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June 24, 2026

Newfoundland Power
55 Kenmount Road
PO Box 8910
St. John's, NL A1B 3P6

Attention: Dominic Foley
Legal Counsel

Re: 2025 Annual Financial Return

Enclosed with this letter please find Newfoundland and Labrador Hydro's 2025 Annual Financial Return filed with the Board of Commissioners of Public Utilities on April 30, 2026, pursuant to Section 59(2) of the *Public Utilities Act*.

Should you have any questions, please contact the undersigned.

Yours truly,

NEWFOUNDLAND AND LABRADOR HYDRO

SWalsh

Shirley A. Walsh
Senior Legal Counsel, Regulatory
SAW/mc

Encl.

ecc:

Board of Commissioners of Public Utilities
Mike McNiven
Jacqui H. Glynn
Board General
Ryan Oake

Newfoundland Power Inc.
Douglas W. Wright
Regulatory Email

2025 Annual Return

April 30, 2026

A report to the Board of Commissioners of Public Utilities

newfoundland labrador hydro

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

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Independent Auditor's Report

To the Directors of Newfoundland and Labrador Hydro

Opinion

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

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

Basis for Opinion

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

Emphasis of Matter — Basis of Accounting

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the financial reporting provisions of Seciton 59 of the Public Utilities Act, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Deloitte LLP

Chartered Professional Accountants
March 17, 2026

NEWFOUNDLAND AND LABRADOR HYDRO
NON-CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

Commitments and contingencies (Note 31)

See accompanying notes

On behalf of the Board

DIRECTOR

DIRECTOR

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

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

See accompanying notes

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

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

See accompanying notes

NEWFOUNDLAND AND LABRADOR HYDRO
NON-CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31 (millions of Canadian dollars)	Notes	**2025**	2024
			(Note 2.2)
Operating activities			
Profit for the year		**115**	479
Adjustments to reconcile profit to cash used in operating activities:			
Depreciation and amortization		**128**	122
Regulatory adjustments	13	**(936)**	(837)
Share of profit of joint arrangement	11	**(43)**	(46)
Share of profit of subsidiaries	12	**(844)**	(737)
Rate mitigation expense	27	**704**	240
Amortization of deferred credits	17	**(117)**	(131)
Non-cash distribution from subsidiary	12	**93**	110
Maritime Link operating costs		**20**	22
Finance income	26	**(38)**	(51)
Finance expense	26	**124**	131
Loss on disposal of property, plant and equipment	28	**18**	6
Other		**4**	5
		(772)	(687)
Changes in non-cash working capital balances	33	**30**	(41)
Increase in contract liability	30	**423**	274
(Increase) decrease in contract asset	30	**(2)**	10
Interest received		**21**	35
Interest paid		**(122)**	(128)
Net cash used in operating activities		**(422)**	(537)
Investing activities			
Additions to property, plant and equipment and intangible assets	34	**(273)**	(183)
Dividends from subsidiaries	12	**270**	231
Distributions from subsidiary	12	**139**	245
Changes in non-cash working capital balances	33	**15**	13
Other		**(5)**	(5)
Net cash provided from investing activities		**146**	301
Financing activities			
Proceeds from long-term debt	16	**297**	-
(Decrease) increase in short-term borrowings	16	**(340)**	360
Proceeds from related party promissory note	30	**150**	150
(Decrease) increase in long-term payable		**(3)**	10
Increase in deferred credits		**51**	41
Increase in deferred contributions	18	**4**	5
Net cash provided from financing activities		**159**	566
Net (decrease) increase in cash		**(117)**	330
Cash, beginning of the year		**775**	445
Cash, end of the year		**658**	775

See accompanying notes

1. DESCRIPTION OF BUSINESS

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

1.1 Subsidiaries

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

A 100% interest in Nalcor Energy – Oil and Gas Inc. (Oil and Gas), which has a mandate to engage in the upstream and downstream sectors of the oil and gas industry. Upstream includes exploration, development and production activities, while downstream includes transportation and processing activities.

A 100% interest in Nalcor Energy Marketing Corporation (Energy Marketing), a subsidiary established to manage Hydro's participation in extra-provincial electricity markets.

A 100% interest in Muskrat Falls Corporation (Muskrat Falls), whose principal activity is to operate the Muskrat Falls hydroelectric generating facility (MF Plant) on the lower Churchill River.

A 100% interest in Labrador Transmission Corporation (Labrador Transco), whose principal activity is to operate and maintain the Labrador Transmission Assets, which includes transmission lines connecting the MF Plant with the Labrador-Island Link (LIL), the Churchill Falls hydroelectric generating facility and Hydro's Labrador transmission assets.

A 100% interest in Labrador-Island Link Operating Corporation (LIL Opco), created to operate and maintain the LIL.

A 100% interest in Lower Churchill Management Corporation (LCMC), created to carry out the project development and management functions of the Lower Churchill Project (LCP) including planning, engineering and design management, construction management, risk management, finance, procurement and supply chain management.

A 100% interest in Labrador-Island Link General Partner (2021) Corporation (LIL GP (2021)) and consolidated Labrador-Island Link Holding (2021) Corporation (LIL Holdco (2021)), created to control, manage and hold Hydro's interest in the LIL (2021) Limited Partnership (the 2021 Partnership or LIL (2021) LP)). The consolidated LIL Holdco (2021) includes the financial statements of LIL Holdco (2021) and its subsidiary companies LIL (2021) LP, LIL Holdco, and LIL LP.

A limited partnership interest in the LIL (2021) LP. The 2021 Partnership holds the common shares of Labrador-Island Link Holding Corporation (LIL Holdco) and is administering a Federal Government of Canada investment in the LIL that is a component of the Province's Rate Mitigation Plan.

A 100% interest in Labrador-Island Link General Partner Corporation (LIL GP) and LIL Holdco, created to control, manage and hold Hydro's interest in the Labrador-Island Link Limited Partnership (LIL LP or the Partnership).

A limited partnership interest in LIL LP, created to develop, construct and finance the assets and property constituting the LIL, a transmission link constructed between the MF Plant and the Newfoundland and Labrador Island Interconnected System. LIL Holdco holds 100% of the Class A and Class C limited partnership units. KKR Island Link Incorporated (KKR) holds 25 Class B units.

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

1.2 Investment in Joint Arrangement

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

2. MATERIAL ACCOUNTING POLICIES

2.1 Statement of Compliance and Basis of Measurement

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

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

2.2 Business Combination

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

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

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

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

2.3 Cash and Cash Equivalents and Short-Term Investments

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

2.4 Inventories

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

2.5 Property, Plant and Equipment

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

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

Depreciation commences when the assets are ready for their intended use. Residual values and useful lives are reviewed at the end of each year and adjusted prospectively, if appropriate. Depreciation is calculated on a straight-line basis over the estimated useful lives for all segments except Hydro Regulated, where depreciation is calculated based on the average group methodology. As per Board Order P.U. 30 (2019), Hydro was approved to recover gains and losses through accumulated amortization and to record removal costs through depreciation. To comply with International Accounting Standard (IAS) 16, the adjustments related to the recovery of gains and losses through accumulated amortization and removal depreciation are presented as a regulatory adjustment in Note 13. The depreciation lives used are as follows:

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

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

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

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

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

2.6 Intangible Assets

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

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

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

Computer software	7 to 10 years

2.7 Borrowing Costs

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

2.8 Impairment of Non-Financial Assets

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

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

2.9 Investments in Joint Arrangement

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

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

2.10 Investments in Subsidiaries

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

2.11 Employee Future Benefits

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

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

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

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

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

2.12 Provisions

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

2.13 Decommissioning, Restoration and Environmental Liabilities

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

2.14 Revenue from Contracts with Customers

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

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

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

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

2.15 Leasing

Lessee Accounting

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

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

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

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

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

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

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

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

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

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

2.16 Foreign Currencies

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

2.17 Income Taxes

Hydro is exempt from paying income taxes under Paragraph 149(1)(d) of the Income Tax Act.

2.18 Financial Instruments

Classification and Initial Measurement

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

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

Financial Assets at Amortized Cost

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

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

Financial Assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortized cost or FVTOCI are measured at FVTPL. Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognized in profit or loss to the extent they are not a part of a designated hedging relationship. Currently, Hydro has no financial assets measured at FVTPL.

Financial Liabilities at Amortized Cost

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

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

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

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

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

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

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

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

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

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of a financial instrument. In contrast, the 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

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

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

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

2.20 Regulatory Deferrals

Hydro's revenues from its electrical sales to most customers within the Province are subject to rate regulation by the PUB. Hydro's borrowing and capital expenditure programs are also subject to review and approval by the PUB. Rates are set through periodic general rate applications utilizing a cost of service methodology. Hydro's rate of return on average rate base approved in Board Order No. P.U. 10 (2025) is 5.45% in 2025 (2024 - 5.43%). Hydro applies various regulator approved accounting policies that differ from enterprises that do not operate in a rate regulated environment. Generally, these policies result in the deferral and amortization of costs or credits which are expected to be recovered or refunded in future rates. In the absence of rate regulation, these amounts would be included in the determination of profit or loss in the year the amounts are incurred. The effects of rate regulation on the financial statements are disclosed in Note 13.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

3.1 Use of Judgments

(i) Property, Plant and Equipment

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

(ii) Revenue

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

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

(iii) Determination of CGUs

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

(iv) Discount Rates

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

(v) Regulatory adjustments

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

(vi) Joint Operation

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

3.2 Use of Estimates

(i) Property, Plant and Equipment and Intangible Assets

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

(ii) Decommissioning Liabilities

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

(iii) Employee Future Benefits

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

(iv) Deferred Assets and Derivative Liabilities

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

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

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

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

4. CURRENT AND FUTURE CHANGES IN ACCOUNTING POLICIES

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

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

[1] Effective for annual periods beginning on or after January 1, 2026, with earlier application permitted.
[2] 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.

4.3 IFRS 18 – Presentation and Disclosures in Financial Statements

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

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

5. TRADE AND OTHER RECEIVABLES

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

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

(millions of Canadian dollars)	**December 31 2025**	December 31 2024
Loss allowance, beginning of the year	**(24)**	(23)
Change in balance during the year	**(1)**	(1)
Loss allowance, end of the year	**(25)**	(24)

6. INVENTORIES

(millions of Canadian dollars)	**December 31 2025**	December 31 2024	January 1 2024
Fuel	**49**	59	59
Materials and other	**49**	47	44
	98	106	103

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

7. DEFERRED ASSET

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

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

8. PROPERTY, PLANT AND EQUIPMENT

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

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

9. INTANGIBLE ASSETS

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

10. SINKING FUND INVESTMENTS

As at December 31, 2025, sinking funds include $214.0 million (2024 - $211.2 million) related to repayment of Hydro's long-term debt and $32.6 million (2024 - $33.5 million) related to funding of Hydro’s long-term payable under the Upper Churchill Redress Agreement (UCRA). Sinking fund investments consist of bonds, debentures, short-term borrowings and coupons issued by, or guaranteed by, the Government of Canada, provincial governments or Schedule 1 banks, and have maturity dates ranging from 2026 to 2041.

Hydro debentures, which are intended to be held to maturity, are deducted from debt while all other sinking fund investments are shown separately on the Non-Consolidated Statement of Financial Position as assets. Annual contributions to the various sinking funds are in accordance with bond indenture terms, and are structured to ensure the availability of adequate funds at the time of expected bond redemption. Effective yields range from 1.42% to 6.25% (2024 - 1.42% to 6.82%).

