Muskrat Falls	LC Transmission	Churchill Falls	Energy Trading	Other Electric	Oil and Gas	Inter-Segment	Total
	For the six months ended June 30, 2025								
Energy sales	514	462	57	57	94	80	114	(616)	762
Other revenue	14	-	227	3	7	8	-	(237)	22
Revenue	528	462	284	60	101	88	114	(853)	784
Fuels	99	-	-	-	-	-	-	-	99
Power purchased	766	-	-	-	39	35	-	(789)	51
Operating costs	80	21	16	24	2	26	2	-	171
Production, marketing and transportation costs	-	-	-	-	-	-	14	-	14
Transmission rental	-	57	-	-	22	-	-	(66)	13
Depreciation, depletion, amortization and impairment	43	45	54	9	-	20	69	(1)	239
Net finance expense (income)	51	59	106	(2)	(1)	(8)	1	-	206
Rate mitigation	-	-	-	-	-	441	-	-	441
Other expense	1	6	-	3	4	1	3	-	18
Preferred dividends	-	-	-	(2)	-	-	-	2	-
Expenses	1,040	188	176	32	66	515	89	(854)	1,252
(Loss) profit for the period before regulatory adjustments	(512)	274	108	28	35	(427)	25	1	(468)
Regulatory adjustments	(539)	-	-	-	-	-	-	1	(538)
Profit (loss) for the period	27	274	108	28	35	(427)	25	-	70
Capital expenditures*	82	1	9	31	-	8	48	-	179
Total assets	4,442	8,192	7,150	873	111	9,156	832	(8,159)	22,597
Total debt**	2,182	4,377	5,498	-	-	-	-	-	12,057

*Capital expenditures include non-cash additions of $1 million related to interest capitalized during construction.

**Total debt includes short-term borrowings, long-term debt including current portion less Hydro's sinking funds of $215 million, Class B limited partnership units, and lease liabilities.

(millions of Canadian dollars)	Hydro Regulated	Muskrat Falls	LC Transmission	Churchill Falls	Energy Trading	Other Electric	Oil and Gas	Inter-Segment	Total
				For the three months ended June 30, 2026					
Energy sales	139	138	29	13	50	33	107	(182)	327
Other revenue	7	-	116	2	2	4	-	(121)	10
Revenue	146	138	145	15	52	37	107	(303)	337
Fuels	21	-	-	-	-	-	-	-	21
Power purchased	258	-	-	-	20	17	-	(269)	26
Operating costs	44	9	8	10	2	18	1	(3)	89
Production, marketing and transportation costs	-	-	-	-	-	-	10	-	10
Transmission rental	-	29	-	-	11	-	-	(34)	6
Depreciation, depletion, amortization and impairment	26	23	28	5	-	9	26	(1)	116
Net finance expense (income)	23	32	54	(1)	(2)	(2)	-	-	104
Other expense (income)	-	22	1	-	-	(5)	(1)	3	20
Expenses	372	115	91	14	31	37	36	(304)	392
(Loss) profit for the period before regulatory adjustments	(226)	23	54	1	21	-	71	1	(55)
Regulatory adjustments	(237)	-	-	-	-	-	-	1	(236)
Profit for the period	11	23	54	1	21	-	71	-	181
Capital expenditures*	61	1	3	24	-	7	13	-	109
Total assets	4,450	8,367	7,170	918	107	9,403	913	(8,423)	22,905
Total debt**	2,305	4,341	5,620	-	-	-	-	-	12,266

*Capital expenditures include non-cash additions of $1 million related to interest capitalized during construction.

**Total debt includes short-term borrowings, long-term debt including current portion less Hydro's sinking funds of $107 million, Class B limited partnership units, and lease liabilities.

(millions of Canadian dollars)	Hydro Regulated	Muskrat Falls	LC Transmission	Churchill Falls	Energy Trading	Other Electric	Oil and Gas	Inter-Segment	Total
	For the three months ended June 30, 2025								
Energy sales	167	132	28	22	42	32	59	(163)	319
Other revenue	7	-	113	2	3	5	-	(119)	11
Revenue	174	132	141	24	45	37	59	(282)	330
Fuels	21	-	-	-	-	-	-	-	21
Power purchased	241	-	-	-	17	12	-	(251)	19
Operating costs	41	11	8	13	1	14	1	-	89
Production, marketing and transportation costs	-	-	-	-	-	-	7	-	7
Transmission rental	-	28	-	-	10	-	-	(32)	6
Depreciation, depletion, amortization and impairment	22	23	26	4	-	10	56	(1)	140
Net finance expense (income)	25	30	53	(1)	(1)	(2)	-	-	104
Other expense	2	4	-	1	3	1	2	-	13
Preferred dividends	-	-	-	(1)	-	-	-	1	-
Expenses	352	96	87	16	30	35	66	(283)	399
(Loss) profit for the period before regulatory adjustments	(178)	36	54	8	15	2	(7)	1	(69)
Regulatory adjustments	(192)	-	-	-	-	-	-	1	(191)
Profit (loss) for the period	14	36	54	8	15	2	(7)	-	122
Capital expenditures*	57	1	5	20	-	6	26	-	115
Total assets	4,442	8,192	7,150	873	111	9,156	832	(8,159)	22,597
Total debt**	2,182	4,377	5,498	-	-	-	-	-	12,057

*Capital expenditures include non-cash additions of $1 million related to interest capitalized during construction.

**Total debt includes short-term borrowings, long-term debt including current portion less Hydro's sinking funds of $215 million, Class B limited partnership units, and lease liabilities.