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

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

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

(millions of Canadian dollars)	2026	2027	2028	2029	2030
Sinking fund instalments	9	9	9	9	9

11. INVESTMENT IN JOINT ARRANGEMENT

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

12. INVESTMENTS IN SUBSIDIARIES

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

As at December 31 (millions of Canadian dollars)	Energy Marketing	Muskrat Falls	Labrador Transco	LCMC	LIL Opco	LIL Holdco (2021)	Oil and Gas	Total
Balance at January 1, 2024	39	3,005	554	1	21	327	703	4,650
Equity in profit for the year	50	348	68	-	5	149	117	737
Dividends	(48)	(85)	(12)	-	-	-	(86)	(231)
Non-cash distribution from subsidiary[1]	-	(110)	-	-	-	-	-	(110)
Equity contributions (distributions)	-	1	-	-	-	(246)	-	(245)
Other comprehensive income	-	3	1	-	-	-	-	4
Balance at December 31, 2024	41	3,162	611	1	26	230	734	4,805
Equity in profit for the year	**83**	**452**	**69**	**-**	**3**	**139**	**98**	**844**
Dividends	**(81)**	**(78)**	**(12)**	**-**	**-**	**-**	**(99)**	**(270)**
Non-cash distribution from subsidiary[1]	**-**	**(93)**	**-**	**-**	**-**	**-**	**-**	**(93)**
Equity distributions	**-**	**-**	**-**	**-**	**-**	**(139)**	**-**	**(139)**
Other comprehensive income	**-**	**2**	**1**	**-**	**-**	**-**	**-**	**3**
Balance at December 31, 2025	**43**	**3,445**	**669**	**1**	**29**	**230**	**733**	**5,150**

[1] The non-cash distribution from subsidiary relates to the reduction in the deferred credits for the delivery of the Nova Scotia Block.

13. REGULATORY DEFERRALS

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

[1] Remaining recovery settlement period of 16.0 years.

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

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

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

13.(a) Power Purchase Expense Recognition

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

13.(b) Supply Cost Variance Deferral Account

In Board Order No's. P.U. 33 (2021) and P.U. 4 (2022), the PUB approved Hydro's proposal to establish an account to defer payments under the Muskrat Falls Project agreements, rate mitigation funding, project cost recovery from customers and supply cost variances.

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

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

13.(c) Retirement Asset Pool

In Board Order No. P.U. 30 (2019), the Board approved Hydro's proposed depreciation methodology which includes the deferral of gains and losses on retirement of assets. The deferral will be recovered through future depreciation expense. In 2025, Hydro deferred $17.5 million (2024 - $5.8 million) of asset retirement activity resulting in a total balance of $63.4 million (2024 - $45.9 million).

13.(d) Muskrat Falls PPA Monetization

Under the Muskrat Falls PPA, 30 days following the calendar year end Hydro is able to monetize an amount of undelivered Schedule II energy at an Annual Average Sales Price of Muskrat Falls energy exports for the previous year. In Board Order No's. P.U. 33 (2021) and P.U. 4 (2022), the Board approved Hydro's proposal to recognize an estimate of the monetized energy in the year in which the energy was exported by Muskrat Falls, instead of waiting until Hydro can monetize in the following year. On December 31, 2025, Hydro recorded an estimate for monetization related to the 2025 undelivered Schedule II energy of $48.8 million, resulting in a regulatory receivable. The December 31, 2024 monetization of $73.8 million was reversed upon actual monetization in 2025 of $73.8 million.

13.(e) Foreign Exchange Losses

In 2002, the PUB ordered Hydro to defer realized foreign exchange losses related to the issuance of Swiss Franc and Japanese Yen denominated debt and amortize the balance over a 40 year period. Accordingly, these costs were recognized as a regulatory asset. During 2025, amortization expense of $2.2 million (2024 - $2.2 million) was recorded.

13.(f) Muskrat Falls PPA Sustaining Capital

In Board Order No. P.U. 33 (2021), the PUB approved Hydro's proposal to defer contributions required to be made by Hydro for sustaining capital investments pursuant to the Muskrat Falls PPA with recovery to be addressed in Hydro's next general rate application. In 2025, Hydro has deferred $6.3 million (2024 - $11.0 million) in contribution activity resulting in a total balance of $22.2 million (2024 - $15.9 million).

13.(g) Business System Transformation Program

In Board Order No.'s P.U. 23 (2019) and P.U. 30 (2019), the Board approved the deferral of business system transformation program costs. The recovery of the deferral is subject to a future Board order. In Board Order No. P.U. 27, (2022), the Board approved the recovery of a portion of the deferred costs up to the end of 2022, which totalled $6.7 million, through customer rates to be established in Hydro's next general rate application. During the year, Hydro deferred $1.5 million (2024 - $1.5 million), resulting in a total deferral of $12.2 million (2024 - $10.7 million).

13.(h) RSP

In 1986, the PUB ordered Hydro to implement the RSP which primarily provides for the deferral of fuel expense variances resulting from changes in fuel prices, hydrology, load and associated interest. Adjustments required in utility rates to cover the amortization of the balance are implemented on July 1 of each year. Similar adjustments required in industrial rates are implemented on January 1 of each year.

Per Board Order No. P.U. 33 (2021) and Hydro's compliance filing, the RSP was discontinued for purposes of deferring variations in hydraulic production, No. 6 fuel and load as at October 31, 2021. The Board ordered that the RSP should be maintained to provide timely recovery of the remaining balance which results in the continuation of recovery and interest charges and, in 2025, Hydro recovered $26.1 million (2024 - $30.2 million) from customers and recorded $1.2 million in interest for future recovery from customers (2024 - $2.2 million). As well, Board Order No. P.U. 13 (2025) approved the recovery of the 2024 Isolated Systems Supply Cost Variance Deferral from the RSP Current Plan resulting in an increase to the RSP of $6.5 million (2024 - $11.6 million). This activity resulted in a remaining balance for future recovery from customers of $12.6 million (2024 - $31.0 million).

13.(i) Deferred Energy Conservation Costs

In 2025, Hydro deferred $1.7 million (2024 - $1.4 million) in Energy Conservation Costs associated with an electrical conservation demand management program for residential, industrial, and commercial sectors. As per Board Order No. P.U. 22 (2017) and Board Order No. P.U. 37 (2022), Hydro recovered $1.1 million (2024 - $0.9 million) of the balance through a rate rider which resulted in a total deferred balance of $8.4 million (2024 - $7.8 million).

13.(j) Supply Deferral

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

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

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

13.(l) Rate Mitigation Funding Revenue Recognition

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

13.(m) Removal Provision

In Board Order No. P.U. 30 (2019), the Board approved Hydro's proposed depreciation methodology which includes the provision for removal costs. Hydro recorded a net increase to the provision relating to 2025 activity of $3.8 million (2024 - $4.1 million) resulting in a total balance of $30.7 million (2024 - $26.9 million). The increase was driven by removal depreciation of $6.0 million (2024 - $5.8 million) which was partially offset by removal costs of $2.2 million (2024 - $1.7 million).

13.(n) Holyrood TGS Accelerated Depreciation Deferral Account

In Board Order No's. P.U. 33 (2021) and P.U. 4 (2022), the PUB approved Hydro's proposal to establish an account to defer, for future recovery, any difference in excess of ±$2.5 million, between the accelerated depreciation expense for Holyrood TGS in 2024 and 2025 and the accelerated depreciation expense included in the approved 2019 Test Year. For the year ended December 31, 2025, the Holyrood accelerated depreciation expense was within the ±$2.5 million threshold (2024 - $4.3 million) in comparison to the 2019 Test Year depreciation resulting in no change to the regulatory liability of $14.1 million (2024 - $14.1 million). The disposition of the balance of this account is subject to a future Board Order from the PUB.

13.(o) Insurance Amortization and Proceeds

Pursuant to Board Order No. P.U. 13 (2012), Hydro records net insurance proceeds against the capital costs and amortizes the balance over the life of the asset. Under IFRS, Hydro is required to recognize the insurance proceeds and corresponding amortization in regulatory liabilities. During 2025, Hydro recorded a net decrease of $0.1 million (2024 - $0.1 million) to the regulatory liability resulting in a balance of $3.8 million (2024 - $3.9 million). The decrease was driven by amortization of $0.1 million (2024 - $0.1 million).

14. TRADE AND OTHER PAYABLES

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

15. OTHER CURRENT LIABILITIES

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

16. DEBT

16.1 Short-term Borrowings

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

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

16.2 Long-term Debt

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

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

*Sinking funds have been established for these issues.

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

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

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

17. DEFERRED CREDITS

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

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

Hydro has recorded deferred energy sales of $1,465.1 million (2024 - $1,530.8 million) which represents Hydro's obligation to deliver the Nova Scotia Block to Emera in exchange for construction and operation and maintenance of the Maritime Link. Hydro has determined that it controls the Maritime Link asset for financial reporting purposes, and as such, has recorded the costs of construction within property, plant and equipment.

18. DEFERRED CONTRIBUTIONS

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

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

19. DECOMMISSIONING LIABILITIES

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

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

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

The total estimated undiscounted cash flows required to settle the Holyrood TGS obligations at December 31, 2025 are $39.8 million (2024 - $34.9 million). Payments to settle the liability are expected to occur between 2026 and 2031. The fair value of the decommissioning liabilities was determined using the present value of future cash flows discounted at Hydro's credit adjusted risk free rate of 3.2% (2024 - 3.4%). Hydro has recorded $33.8 million (2024 - $28.5 million) related to Holyrood TGS obligations.

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

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

20. LEASES

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

For the year ended December 31 (millions of Canadian dollars)		**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 purchases of power generated from assets which are owned by the Province. These assets are operated on behalf of the Province on a cost recovery basis, as disclosed in Note 30.

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

21. EMPLOYEE FUTURE BENEFITS

21.1 Pension Plan

Employees participate in the Province's Public Service Pension Plan, a multi-employer defined benefit plan. The employer's contributions for the year ended December 31, 2025 of $13.4 million (2024 - $12.5 million) were expensed as incurred.

21.2 Other Benefits

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

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

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

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

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

	2025	2024
Discount rate - benefit cost	**4.70%**	4.65%
Discount rate - accrued benefit obligation	**4.95%**	4.70%
Rate of compensation increase	**3.50%**	3.50%

Assumed healthcare trend rates:

	2025	2024
Initial health care expense trend rate	**5.70%**	5.85%
Cost trend decline to	**3.60%**	3.60%

Current rate 5.70%, reducing linearly to 3.60% in 2040 and thereafter.

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

Increase (millions of Canadian dollars)	**2025**	2024
Current service and interest cost	**1.3**	1.2
Accrued benefit obligation	**13.3**	13.7

Decrease (millions of Canadian dollars)	**2025**	2024
Current service and interest cost	**(1.0)**	(0.9)
Accrued benefit obligation	**(10.6)**	(10.9)

22. OTHER LONG-TERM LIABILITIES

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

(a) Long-term payables

As at December 31 (millions of Canadian dollars)	**2025**	2024
Long-term payables, beginning of the year	**55**	44
Additions	**-**	6
Settlements	**(18)**	(5)
Accretion	**2**	2
Revisions	**15**	8
Long-term payables, end of the year	**54**	55
Less: current portion	**(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 Amended IBA. Long-term payables primarily consists of a payable to the Innu Nation under the UCRA. Under the UCRA, Hydro is required to pay to the Innu Nation $2.0 million annually, escalating by 2.5% annually until 2041. At December 31, 2025, $2.8 million (2024 - $2.8 million) of the amount is current and is recorded in Other current liabilities. Hydro has sinking funds in the amount of $32.6 million (2024 - $33.5 million) to fund UCRA obligations.

23. SHAREHOLDER'S EQUITY

23.1 Share Capital

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

23.2 Shareholder Contributions

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

24. OTHER REVENUE

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

25. OPERATING COSTS

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

26. NET FINANCE EXPENSE

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

27. RATE MITIGATION EXPENSE

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

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

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

28. OTHER EXPENSE (INCOME)

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

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

29.1 Fair Value

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

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

Establishing Fair Value

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

29.2 Risk Management

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

Credit Risk

Hydro's expected future cash flows are exposed to credit risk through its operating activities, primarily due to the potential for non-performance by its customers, and through its financing and investing activities, based on the risk of non-performance by counterparties to its financial instruments. The degree of exposure to credit risk on cash and cash equivalents and derivative assets as well as from the sale of electricity to customers, including the associated accounts receivable, is determined by the financial capacity and stability of those customers and counterparties. The maximum exposure to credit risk on these financial instruments is represented by their carrying values on the Non-Consolidated Statement of Financial Position at the reporting date.

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

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

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

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

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

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

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

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

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

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

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

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

30. RELATED PARTY TRANSACTIONS

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

Related parties with which Hydro transacts are as follows:

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

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

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

For the year ended December 31 (millions of Canadian dollars)		**2025**	2024
Energy sales:			
The Province		**3**	3
Subsidiaries		**100**	39
Other revenue:			
Subsidiaries		**40**	37
Power purchased:			
Joint operation		**56**	53
The Province	(c)	**25**	28
Subsidiaries	(e)	**1,223**	1,027
Net operating (recoveries) costs:			
Joint operation		**(6)**	(6)
The Province	(c)	**(25)**	(24)
Subsidiaries	(f)	**(15)**	10
Other related parties		**2**	2
Transmission rental:			
Subsidiaries		**22**	19
Net finance expense (income):			
The Province		**38**	36
Subsidiaries		**(1)**	(2)
Other income:			
Subsidiary	(f)	**(14)**	(35)

(a) Payments under the Labrador-Island Link TFA commenced in April 2023. The contract asset balance represents the timing difference between the expense recognition of the value of the service delivered to Hydro and the contractual payments made under the agreement.

(b) Hydro has a non-interest bearing loan receivable from LIL Holdco (2021) in relation to LIL Holdco (2021)'s purchase of the shares of LIL Holdco, which is payable to Hydro upon demand.

(c) Hydro, as the operator of the Exploits assets, has a net payable to the Province which is included in Trade and other payables. For the year ended December 31, 2025, Hydro has purchased $24.9 million (2024 - $28.4 million) of power generated from assets related to Exploits Generation, which are held by the Province. These assets are operated on behalf of the Province on a cost recovery basis, as disclosed in Note 20.

(d) Hydro entered into a PPA with Muskrat Falls for the purchase of energy and capacity from the MF Plant. The contract liability balance represents the timing difference between the value of the energy and capacity delivered to Hydro and the contractual payments made under the PPA.

(e) For the year ended December 31, 2025, Hydro recognized power purchase expense of $1,223.2 million (2024 - $1,026.8 million) associated with the PPA with Muskrat Falls, the PPA for Labrador Residual Block Use and the Labrador-Island Link TFA. The majority of these power purchase expenses are deferred in either the Supply Cost Variance Deferral account or the Power Purchase Expense Recognition account as described in Note 13.

(f) Included in Operating costs is the $13.9 million payment made to the Innu Nation under the IBA Amendment (2024 - $35.3 million). This is fully recoverable from Muskrat Falls.

30.1 Key Management Personnel Compensation

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

For the year ended December 31 (millions of Canadian dollars)	**2025**	2024
Salaries and employee benefits	**3**	3

31. COMMITMENTS AND CONTINGENCIES

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

(b) Outstanding commitments for capital projects total approximately $49.4 million as at December 31, 2025 (2024 - $82.9 million).

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

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

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

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

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

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

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

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

(f) Under the terms of the Newfoundland and Labrador Development Agreement (NLDA), LIL GP has certain responsibilities and provisions of duty with which it must comply in its role as the general partner. Any failure of LIL GP to comply with the NLDA will result in Hydro indemnifying the applicable counterparties for any losses sustained.

(g) In July 2012, Hydro entered into the Energy and Capacity Agreement with Emera providing for the sale and delivery of the Nova Scotia Block, being 0.986 TWh of energy annually for a term of 35 years. In October 2015 Hydro assigned this agreement to Muskrat Falls. As a result of this assignment, Hydro and Muskrat Falls are jointly liable for the delivery of the Nova Scotia Block to Emera.

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

(i) In 2015, the Energy Access Agreement (EAA) was signed between Hydro and Emera as part of collective contracts associated with the LCP and future delivery of Muskrat Falls energy to Emera. The purpose of the EAA is to offer additional market priced available energy to Emera on an annual basis between 1.2 TWh to 1.8 TWh for each contract year following full operation.

(j) On October 24, 2024, Hydro and the Innu Nation amended the Lower Churchill Innu Impacts and Benefits Agreement (IBA) to reflect an agreement on rate mitigation. Under this agreement, Hydro has committed with Muskrat Falls to pay the Innu Nation an annual amount of $12 million escalating at CPI, for a term of 50 years, replacing all other IBA payments associated with Muskrat Falls.

(k) In 2025, Hydro entered into two PPA's with CBPP for energy generated from CBPP's existing power generation facilities. The first PPA covered the period October 1, 2025 to March 31, 2026, where Hydro will purchase up to 80,000 MWh of energy at $275/MWh. The second PPA commenced in January 2026, immediately upon Hydro's receipt of 80,000 MWh under the October 2025 PPA. The second PPA covers the period up to June 30, 2026 for Hydro's purchase up to 140,000 MWh of energy at $187/MWh.

32. CAPITAL MANAGEMENT

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

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

A summary of the capital structure is outlined below:

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

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

For the regulated portion of Hydro's operations, Management targets a capital structure comprised of 75% debt and 25% equity, a ratio which Management believes to be optimal with respect to its cost of capital. This capital structure is maintained by a combination of dividend policy, shareholder contributions and debt issuance. The issuance of any new debt with a term greater than one year requires prior approval of the PUB. Hydro's committed credit facility has a covenant requiring Hydro to ensure that its consolidated debt to total capitalization ratio does not exceed 70%. As at December 31, 2025 and 2024, Hydro was in compliance with this covenant.

Legislation stipulates that the total of the short-term loans issued by Hydro and outstanding at any time shall not exceed a limit as fixed by the Lieutenant-Governor in Council. Short-term loans are defined as those with a term not exceeding two years. On December 15, 2023, the Lieutenant-Governor in Council issued Order in Council OC2023-272, increasing the permitted level of short-term borrowings by Hydro to $700.0 million until December 31, 2025. After this date, the limit will decrease to $500.0 million effective January 1, 2026. With the amalgamation of Hydro and Nalcor Energy, effective January 1, 2025, the level of short-term borrowings permitted by Hydro has been set to $1.0 billion (previously $700.0 million for Hydro and $300.0 million for Nalcor Energy) until December 31, 2025. After this date, the limit will decrease to $800.0 million, effective January 1, 2026. As at December 31, 2025, $250.0 million of short-term debt was outstanding (2024 - $590.0 million).

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

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

33. SUPPLEMENTARY CASH FLOW INFORMATION

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

34. SEGMENT INFORMATION

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

Hydro Regulated activities encompass sales of electricity to customers within the Province that are regulated by the PUB and to export markets. Hydro Non-Regulated activities include expenditures associated with the Maritime Link (which is owned and managed by Emera, but consolidated by Hydro), Hydro's sales of electricity to mining operations in Labrador West, rate mitigation transactions and revenues and costs recovered from Hydro-Québec associated with the operation of the Menihek Generating Station. The segment also includes costs associated with shared services functions and community and business development.

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

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

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

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

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

Newfoundland and Labrador Hydro[1]

Directors	Officers
John Green Chairperson Retired Lawyer, McInnes Cooper	**Dana Pope** Vice President, Regulatory Affairs and Stakeholder Relations
Bob Barnes Retired NL Hydro Manager	**Gail Collins** Vice President, People and Corporate Affairs
Brian Walsh Retired FortisTCI Executive	**Gerard Dunphy** Vice President, Churchill Falls and Muskrat Falls
Chris Loomis Retired Professor Memorial University of Newfoundland and Labrador	**Jennifer Williams** President and Chief Executive Officer
David Oake President, Invenio Consulting Inc.	**Lisa Hutchens** Vice President, Chief Financial Officer
Debbie Molloy Vice President Human Resources for Newfoundland and Labrador Health Services	**Michael Ladha** Vice President, Chief Legal Officer and Corporate Secretary
Donna Brewer Retired Deputy Minister of Finance	**Robert Collett** Vice President, Hydro Engineering and NLSO
Edna Turpin Corporate Director	**Scott Crosbie** Vice President, Hydro Operations
Geoff Goodyear Retired Executive, Universal Helicopters NL LP	**Walter Parsons** Vice President, Transmission Interconnections and Business Development
James Haynes Retired Hydro Executive, NL Hydro	**Gail Randell** Vice President, Major Projects
Jennifer Williams President and Chief Executive Officer, NL Hydro	**Meredith Baker** Assistant Corporate Secretary
John Mallam Retired Hydro Executive, NL Hydro	
Trina Troke Corporate Director	
Head Office Newfoundland and Labrador Hydro PO Box 12400 Hydro Place, 500 Columbus Drive St. John's, NL A1B 4K7 Canada	

[1] Newfoundland and Labrador Hydro ("Hydro") Board of Directors and Officers as at December 31, 2025.

Newfoundland and Labrador Hydro
Computation of Average Rate Base
Year Ended December 31, 2025
($000)

	2025	2024
Capital Assets - Return 4	3,303,243	3,118,245
Work in Progress[1]	89,941	62,088
	3,393,184	3,180,333
Deduct:		
Accumulated Depreciation - Return 6[2,3]	(827,789)	(773,107)
Contributions in Aid of Construction - Return 7[1,3]	(66,639)	(66,689)
Total Capital Assets[3]	2,498,756	2,340,537
Deduct Items Excluded from Rate Base:		
Work in Progress[1]	(89,941)	(62,088)
Asset Retirement Obligations (Net of Amortization)	(13,422)	(10,385)
Net Capital Assets	2,395,393	2,268,064
Net Capital Assets, Previous Year	2,268,064	2,196,889
Unadjusted Average Capital Assets	2,331,729	2,232,477
Deduct:		
Average Net Capital Assets Excluded from Rate Base	(7,631)	(7,713)
Average Capital Assets	**2,324,098**	**2,224,764**
Working Capital Allowance - Return 8	**1,229**	**1,416**
Fuel Inventory - Return 10	**57,161**	**53,950**
Supplies Inventory - Return 10	**46,725**	**43,698**
Average Deferred Charges for Rate Base - Return 11	**57,569**	**55,215**
Average Rate Base at Year End - Return 12	**2,486,782**	**2,379,043**

[1] Contributions of $3.9 million (2024: $2.7 million) related to Capital Assets not in service have been net in Work in Progress. In addition, insurance proceeds of $1.0 million (2024: $1.0 million) related to Capital Assets not in service have been net in Work in Progress.

[2] Accumulated Depreciation is net of the Retirement Asset Pool and Removal Provision. Please refer to Return 6 for further details.

[3] As per Board Order P.U. 33 (2023) electric vehicle chargers were excluded from Capital Assets and included in Deferred Charges in Return 11.

Newfoundland and Labrador Hydro
Capital Assets - Original Cost
Year Ended December 31, 2025
($000)

	Balance 31-Dec-2024	Adjustments During 2025	Additions During 2025	Retirements During 2025	Balance 31-Dec-2025
Power Generation					
Thermal	272,675	5,641	32,531	(15,097)	295,750
Hydroelectric	943,126	31	87,973	(9,838)	1,021,292
Diesel	131,963	(288)	14,847	(3,372)	143,150
Gas Turbine	208,202	17	3,637	(52)	211,804
	1,555,966	5,401	138,988	(28,359)	1,671,996
Substations	477,994	342	29,173	(1,963)	505,546
Transmission	577,883	(55)	5,964	(232)	583,560
Distribution	320,788	(98)	21,778	(379)	342,089
General Plant	101,341	45	13,358	(3,658)	111,086
Telecontrol	57,323	(5)	7,097	(2,943)	61,472
Total Depreciable Plant	**3,091,295**	**5,630**	**216,358**	**(37,534)**	**3,275,749**
Non-Depreciable Land	5,073	-	-	-	5,073
Plant Investment	**3,096,368**	**5,630**	**216,358**	**(37,534)**	**3,280,822**
Intangible	22,927	(3)	1,664	(1,117)	23,471
Electric Vehicle Charger Elimination	(1,050)	-	-	-	(1,050)
Total Capital Assets - Return 3	**3,118,245**	**5,627**	**218,022**	**(38,651)**	**3,303,243**

Newfoundland and Labrador Hydro
Capital Expenditures
Year Ended December 31, 2025
($000)[1]

	Total Board Approved Expenditures 2025	Total Actual Expenditures 2025	Variance From 2025 Budget
Access	5,007	5,602	(595)
General Plant	44,458	32,903	11,555
Mandatory	1,815	2,096	(281)
Renewal	162,802	167,276	(4,475)
Service Enhancement	11,125	9,356	1,769
System Growth	10,202	6,302	3,899
Allowance for Unforeseen	1,000	-	1,000
Major Projects	47,380	22,518	24,862
Total Capital Budget	**283,789**	**246,053**	**37,734**

2025 Capital Budget Approved by Board Order No. P.U. 28 (2024)	135,713
New Project Approved by Board Order No. 6(2023)	58,023
New Project Approved by Board Order No. 21(2023)	231
New Project Approved by Board Order No. 28(2023)	1,822
New Project Approved by Board Order No. 22(2024)	318
New Project Approved by Board Order No. 25(2024)	226
New Project Approved by Board Order No. 9(2025)	344
New Project Approved by Board Order No. 11(2025)	1,519
New Project Approved by Board Order No. 29(2025)	855
New Project Approved by Board Order No. 17(2025)	47,380
2025 New Projects under $750,000 Approved by Hydro	7,633
Total Approved Capital Budget Before Carryovers[1]	**254,064**
Multi Year Cost Flow Reallocation 2024 to 2025	17,085
Carryover Projects to 2024–2025	12,639
Total Approved Capital Budget	**283,788**
Deduct:	
Multi Year Cost Flow Reallocation 2024 to 2025 - CIAC's	(149)
Supplemental CIACs	(1,880)
Net Capital Expenditures	**281,760**

[1] Numbers may not add due to rounding.

Newfoundland and Labrador Hydro
Accumulated Depreciation
Year Ended December 31, 2025
($000)

	Property, Plant, and Equipment	Intangible	Total
Balance, December 31, 2024	774,130	17,971	**792,101**
Add:			
Depreciation	87,713	1,460	**89,173**
Deduct:			
Retirements, Transfers, and Adjustments	(19,565)	(1,117)	**(20,682)**
Electric Vehicle Charger Elimination	(91)	-	**(91)**
Accumulated Depreciation Balance, December 31, 2025	842,187	18,314	**860,501**
Retirement Asset Pool			
Balance, December 31, 2024	(46,002)	95	**(45,907)**
Add:			
Net Loss on Retirement	(17,966)	-	**(17,966)**
Disposal Proceeds	454	-	**454**
	(63,514)	95	**(63,419)**
Removal Provision			
Balance, December 31, 2024	26,913	-	**26,913**
Add:			
Removal Depreciation	5,926	-	**5,926**
Deduct:			
Removal Costs	(2,132)	-	**(2,132)**
	30,707	-	**30,707**
Total Accumulated Depreciation Balance, December 31, 2025	**809,380**	**18,409**	**827,789**

Depreciation Rates

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

Generation Plant	3 to 110 years
Transmission and distribution	10 to 75 years
Other Assets	3 to 75 years

Newfoundland and Labrador Hydro
Contributions in Aid of Construction
Year Ended December 31, 2025
($000)

	Customers	Government/ Hydro Corporate[1]	Total
Gross Contributions to December 31, 2024	43,024	40,762	**83,786**
2025 Additions	2,346	-	**2,346**
2025 Disposals	(19)	-	**(19)**
Gross Contributions to December 31, 2025	45,351	40,762	**86,113**
Deduct:			
Accumulated Amortization			**(19,560)**
Electric Vehicle Charger Amortization Elimination			**86**
Net Balance December 31, 2025 - Return 3[2]			**66,639**

[1] Government of Newfoundland and Labrador ("Government") / Newfoundland and Labrador Hydro ("Hydro") Corporate includes Hydro's other lines of business including, but not limited to, the Lower Churchill Group of Companies as well as Government Contributions in Aid of Construction.

[2] Contributions of $3.9 million (2024: $2.7 million) related to Capital Assets not in service have been net in Work in Progress. In addition, insurance proceeds of $1.0 million (2024: $1.0 million) related to Capital Assets not in service have been net in Work in Progress. Refer to Return 3 for further information.

Newfoundland and Labrador Hydro
Working Capital Allowance
Year Ended December 31, 2025
($000)

	2025	2024
Operating Expenses for the Year - Return 9	150,770	145,210
Add:		
Power Purchases	60,794	59,370
Total Operating Expenses for the Year	**211,564**	**204,580**
Net Lag %[1]	2.25%	2.55%
Working Capital Allowance	4,760	5,217
Deduct:		
HST Adjustment	3,531	3,801
Total Working Capital Allowance - Return 3	**1,229**	**1,416**

[1] Net Lag % is calculated as Net Lag Days (Revenue Lag less Expense Lag) divided by 365 days. In 2025, Hydro's Revenue Lag was 36 days (2024: 36 days) and the Expense Lag was 28 days (2024: 27 days) resulting in a Net Lag of 8 days (2024: 9 days).

Newfoundland and Labrador Hydro
Statement of Operating Costs
Year Ended December 31, 2025
($000)

	2025	2024
Salaries and Benefits	89,143	88,490
System Equipment Maintenance	30,414	24,623
Office Supplies and Expenses	2,306	2,214
Professional Services	15,092	11,411
Insurance	4,684	4,885
Equipment Rentals	2,070	2,668
Travel	2,411	2,355
Miscellaneous Expenses	5,933	5,005
Building Rental and Safety	1,296	1,290
Transportation	2,067	2,368
Customer Costs	590	23
Cost Recoveries	(5,236)	(122)
Total Operating Costs - Return 8	**150,770**	**145,210**

Newfoundland and Labrador Hydro
Significant Operating Expense Variance
Year Ended December 31, 2025
($000)

	2025	2024	Increase (Decrease)	
System Equipment Maintenance	30,414	24,623	5,791	1
Professional Services	15,092	11,411	3,681	2
Miscellaneous Expenses	5,933	5,005	928	3
Cost Recoveries	(5,236)	(122)	(5,114)	4

[1] Primarily due to variations in maintenance activity, cloud implementation costs as well as an increase in removal projects. The cloud and removal costs are offset in the cost recoveries category.

[2] Variance is primarily due to increased consulting support for Engineering studies, increased regulatory requirements as well as an increase in recoverable projects and studies that have been offset in cost recoveries.

[3] Increased efforts in training programs to ensure safety, legislative and new training requirements were met, increased payroll taxes associated with increased salary costs and other miscellaneous increases.

[4] Variance is primarily due to deferral of removal costs and cloud implementation costs as approved by the Board (offset in both system equipment and maintenance and professional services).

Newfoundland and Labrador Hydro
Inventory
Year Ended December 31, 2025
($000)

	Fuel		Supplies	
	2025	**2024**	**2025**	**2024**
Opening Balance	58,677	58,414	45,070	42,292
January	60,825	59,682	45,890	42,211
February	35,811	64,476	46,437	42,543
March	57,525	44,202	46,733	43,166
April	63,361	55,775	46,453	44,104
May	62,343	45,999	46,057	43,401
June	67,263	48,192	46,221	43,323
July	67,353	48,354	46,085	43,956
August	67,575	46,980	46,776	44,280
September	63,507	67,104	47,040	43,982
October	46,156	50,005	47,969	44,819
November	44,032	53,485	48,140	44,921
December	48,667	58,677	48,555	45,070
13-Month Average - Return 3	**57,161**	**53,950**	**46,725**	**43,698**

Newfoundland and Labrador Hydro
Deferred Charges
Year Ended December 31, 2025
($000)

	Board Order No.	2025	2024
Foreign Exchange Losses	P.U. 7(2002–2003)	34,511	36,668
Foreign Exchange on Fuel	P.U. 30(2019)	(572)	1,053
Conservation Demand Management	P.U. 30(2019)	8,404	7,743
Conservation Demand Management - Labrador Interconnected	P.U. 33(2023)	49	48
Phase Two Hearing Costs	P.U. 13(2016)	1,364	1,364
Asset Disposal	P.U. 13(2016)	216	235
Supply Deferral	P.U. 30(2019)	6,339	6,725
Deferred Power Purchases	P.U. 5(1996–1997)	(32)	(68)
2018 Revenue Deficiency	P.U. 30(2019)	(1)	(1)
2019 Revenue Deficiency	P.U. 30(2019)	77	77
Business Systems Transformation Program	P.U. 16(2019)	5,545	4,040
Business Systems Transformation Program (Approved for Recovery)	P.U. 27(2022)	6,687	6,687
Reliability and Resource Adequacy	P.U. 29(2019)	3,327	2,964
Hydraulic Resource Optimization	P.U. 49(2018)	(183)	(5,842)
Frequency Converter	P.U. 35(2020)	(1,389)	(1,160)
Power Purchase Expense Recognition	P.U. 9(2021) and P.U. 33(2021)	1,148,233	726,503
Muskrat Falls Export Revenue Recognition Deferral	P.U. 33(2021) and P.U. 4(2022)	48,785	73,765
Muskrat Falls Power Purchase Agreement Sustaining Capital	P.U. 33(2021) and P.U. 4(2022)	22,250	15,954
Holyrood Thermal Generating Station Accelerated Depreciation	P.U. 33(2021) and P.U. 4(2022)	(14,125)	(14,125)
Electrification Cost Deferral	P.U. 33(2023)	902	704
Return on Equity Rate Change Deferral	P.U. 10(2025)	463	-
Cloud Cost Deferral	P.U. 35(2025)	2,118	-
General Expenses Capitalized Deferral	P.U. 32(2025)	6,286	-
Deferred Charges		1,279,254	863,334
Deduct Deferred Charges Excluded from Rate Base:			
Phase II Hearing Costs[1]		(1,364)	(1,364)
Business Systems Transformation Board Order No. P.U. 27(2022)[1]		(5,545)	(4,040)
Muskrat Falls Power Purchase Agreement Sustaining Capital[1]		(22,250)	(15,954)
Reliability and Resource Adequacy[1]		(3,327)	(2,964)
Holyrood Thermal Generating Station Accelerated Depreciation[1]		14,125	14,125
Electrification Cost Deferral[1]		(902)	(704)
Power Purchase Expense Recognition[2]		(1,148,233)	(726,503)
Muskrat Falls Export Revenue Recognition Deferral[3]		(48,785)	(73,765)
		(1,216,281)	(811,169)
Deferred Charges, End of Current Year		62,973	52,165
Deferred Charges, End of Prior Year		52,165	58,265
Average Deferred Charges for Rate Base - Return 3		**57,569**	**55,215**

[1] Recovery of these expenditures is subject to approval by the Board of Commissioners of Public Utilities, and therefore, they have been excluded from rate base.
[2] This deferral represents timing differences in expense recognition and therefore is excluded from rate base, as per Board Order Nos. P.U. 9(2021) and P.U. 33(2021).
[3] This deferral represents a timing difference in revenue recognition and is therefore excluded from rate base, as per Board Order No. P.U. 33(2021).

Newfoundland and Labrador Hydro
Return on Rate Base
Year Ended December 31, 2025
($000)

	2025	2024
Corporate Net Income - Return 1[1]	115,268	478,981
Deduct:		
Unregulated Earnings[1,2]	(108,464)	(458,488)
Regulated Net Income	6,804	20,493
Add:		
Cost of Service Exclusions[3]	7,262	7,228
Regulated Net Interest - Return 16[1]	83,083	80,365
Regulated Return	97,149	108,086
Average Rate Base at Year End - Return 3	2,486,782	2,379,043
Rate of Return on Average Rate Base	**3.91%**	**4.54%**
Lower End of Approved Range - 0.20	5.25%	5.23%
Higher End of Approved Range + 0.20	5.65%	5.63%

[1] Nalcor Energy and Newfoundland and Labrador Hydro were legislatively amalgamated effective January 1, 2025. As a result, comparative figures were updated to reflect the results of the combined entity.

[2] Difference to Return 1 is due to rounding.

[3] The Cost of Service exclusions are comprised of the disallowed portion of the Debt Guarantee Fee of $6.8 million (2024: $6.8 million) and depreciation on assets excluded from rate base of $0.4 million (2024: $0.4 million).

Newfoundland and Labrador Hydro
Return on Regulated Average Retained Earnings
Year Ended December 31, 2025
($000)

		2025		2024
Total Equity - Return 1[1,2]		8,102,553		7,979,280
Deduct:				
Share Capital[1]		122,504		122,504
Shareholder Contributions[1]		4,784,275		4,786,061
Accumulated Other Comprehensive Income[1]		(19,576)		(29,403)
Ending Retained Earnings as per Balance Sheet[1]		3,215,350		3,100,118
Deduct Non-Regulated Retained Earnings:				
Beginning Non-Regulated Retained Earnings[1]	2,599,721		2,141,233	
Non-Regulated Net Income for the Year[1,2]	108,464		458,488	
Non-Regulated Dividends for the Year	-		-	
Ending Non-Regulated Retained Earnings		2,708,185		2,599,721
Regulated Retained Earnings, End of Year[2]		507,165		500,397
Add:				
Regulated Contributed Surplus		100,000		100,000
Retained Earnings Cost of Service Exclusions		79,459		72,197
Total Regulated Equity, End of Year - Return 14		686,624		672,594
Regulated Equity, Beginning of Year		672,594		644,873
Regulated Average Equity		**679,609**		**658,734**
Regulated Earnings				
Net Income - Return 1[1]		115,268		478,981
Add:				
Compliance Adjustments		-		-
Deduct:				
Non-Regulated Net Income		108,464		458,488
Hydro Regulated Earnings		6,804		20,493
Cost of Service Exclusions		7,262		7,228
Regulated Earnings		**14,066**		**27,721**
Rate of Return on Regulated Equity		**2.07%**		**4.21%**

[1] Nalcor Energy and Newfoundland and Labrador Hydro were legislatively amalgamated effective January 1, 2025. As a result, comparative figures were updated to reflect the results of the combined entity.

[2] Difference to Return 1 in prior year is due to rounding.

Newfoundland and Labrador Hydro
Regulated Capital Structure
Year Ended December 31, 2025
($000)

	2025		2024		Average	
	Amount	Percent	Amount	Percent	Amount	Percent
Hydro Regulated						
Debt - Return 15[1]	2,291,271	74.0%	2,389,959	75.3%	2,340,615	74.7%
Funded Employee Future Benefits	96,545	3.1%	94,773	3.0%	95,659	3.1%
Funded Asset Retirement Obligation	20,172	0.7%	18,141	0.6%	19,157	0.6%
Equity - Return 13	686,624	22.2%	672,594	21.2%	679,609	21.7%
	3,094,613	**100.0%**	**3,175,467**	**100.0%**	3,135,040	**100.0%**

[1] Comparative figures for Non-Regulated Debt Pool were restated to reflect a reclassification of transactions between regulated and non regulated subsequent to the completion of the 2024 Annual Return.

Newfoundland and Labrador Hydro
Cost of Debt
Year Ended December 31, 2025
($000)

	2025	2024	Average
Long-Term Debt	2,287,104	2,008,430	2,147,767
Promissory Notes	250,000	590,000	420,000
Sinking Funds	(214,027)	(211,246)	(212,637)
Total Debt	2,323,077	2,387,184	2,355,131
Non-Regulated Debt Pool[1]	(31,806)	2,775	(14,516)
Total Regulated Debt - Return 14	**2,291,271**	**2,389,959**	**2,340,615**
Current Year Interest Expense - Return 16			**100,596**
Cost of Debt			**4.30%**

[1] Comparative figures for Non-Regulated Debt Pool were restated to reflect a reclassification of transactions between regulated and non regulated subsequent to the completion of the 2024 Annual Return.

Newfoundland and Labrador Hydro
Interest Expense
Year Ended December 31, 2025
($000)

	2025	2024
Gross Interest		
Long-Term Debt	98,973	97,725
Promissory Notes and Short Term	14,147	21,181
	113,120	118,906
Amortization of Debt Discount and Financing Expenses	1,521	1,454
Provision for Foreign Exchange	2,157	2,157
Interest Earned	(18,453)	(18,992)
Debt Guarantee Fee - Hydro[1]	9,008	8,940
Other[2]	91	91
	107,444	112,556
Deduct:		
Cost of Service Exclusions[1]	(6,848)	(6,824)
Interest for Cost of Debt - Return 15	**100,596**	**105,732**
Add:		
Interest Capitalized During Construction	(3,472)	(1,952)
Interest on Supply Cost Variance Deferral Account	(12,676)	(21,008)
Interest on Lower Churchill Project Sustaining Capital IDC[3]	(6)	(183)
Interest Charged on Rate Stabilization Plan	(1,236)	(2,224)
Interest EV Deferral	(123)	-
Regulated Net Interest - Return 12	**83,083**	**80,365**
Deduct:		
Provision for Foreign Exchange	(2,157)	(2,157)
Add:		
Cost of Service Exclusions[1]	6,848	6,824
Accretion of Asset Retirement Obligations	1,081	1,024
Regulated Interest	88,855	86,056
Deduct:		
Interest on Supply Cost Variance Deferral Account	12,676	21,008
Interest on Lower Churchill Project Sustaining Capital IDC[3]	6	183
Interest Charged on Rate Stabilization Plan	1,236	2,224
Interest EV Deferral RGE	123	-
Add:		
Non-Regulated Interest[4]	(16,465)	(29,924)
Total Interest - Return 1	**86,431**	**79,547**

[1] As per Board Order No. P.U. 49(2016), Newfoundland and Labrador Hydro has excluded the disallowed portion of the Debt Guarantee Fee.

[2] Comparative figures have been reclassified for presentation purposes.

[3] Interest during construction ("IDC").

[4] Nalcor Energy and Newfoundland and Labrador Hydro were legislatively amalgamated effective January 1, 2025. As a result, comparative figures were updated to reflect the results of the combined entity.

Newfoundland and Labrador Hydro
Rate Stabilization Plan - Activity
Year Ended December 31, 2025
($000)

	Utility							Industrial					
	Load Variation	Allocation Fuel Variation	Allocation Rural Rate	Financing Charges	Adjustment [1,2]	Transfers [3]	Cumulative Net Balance	Load Variation	Allocation Fuel Variation	Financing Charges	Adjustment [4]	Transfers	Cumulative Net Balance
Opening Balance							30,588						399
January	-	-	-	136	(3,129)	-	27,594	-	-	2	(36)	-	365
February	-	-	-	122	(3,217)	-	24,500	-	-	2	(28)	-	339
March	-	-	-	109	(2,801)	6,463	28,270	-	-	2	(37)	-	304
April	-	-	-	125	(2,486)	-	25,910	-	-	1	(29)	-	277
May	-	-	-	115	(2,123)	-	23,902	-	-	1	(38)	-	240
June	-	-	-	106	(1,451)	-	22,557	-	-	1	(36)	-	205
July	-	-	-	100	(1,301)	-	21,356	-	-	1	(43)	-	163
August	-	-	-	95	(1,301)	-	20,150	-	-	1	(44)	-	120
September	-	-	-	89	(1,300)	-	18,939	-	-	1	(45)	-	75
October	-	-	-	84	(1,684)	-	17,339	-	-	0	(41)	-	34
November	-	-	-	77	(2,070)	-	15,347	-	-	0	(34)	-	0
December	-	-	-	68	(2,797)	-	12,618	-	-	0	(52)	-	(52)
Total Year-to-Date	**-**	**-**	**-**	**1,225**	**(25,659)**	**6,463**	**(17,971)**	**-**	**-**	**11**	**(462)**	**-**	**(451)**
Hydraulic Allocation							-						-
Total							**12,618**						**(52)**
							To Return 18						**To Return 18**

[1] Effective August 1, 2024, the RSP Adjustment rate is 0.461 cents per kWh as per Board Order No. P.U. 15(2024).
[2] Effective July 1, 2025, the RSP Adjustment rate is 0.413 cents per kWh as per Board Order No. P.U. 22(2025).
[3] Recovery of the 2024 Isolated Systems Supply Costs Deferral was approved in Board Order No. P.U. 13 (2025).
[4] Effective January 1, 2025, the RSP Adjustment rate is 0.093 cents per kWh as per Board Order No. P.U. 7(2025).

Newfoundland and Labrador Hydro
Rate Stabilization Plan - Balances
Year Ended December 31, 2025
($000)

	From Return 17		
	Utility Balance	**Industrial Balance**	**Cumulative Net Balance**
Opening Balance	30,588	399	30,987
January	27,594	365	27,959
February	24,500	339	24,838
March	28,270	304	28,574
April	25,910	277	26,187
May	23,902	240	24,142
June	22,557	205	22,762
July	21,356	163	21,519
August	20,150	120	20,269
September	18,939	75	19,014
October	17,339	34	17,373
November	15,347	0	15,347
December	12,618	(52)	12,566
Total Year-to-Date activity	**(17,971)**	**(451)**	**(18,422)**
Total[1]	**12,618**	**(52)**	**12,566**

[1] Numbers may not add due to rounding.

Newfoundland and Labrador Hydro
Assessable Revenue
Year Ended December 31, 2025
($000)

	2025	2024
Electricity Sales	807,961	714,220
Rate Stabilization	26,121	30,156
Conservation and Demand Management Rider	1,071	922
Supply Cost Variance Deferral Rate Rider	83,072	56,379
Energy Sales - Return 1	918,225	801,677
Other Revenue[1]	81,593	78,713
Total Revenue - Return 1	**999,818**	**880,390**
Deduct/(Add) Regulated Hydro Revenue that is Not Assessable:		
Input Tax Credits	158	146
Contributions in Aid of Construction	1,347	1,228
Rural Rate Alteration	17,410	9,727
Corner Brook Pulp and Paper Frequency Converter	229	229
Ponding Revenue	56	166
Export Revenue	95,413	33,226
Greenhouse Gas Credits	16,125	20,106
Transmission Tariff Revenue	17,976	17,978
Electrification Cost Deferral	26	26
Deduct Non-Regulated Revenue:[1]		
Legacy Recapture	5,155	4,440
Incremental Recapture	1,559	2,915
Iron Ore Company of Canada	49,138	45,044
Tacora/Wabush Mines	9,431	9,072
Non-regulated Other Revenue	26	32
Non-regulated Lease Revenue	16,869	14,601
Other Revenue	22,529	19,013
	253,447	177,949
Assessable Revenue	**746,371**	**702,441**

[1] Nalcor Energy and Newfoundland and Labrador Hydro were legislatively amalgamated effective January 1, 2025. As a result, comparative figures were updated to reflect the results of the combined entity. Accordingly, the comparative figures were updated to reflect the post-amalgamation corporate structure.

Newfoundland and Labrador Hydro
2025 Annual Report on the Rural Deficit[1]
Year Ended December 31, 2025[2]

Rural Deficit Areas	Revenues ($)	Cost of Service before Deficit and Revenue Allocation ($)	Revenue Credits ($)	Deficit[3] ($)
Island Interconnected	65,498,362	109,677,353	-	(44,178,991)
Island Isolated	1,572,522	11,668,252	-	(10,095,730)
Labrador Isolated	10,056,079	42,223,898	-	(32,167,819)
L'Anse-au-Loup	3,883,462	9,433,889	-	(5,550,426)
Total	81,010,425	173,003,392	-	(91,992,967)

Rural Deficit Areas	Number of Communities[4]	Number of Customers	Cost per kWh ($)	Deficit per Customer ($)	Cost Recovery Ratio
Island Interconnected	147	23,396	0.26	(1,888)	0.60
Island Isolated	6	636	1.98	(15,874)	0.13
Labrador Isolated	15	2,814	1.00	(11,431)	0.24
L'Anse-au-Loup	8	1,082	0.38	(5,130)	0.41
Total	**176**	**27,928**	**0.35**	**(3,294)**	**0.47**

[1] Newfoundland and Labrador Hydro ("Hydro") has not provided forecast deficit figures for 2026-2030 since there is currently no methodology approved for the allocation of rate mitigation. Forecast numbers will be provided after Hydro's next General Rate Application which will include a Cost of Service incorporating Muskrat Falls Project Costs and rate mitigation.

[2] The 2025 Rural Deficit calculation is based on proforma Cost of Service Studies.

[3] In 2025, $704.4 million in rate mitigation funding was transferred to Hydro's regulated operations; $554.4 million from Hydro's internal sources and $150.0 million related to the Government of Canada convertible debenture. As there is currently no methodology approved for allocation amongst customer classes, the Rural Deficit amounts provided have not yet been updated to reflect this reduction.

[4] Hydro's definition of Community corresponds to the "Town Code" in its customer information system. Some smaller communities may be combined if they share a single postal code.

Newfoundland and Labrador Hydro
Supply Cost Variance Deferral Account - Activity
Year Ended December 31, 2025
($000)

	Muskrat Falls Project Cost Variance ($)	Rate Mitigation Fund[2,3] ($)	Project Cost Recovery Rider: Utility[4] ($)	Project Cost Recovery Rider: Industrial[5] ($)	Holyrood TGS[6] Fuel Cost Variance ($)	Other IIS[7] Supply Cost Variance ($)	Net Revenue From Exports Variance[8,9] ($)	Transmission Tariff Revenue Variance ($)	Load Variation: Utility[10] ($)	Load Variation: Industrial ($)	Greenhouse Gas Credit Revenue Variance[11] ($)	Subtotal Monthly Variances ($)	Financing Charges[1]: Utility ($)	Financing Charges[1]: Industrial ($)	Financing Charges[1]: Other[10] ($)	Transfers ($)	Cumulative Net Balance ($)
Opening Balance	1,565,667	(575,433)	(118,120)	(3,950)	(169,460)	(74,168)	(125,975)	(44,759)	71,094	49,633	(55,600)	518,928	(6,870)	(83)	42,364	-	554,338
January	63,252	-	(7,630)	(541)	(22,982)	(2,129)	(451)	(1,498)	3,547	1,059	(78)	32,549	(325)	(11)	1,860	-	588,412
February	63,572	(441,000)	(7,843)	(411)	(15,854)	(2,836)	(347)	(1,498)	(4,783)	1,259	-	(409,740)	(346)	(12)	1,976	-	180,290
March[10]	88,848	-	(6,829)	(544)	4,903	(5,436)	(410)	(1,498)	3,730	1,062	(184)	83,643	(367)	(13)	877	-	264,428
April	63,377	-	(6,061)	(425)	2,245	(558)	(296)	(1,498)	(386)	1,365	(1)	57,763	(386)	(15)	1,128	-	322,918
May	56,707	-	(5,176)	(560)	(5,971)	(1,018)	(344)	(1,498)	(1,302)	997	(25)	41,810	(403)	(16)	1,307	-	365,616
June	65,911	-	(3,538)	(532)	(3,121)	(1,165)	(6,020)	(1,498)	1,021	994	1	52,053	(417)	(18)	1,440	-	418,675
July	64,694	-	(4,774)	(765)	102	(1,030)	(398)	(1,498)	(235)	712	(19)	56,789	(427)	(19)	1,597	-	476,615
August	57,917	(150,000)	(4,775)	(790)	42	(1,229)	(349)	(1,498)	(486)	655	0	(100,513)	(440)	(21)	1,772	-	377,413
September[11]	65,079	-	(4,773)	(808)	(2,879)	1,018	(222)	(1,498)	(11)	536	(69)	56,374	(453)	(23)	1,514	-	434,825
October	64,105	-	(6,180)	(730)	3,041	(3,725)	(105)	(1,498)	203	833	(15,751)	40,193	(466)	(26)	1,687	-	476,214
November	55,491	-	(7,597)	(597)	(2,718)	(3,014)	(182)	(1,498)	(189)	1,088	0	40,785	(483)	(28)	1,820	-	518,308
December[12]	63,715	(113,400)	(10,267)	(927)	(11,549)	(5,057)	(49,078)	(1,498)	(1,273)	340	0	(128,993)	(504)	(29)	1,958	-	390,740
Year-to-Date	**772,669**	**(704,400)**	**(75,443)**	**(7,629)**	**(54,742)**	**(26,178)**	**(58,200)**	**(17,976)**	**(163)**	**10,901**	**(16,125)**	**(177,286)**	**(5,017)**	**(232)**	**18,937**	**-**	**(163,598)**
Total	**2,338,336**	**(1,279,833)**	**(193,563)**	**(11,579)**	**(224,202)**	**(100,346)**	**(184,175)**	**(62,736)**	**70,931**	**60,534**	**(71,725)**	**341,642**	**(11,887)**	**(315)**	**61,300**	**-**	**390,740**

To Return 22

[1] Financing charges accrued at the 2024 short-term cost of borrowing of 5.03% for the period of January to November, 2025. In December, financing costs were trued-up to reflect the actual short-term cost of borrowing for 2025 of 3.35%.

[2] As per Order in Council OC2024-062 dated May 7, 2024, Newfoundland and Labrador Hydro ("Hydro") has been directed by the Government of Newfoundland and Labrador ("Government") to use its own sources of rate mitigation. Accordingly, in February 2025, Hydro was direct to transfer $441.0 million of funding to its Regulated operations. The $441.0 million includes $90.6 million of rate mitigation funding related to the retirement of the 2023 Supply Cost Variance Deferral Account of $271 million over the 2024 to 2026 period. Additionally, in December 2025, pursuant to OC2024-062 and OC2024-063, Government directed Hydro to transfer $113.4 million of rate mitigation funding to its Regulated operations through the use of its own funding.

[3] In 2022, as part of the Government's rate mitigation plan, Hydro, the Government and the Government of Canada signed term sheets enabling access, upon commissioning of the Labrador-Island Link ("LIL"), to a $1.0 billion investment by the Government of Canada in the LIL in the form of a convertible debenture. In August 2025, funding was received by LIL (2021) Limited Partnership, and transferred to Hydro for the purpose of rate mitigation, reducing the balance in the Supply Cost Variance Deferral Account.

[4] As per Order No. P.U. 22(2025), the Board of Commissioners of Public Utilities ("Board") approved a Project Cost Recovery Rider of 1.516 cents per kWh effective July 1, 2025.

[5] As per Order No. P.U. 7(2025), the Board approved a Project Cost Recovery Rider of 1.384 cents per kWh effective January 1, 2025 and, in Order No. P.U. 28(2025), the Board approved a Project Cost Recovery Rider of 1.652 cents per kWh effective July 1, 2025.

[6] Holyrood Thermal Generating Station ("Holyrood TGS").

[7] Island Interconnected System ("IIS").

[8] As per Order No. P.U. 21(2025), the Board approved the transfer of the $5,711,673 credit balance, as of December 31, 2023, in the Hydraulic Resources Optimization Deferral Account to the Net Revenue from Exports component within the Supply Cost Variance Deferral Account.

[9] In December, the account included an estimate of net export sales that occurred during 2025 but the actual settlement value will not be finalized until the first quarter of 2026.

[10] As per Order No. P.U. 1(2025), the Board approved a wholesale rate, effective as of January 1, 2025, to be charged to Utility of 9.698 cents per kWh for winter months of December to March and 3.354 cents per kWh for the non-winter months of April to November.

[11] In October 2025, Hydro sold 211,700 Greenhouse Gas Performance Credits within the province for $15.8 million.

Newfoundland and Labrador Hydro
Supply Cost Variance Deferral Account - Balances
Year Ended December 31, 2025
($000)

	From Return 21			
	Supply Cost Variance Deferral Account Balance $	Utility Balance[1] $	Industrial Balance $	Total to Date $
Opening Balance	554,338	(22,624)	-	531,714
January	588,412	(24,241)	-	564,170
February	180,290	(26,141)	-	154,149
March	264,428	(27,779)	-	236,650
April	322,918	(29,382)	-	293,535
May	365,616	(30,751)	-	334,865
June	418,675	(31,600)	-	387,075
July	476,615	(32,727)	-	443,888
August	377,413	(33,787)	-	343,626
September	434,825	(34,861)	-	399,964
October	476,214	(36,179)	-	440,034
November	518,308	(37,998)	-	480,310
December	390,740	(40,367)	-	350,374

[1] Financing charges accrued at the 2024 short-term cost of borrowing of 5.03% for the period of January to November, 2025. In December, the interest expense was trued-up for the year based on the short-term interest rate for 2025 of 3.35%.

2025 Report on the Rural Deficit

Summary of Specific Initiatives

April 30, 2026

A report to the Board of Commissioners of Public Utilities

Contents

1.0 Introduction

Newfoundland and Labrador Hydro ("Hydro") provides electrical service to approximately 27,900 customers on the Hydro Rural Interconnected System and Hydro Rural Diesel Systems. As a result of policy set out by the Government of Newfoundland and Labrador ("Government"), these customers are charged electricity rates which do not recover the full cost of providing service, resulting in an operating loss (commonly referred to as the "Rural Deficit"). Additionally, Hydro serves approximately 11,700 rural customers on the Labrador Interconnected System, whose rates recover the cost to serve as well as a contribution to funding a portion of the Rural Deficit. Approximately 96%[1] of the Rural Deficit funding is provided through the Utility Rate charged to Newfoundland Power Inc. ("Newfoundland Power"). This report provides an overview of the Rural Deficit, as well as the direct operating and capital initiatives undertaken by Hydro to manage costs associated with serving customers in rural areas, thereby mitigating the Rural Deficit.

2.0 Rural Deficit Overview

Table 1 provides the estimated annual Rural Deficit for 2021–2025, as well as year-over-year variances. The Rural Deficit for 2025 was calculated using actual revenues and expenses allocated to Hydro's Rural Deficit areas based on the 2019 Test Year Cost of Service Study allocations.

Table 1: Hydro Rural Deficit ($ Millions)[2]

	Annual Amounts					Year-Over-Year			
	2021	**2022**	**2023**	**2024**	**2025**	**22/21**	**23/22**	**24/23**	**25/24**
Revenues (A)	67.4	69.3	69.6	72.4	81.0	1.9	0.3	2.8	8.6
Costs[3]									
Operating Expenses	40.8	41.0	42.0	43.4	46.2	0.2	1.0	1.4	2.8
Fuel	19.5	34.1	38.3	32.0	32.6	14.6	4.2	(6.3)	0.6
Purchased Power	10.1	22.4	43.5	48.2	53.4	12.3	21.1	4.7	5.2
Depreciation	19.6	18.9	19.7	20.3	21.6	(0.7)	0.8	0.6	1.3
Return	25.1	24.9	23.2	21.4	19.3	(0.2)	(1.7)	(1.8)	(2.1)
Total Costs (B)	115.1	141.3	166.7	165.3	173.0	26.2	25.4	(1.4)	7.7
Rural Deficit (B-A)	**47.7**	**72.0**	**97.1**	**92.9**	**92.0**	**24.3**	**25.1**	**(4.2)**	**(0.9)**

[1] In accordance with the 2019 Test Year Cost of Service Study, allocation is 96.1% for Newfoundland Power and 3.9% for customers on the Hydro Rural Labrador Interconnected System.
[2] Numbers may not add due to rounding.
[3] Table 1 does not include the costs incurred for Electrification, Conservation and Demand Management ("ECDM") programs offered in rural communities as they are captured in Hydro's ECDM Cost Deferral Account, and the Electrification Cost Deferral Account approved in the Board of Commissioners of Public Utilities ("Board") Order Nos. P.U. 49(2016), P.U. 22(2017), P.U. 37(2022), and P.U. 33(2023).

The $92.0 million Rural Deficit in 2025 represents a decrease of approximately $0.9 million, or 1.0%, from 2024. The primary drivers of the change were as follows:

- Revenues increased by approximately $8.6 million or 11.9%, primarily due to July 1, 2025 and August 1, 2024 rate increases[4] for Island Interconnected, L'anse-au-Loup and Isolated Rural Customers;
- Power purchased costs increased by $5.2 million or 10.8%, primarily as a result of payments under the Muskrat Falls Power Purchase Agreement ("PPA") and Transmission Funding Agreement ("TFA")[5] and the Power Purchase Agreement, partially offset by a reduction in net revenues from exports; and
- Operating expenses increased by $2.8 million or 6.5%, primarily as a result of increased system equipment maintenance and professional services. Refer to Return 9 and 9(A) for further details.

One of the main drivers of the increase in the Rural Deficit since 2022 is the increase in Muskrat Falls supply costs reflected in power purchases. This additional purchased power expense is reflected in the balance of the SCVDA. To the end of 2025, $1,279.8 million has been provided for rate mitigation to offset this increase in cost:

- In 2023, $335.1 million in rate mitigation funding was received; $190.4 million[6] of which was a transfer from Government and $144.7 million related to the first drawing of the $1.0 billion investment by the Government of Canada in the Labrador-Island Link (LIL").[7]
- In 2024, $240.3 million in funding was received for rate mitigation; $90 million from internal sources and $150.3 million related to the Government of Canada convertible debenture.

[4] Rate increases were approved for August 1, 2024 in Board Order No. P.U 19(2024), and July 1, 2025 in Board Order No. P.U 24(2025). The average increase was 7.0% in 2024 and 7.0% in 2025.
[5] A portion of the Muskrat Falls Project supply costs less export and tariff revenues are allocated to the rural customers on the Island Interconnected System. The costs included do not reflect the rate mitigation funding provided to offset the balance of the Supply Cost Variance Deferral Account ("SCVDA").
[6] "Implementing Initial Steps of Rate Mitigation," Government of Newfoundland and Labrador, Industry, Energy and Technology, March 31, 2023, <https://www.gov.nl.ca/releases/2023/iet/0331n03/%3e./>.
[7] In 2022, as part of the Government's rate mitigation plan, Hydro, the Government, and the Government of Canada signed term sheets enabling access, upon commissioning of the LIL, to a $1.0 billion investment in the LIL by the Government of Canada in the form of a convertible debenture.

- In 2025, $704.4 million in funding was received for rate mitigation; $554.4 million from internal sources and $150.0 million related to the Government of Canada convertible debenture.

As there is currently no methodology approved for allocation of rate mitigation funding amongst customer classes, the annual Rural Deficit amounts provided in this report have not yet been updated to reflect these reductions. Hydro's proposed allocation for rate mitigation funding is included in its Cost of Service Methodology Application.

Chart 1 shows the annual Rural Deficit including and excluding the fuel costs, Muskrat Falls supply costs, exports, and tariff revenue.[8] With the commencement of Hydro's payments under the Muskrat Falls PPA in November 2021[9] and the TFA in April 2023,[10] the total Rural Deficit is impacted by the Muskrat Falls Project supply costs and does not reflect the rate mitigation funding provided to offset the balance of the SCVDA.

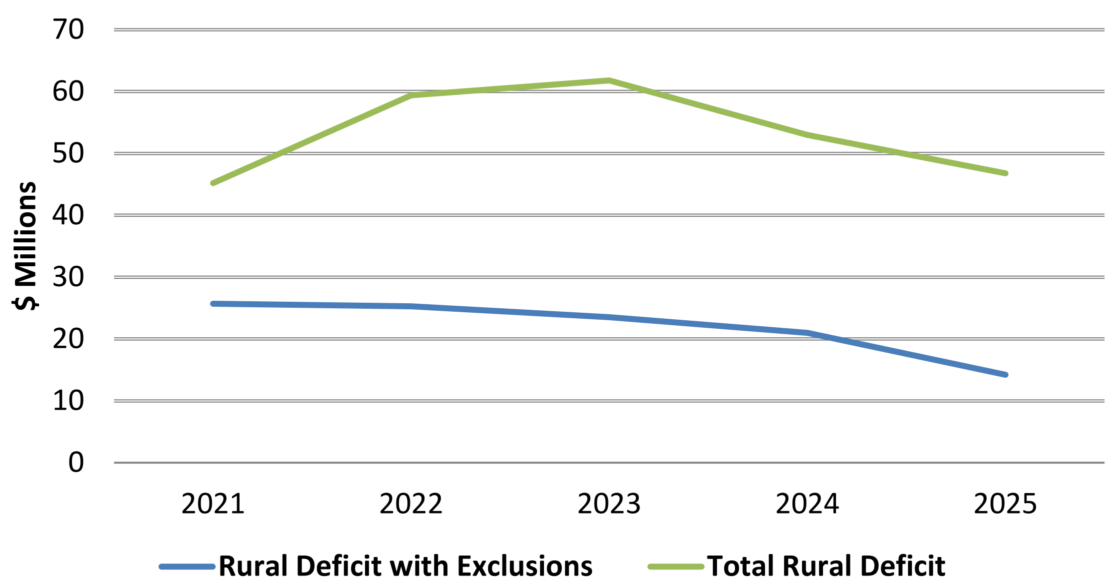

Chart 1: Five-Year Rural Deficit[11]

Chart 1 demonstrates that, excluding the cost of fuel and the Muskrat Falls supply costs, Hydro's costs associated with the Rural Deficit are typically stable.

[8] *Supra,* f.n. *6*.
[9] "Muskrat Falls Project Asset Update," Newfoundland and Labrador Hydro, November 29, 2021.
[10] "*Reliability and Resource Adequacy Study Review* – Labrador-Island Link Update," Newfoundland and Labrador Hydro, April 18, 2023.
[11] Exclusions include fuel costs, Muskrat Falls supply costs, exports, and tariff revenue.

3.0 Operating Initiatives

3.1 Internal Energy Efficiency Initiatives

Hydro continued its internal energy efficiency efforts in 2025 with programs that aim to achieve reductions in energy usage in all facilities within the areas contributing to the Rural Deficit, including diesel generating stations, offices, and line depots. Initiatives for 2025 included a LED[12] lighting upgrade for various terminal stations that yielded 259 MWh of annual energy savings. Since it began in 2008, the program has provided cumulative annual energy savings of 18,246 MWh.

In 2025, Hydro continued the following initiatives to support its management of the Rural Deficit:[13]

- Conservation and Demand Management Programs specifically designed and targeted for isolated communities;
- Capturing waste heat in several of Hydro's diesel generating stations to heat Hydro premises;
- Planning the sizes of replacement units at Hydro's diesel generating stations to optimize fuel efficiency;
- Monitoring diesel system fuel efficiency to identify poor performers so that corrective action may be taken; and
- Choosing the most fuel-efficient combination of engines, where possible,[14] to supply community loads.

3.2 Conservation and Demand Management Program Initiatives

The high cost of generation in isolated diesel communities and the increased system load in the L'Anse-au-Loup area continues to support the need for effective delivery of energy-efficiency programs in these areas. In 2012, two programs were launched to offer energy-efficiency incentives for residential and commercial customers located in Hydro's isolated diesel communities. These programs continued through 2025 and are further detailed in the sections that follow:

- The Isolated Communities Energy Efficiency Program ("ICEEP") is a program specifically targeted at residential and commercial customers in Hydro's Isolated Diesel Systems. In 2025, residential

[12] Light-emitting diode ("LED").

[13] Savings achieved through this initiative are primarily through avoided costs or productivity improvements; therefore, Hydro is not able to quantify the exact impact on the Rural Deficit.

[14] Completed automatically in some diesel generating stations.

ICEEP offerings included direct install, smart and programmable thermostat installations, shifted energy smart water heater installations, heat pump installations, and offering the federal government's Greener Homes Grant Program. Commercial offerings for ICEEP included lighting upgrades, energy audits, and piloting cost-shared commercial building upgrades. From 2012 to 2025, the program installed over 190,000 energy-efficient products in 908 business visits and over 9,000 home visits, and achieved over 14 GWh in energy savings (633 MWh[15] in 2025).

- The Isolated Systems Business Efficiency Program is a program that provides rebates and technical assistance for commercial customers in isolated diesel communities in Newfoundland and Labrador. In 2025, no energy efficiency projects were completed; however, Hydro remains engaged with commercial customers to assist with future projects, should customers want to pursue them. Since 2012, it has achieved 947 MWh of annual energy savings.

These programs continued throughout 2025 and have been further detailed in the 2025 ECDM Report.[16]

3.3 Hydro-Québec Power Purchase Agreement

Hydro has a PPA with Hydro-Québec for the L'Anse-au-Loup System which enables Hydro to purchase surplus hydroelectric energy from Hydro-Québec's Lac-Robertson Generating Station to supply Hydro's customers in the L'Anse-au-Loup area. The terms and conditions of the agreement enable Hydro to supply the majority of customer load in L'Anse-au-Loup with deliveries from Hydro-Québec at approximately 50% of the cost of diesel generation. The approximate savings in 2025 were $4.1 million.[17]

3.4 Cost Effective Renewables

Hydro is actively engaged with Indigenous groups and stakeholders, with a particular focus on communities served primarily by diesel powered generation, to foster development of cost-effective renewables. The standard model for such developments involves a third party developing and operating the renewables, with Hydro purchasing the output at a cost below that which would be incurred to generate equivalent energy in Hydro's diesel generating stations.

[15] These savings may be updated if further audit of 2025 indicates adjustments are required.
[16] Hydro's ECDM Report for the Year Ended December 31, 2025 was filed with the Board on April 10, 2026.
[17] Compared to supplying the service area with diesel generators.

3.4.1 Mary's Harbour Mini Hydro Facility

The Mary's Harbour Mini Hydro Facility began operations in September 2019. The project, owned and led by St. Mary's River Energy LP in collaboration with Hydro, combines hydro, solar, and lithium-ion battery storage to reduce the community's diesel fuel use. The photovoltaic and battery energy storage facility began operations in November 2021. Together they generated approximately 957 MWh in 2025, displacing diesel fuel generation.

3.4.2 Net Metering

Net metering initiatives are undertaken by customers, not by Hydro directly; however, there is an impact on Hydro's system as a result of net metering activity. Hydro currently has one net metering customer in an isolated diesel community under Hydro's net metering service option.[18] In 2025, this customer's net metering resulted in the displacement of approximately 35 MWh of diesel generation.

3.4.3 Solar Photovoltaic

Hydro has nine solar photovoltaic installations located in Hopedale, Rigolet, Nain, Postville, St. Lewis, Port Hope Simpson, Cartwright, and Black Tickle. The Cartwright project was put into service in 2025. These power purchase agreements enable Hydro to supply electricity to customers in isolated communities at a lower cost than diesel generation while also reducing environmental impacts, in accordance with Hydro's mandate. The projects resulted in the displacement of approximately 149 MWh of diesel generation in 2025. Hydro continues to work with renewable energy developers to enable further renewable energy integration and anticipates additional projects to be developed in the coming year.

The combined impact of all cost effective renewables and the Hydro-Québec power purchase contract to serve the L'Anse-au-Loup System is a gross isolated generation mix that was one third renewable in 2025.

3.5 Other Cost Management Initiatives

During 2025, Hydro continued to manage its operating costs in an effort to minimize its impact on the Rural Deficit. Examples of such initiatives are as follows:

[18] The customer is located in Makkovik, Labrador and has a 48 kW solar energy generator.

- Utilizing cost-effective commercial air flights during regular work hours, where practical, rather than helicopter use;
- Having running maintenance (e.g., oil changes) completed by diesel system representatives rather than deploying maintenance crews to diesel communities;
- Participating in the North American Off-Grid Utilities Association to work with other utilities with diesel generating stations for comparison of operating procedures and new technology to enhance efficiency in operations and maintenance; and
- Focusing on identifying planning and scheduling efficiencies, including a significant coordination effort to ensure that delays and duplicate asset outages are minimized.

4.0 Capital Initiatives

4.1 Replace Metering System

In Board Order No. P.U. 37(2021), as part of its 2022 Capital Budget Application ("CBA"), Hydro received approval for replacement of approximately 31,000[19] manually-read meters and TS1 AMI[20] meters. Completion of this project is projected to result in annual Rural Deficit savings when compared to continuing with manually-read meters. At the end of 2025, Hydro had installed all of the new meters. Hardware and software for this project have been received and installed for use by meter readers. Training with users has been completed and full implementation of meters was completed in the fourth quarter of 2025.[21]

4.2 Diesel Asset Management Strategy

Hydro has continued to evolve its asset management strategy, resulting in Isolated System cost savings. Hydro has changed its approach to its diesel unit overhauls for 1,200 RPM units,[22] running the units for 30,000 hours between overhauls and replacing them at 120,000 hours instead of 100,000 hours, thereby extending the useful life of the units.

[19] 28,056 energy-only meters and 3,131 demand and energy meters.
[20] Automated Metering Infrastructure ("AMI").
[21] Meter replacements did not include those in Harbour Breton and Happy Valley, as meters in these areas were PLX models and not included in the 2022 Capital Budget Application. Meters in Harbour Breton and Happy Valley have since been planned for replacement as part of Hydro's Purchase Meters and Metering Equipment program over the period 2026 to 2028. In Board Order No. P.U. 2(2026), Hydro received approval of its 2026 CBA, to replace PLX meters, as these are being phased out, and no longer available. All meters must be replaced by 2028 to maintain compliance with Measurement Canada requirements.
[22] Hydro has eight 1,200 RPM units.

Hydro has also continued to replace engines rather than overhaul them when it is cost effective to do so and when engines are available. As prices fluctuate from year-to-year, this approach will continue to be evaluated on a case-by-case basis to ensure that Hydro is availing of the least-cost alternative in the provision of reliable service. On a case-by-case basis, Hydro has also considered completion of unit overhauls based on condition versus hours alone. In certain circumstances, where a replacement engine has been sourced to minimize risks associated with failure, this practice can extend the life of the unit and result in significant cost savings.

4.3 Diesel Unit Sizes

In response to increasing loads in certain isolated diesel communities, Hydro has been replacing some of its 1,800 RPM diesel units with larger, slower turning 1,200 RPM units. This has resulted in lower operating costs in isolated systems as a result of material reductions in labour costs and travel associated with corrective maintenance,[23] as well as increased reliability.

4.4 LED Street Lights

The Nain LED Street Light Pilot Project,[24] implemented in 2015, provided direct cost savings as a result of the displacement of fuel costs. As a result, Hydro converted the street lights in the community of Ramea to LED street lights in 2018 and submitted a two-year capital proposal in its 2019 CBA to convert street lights to LED in the remaining diesel systems. The proposal was approved and execution began in 2019 with the conversion of street lights in the community of Cartwright. In 2020, all remaining isolated Labrador communities' street lights were converted to LED.

This project produces annual energy savings of approximately 120 MWh. LED street lights are also expected to contribute to lower operating and maintenance costs than HPS street lights due to the elimination of relamping requirements and longer life.

Hydro submitted a capital proposal in its 2021 Capital Budget Application to replace all HPS street lights by 2026 for both the Island and Labrador. In 2025, 838 HPS street lights were replaced, resulting in

[23] Savings achieved through this initiative are primarily through avoided costs or productivity improvements; therefore, Hydro is not able to quantify the exact impact on the Rural Deficit.

[24] Hydro initiated a pilot LED street light replacement project for the Town of Nain with a total of 125 high-pressure sodium ("HPS") street light fixtures replaced with LED street light fixtures. The street light retrofit yields savings of approximately 45 MWh annually, which offsets approximately 12,000 litres of fuel consumption.

approximate annual savings of 239 MWh. Since the beginning of the LED program, 6,387 streetlights were replaced, resulting in cumulative savings of approximately 1,864 in MWh.

4.5 Diesel Generating Station Communication Upgrades

In 2022, Hydro completed an upgrade to the communications technology at Cartwright Diesel Generating Station through a conversion from service provided over copper cable-based Digital Subscriber Line ("DSL") to a fibre-optic based Ethernet service. The copper-based service provided very low bandwidth which was also shared with other users in the community; as a result, it provided poor performance and was prone to network congestion-related outages. The fiber-optic based Ethernet service provides approximately 20 times more bandwidth which is also dedicated to Hydro. As a result, more bandwidth-intensive applications can be used at the diesel generating stations, such as secure remote access to equipment which allows operations personnel to provide support and troubleshooting remotely, instead of travelling to the site. Further, the upgraded communications with diesel generating stations will improve the ability to monitor diesel generating stations loads and may provide opportunities to implement demand management initiatives in diesel areas that can contribute to deferral of capacity additions on isolated diesel systems.

Additional conversions to fibre-optic technology were completed at St. Lewis and Hopedale Diesel Generating Stations in 2023. In 2024, the DSL at Port Hope Simpson was replaced with fiber-optic service. Also, Geostationary Earth Orbit (GET) satellite connectivity was replaced with Low Earth Orbit satellite connectivity (Starlink) at Norman Bay, Black Tickle and Paradise River. These additional upgrades further enhanced communication at the diesel generating stations. These improvements in technology allow Hydro to increase its operations oversight without incurring additional costs associated with travel to and from site, and enable further realization of cost reductions via remote connectivity.

In 2025, Hydro continued to enhance communications and network infrastructure across its diesel plant operations through a series of targeted technology upgrades. Legacy DSL services at the Natuashish, Grey River, and François Diesel Plants were replaced with Low Earth Orbit satellite connectivity (Starlink), while cellular service at McCallum Diesel Plant was similarly upgraded to Starlink. These improvements provide more reliable, higher-bandwidth connectivity to support operational monitoring and remote access capabilities in previously constrained locations.

In addition, CCTV cameras were installed at the Nain and L'Anse-au-Loup Diesel Plants, strengthening site oversight and improving Hydro's ability to monitor plant operations remotely. Administrative network evergreening[25] was also completed at Mary’s Harbour, Nain, and Natuashish, ensuring continued reliability, security, and performance of site network infrastructure. Collectively, these 2025 upgrades further improve operational visibility, reduce dependence on site travel, and support ongoing efficiencies through enhanced remote connectivity across Hydro’s diesel systems.

5.0 Conclusion

Hydro continues to pursue initiatives and activities to reduce the Rural Deficit, including cost reduction and energy conservation initiatives. Management of the Rural Deficit is challenging as it is primarily a result of government policy initiatives; this includes energy pricing in some diesel areas that is lower than the energy pricing on the Island Interconnected System (i.e., as a result of the Northern Strategic Plan Billing Credit provided in Labrador diesel communities). These pricing signals can promote load growth and result in higher fuel usage and capacity requirements that can lead to additional capital investments and higher cost to provide service.

Prior to 2021, variability in the Rural Deficit over recent years has primarily been the result of changes in fuel cost. Since 2021, in addition to fuel cost changes, the Rural Deficit has increased further as a result of Hydro’s commencement of payments under the Muskrat Falls PPA and TFA in November 2021 and April 2023, respectively. This additional purchased power expense is reflected in the balance of the SCVDA. In 2025, a total of approximately $704.4 million of funding has been provided for the purpose of rate mitigation, reducing the balance due from customers in the SCVDA. As there is currently no methodology approved for allocation amongst customer classes, the Rural Deficit amounts provided in this report have not yet been updated to reflect this reduction. Hydro’s costs, excluding supply cost variability, have been relatively stable over the period 2021–2025 demonstrating Hydro’s ongoing effort to limit growth in the Rural Deficit.

[25] Evergreening refers to the asset management strategy of replacing network assets as they reach the end of their service lives, on a gradual or incremental basis (as opposed to a break/fix or all at once approach).

2025 Management Discussion & Analysis

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MANAGEMENT DISCUSSION & ANALYSIS

This Management Discussion and Analysis (MD&A) should be read in conjunction with the annual audited consolidated financial statements (financial statements) of Newfoundland and Labrador Hydro (Hydro) for the year ended December 31, 2025, and the annual audited consolidated financial statements (annual financial statements) and MD&A (annual MD&A) of Nalcor Energy (Nalcor) for the year ended December 31, 2024. Effective January 1, 2025, Newfoundland and Labrador Hydro and Nalcor Energy were legislatively amalgamated into a new corporation that continues under the name "Newfoundland and Labrador Hydro". 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 December 31, 2025, with subsequent events and outlook information updated to March 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 March 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.

OUR COMPANY

The Newfoundland and Labrador Hydro Group of Companies (the Company or 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. In our time serving the people of our province, we've seen a world of change, including the focus on creating a safe and sustainable environment. We deliver more than 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 experienced variability in earnings as a result of the commissioning of the Lower Churchill Project (LCP) assets and the implementation of rate mitigation strategies also impact financial results. Profitability is also impacted by oil price and sales volumes, along with electricity export price and volumes.

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

MANAGEMENT DISCUSSION & ANALYSIS

AT A GLANCE

	Three months ended		Twelve months ended	
For the periods ended December 31 (millions of Canadian dollars)	**2025**	2024	**2025**	2024
Profit	**53**	143	**115**	479
Operating profit[1]	**40**	147	**135**	499
Revenue	**402**	388	**1,477**	1,417
Operating costs	**92**	91	**356**	366
Cash (used in) provided from operations	**(93)**	(114)	**372**	260
Capital expenditures	**152**	126	**487**	372
Electricity sales (GWh)	**9,155**	9,527	**35,150**	40,090
Oil sales volume (thousands of bbls)	**736**	642	**3,235**	2,261
Realized oil price (CAD/bbl)	**88**	101	**95**	106

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

Profit

Hydro's profit for the year ended December 31, 2025 was $115 million, a decrease of $364 million compared to the same period in 2024. The primary driver of the reduced profit is due to higher planned rate mitigation expense in 2025, as well as variances in the volumes of energy deliveries related to a short-term energy sales contract with Hydro-Québec ("HQ"). The decrease in net income was partially offset by an increase in regulatory deferrals and higher export electricity prices.

Hydro's profit for the three months ended December 31, 2025 was $53 million, a decrease of $90 million compared to the same period in 2024. The decrease was driven by higher rate mitigation expense in Q4 2025 in line with the Province's Rate Mitigation Plan.

RECENT DEVELOPMENTS

HYDRO REGULATED

Rate Mitigation, the Recovery of LCP Costs

The Province's Rate Mitigation 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 $271.3 million over the 2024–2026 period.

Throughout 2025, Hydro applied a total of $704.4 million of rate mitigation funding against the Supply Cost Variance Deferral Account ("the Deferral Account") in accordance with the Province's Rate Mitigation Plan (2024 - $240.3 million); $554.4 million of which was from Hydro's internal funds, and $150 million of which was received by Hydro from the Government of Canada convertible debenture established for that purpose.

As of December 31, 2025 the total balance in the Deferral Account is $350.4 million (2024 - $531.7 million) which includes $90 million of the remaining 2023 ending balance.

MANAGEMENT DISCUSSION & ANALYSIS

Customer Rate Changes

The Public Utilities Board ("PUB") approved Hydro Regulated's utility rate increase to Newfoundland Power and its Rural Rates application resulting in a utility rate increase of 3.3% which resulted in a retail rate impact of approximately 2.25% to domestic consumers effective July 1, 2025 in line with the Province's Rate Mitigation Plan. The July 1, 2025 increase to Hydro Regulated's rural customer rates mirrors Newfoundland Power's PUB approved rate increase to customers of 7.0%, which includes the 2.25% associated with Hydro's costs.

The PUB also approved Hydro Regulated's application for Island Industrial Customer Rate Adjustments effective July 1, 2025 resulting in a 3.3% overall rate increase in accordance with the Province's Rate Mitigation Plan.

As is normal process on an annual basis, rates to recover the generation costs from Labrador Industrial customers were updated using a formula-based methodology that has been in effect since 2015. Effective January 1, 2026, the customer rate impact was an increase of approximately 4.4%.

General Rate Application (GRA) – 2026

Hydro Regulated anticipates filing its next GRA by April 2026, The GRA will allow for the transparent exploration of Hydro's operating costs, reinforce operation in line with good utility practice and have a long-term view to sustainability of electricity rates. Island customer rates are expected to follow the Province's Rate Mitigation Plan.

Hydro is progressing the necessary work required and promoting regulatory efficiency by actively working to reduce the scope of the GRA, including the advance filing of its Cost of Service Methodology in August 2025 and other relevant applications. Hydro has received feedback on its proposed Cost of Service Methodology settlement agreement and is negotiating with intervenors in an effort to align on key issues and settle as much as possible in advance of its GRA filing.

2025 Capital Budget and Supplemental Applications

During 2025, Hydro continued 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.

In March 2025, Hydro Regulated filed its 2025 Build Application that included proposals for a budget totaling $1.97 billion for Bay d'Espoir Unit 8 and the Avalon Combustion Turbine (the "Avalon CT"). These two system additions are in line with Hydro's Expansion Plan, as recommended in its 2024 Reliability and Resource Adequacy ("RRA") Plan filed with the PUB. In February 2026, the PUB's consultant issued its final report and a schedule for the proceeding is expected to follow in the coming weeks. Hydro Regulated continues to provide additional information, studies and clarification of evidence as requested by the PUB, and its expert consultant.

In April 2025, Hydro filed, and the PUB approved a $47 million Early Execution budget associated with the Build Application to ensure that the projects continue to advance at the pace needed to have the assets in service, when needed, in 2030/2031. As a result of the regulatory proceeding on the 2025 Build Application extending into 2026, Hydro filed a $35 million Additional Early Execution Application on December 12, 2025 for approval of an increase in scope, schedule and cost for Additional Early Execution activities, bringing the total budget of all early execution scope to $82 million, to enable project continuity through the second quarter of 2026. The regulatory proceeding for this application is ongoing with settlement discussions for the Avalon CT portion of the application scheduled for February 2026 and a schedule for Bay d'Espoir Unit 8 portion of the application expected to follow in the coming weeks.

On December 19, 2025, Hydro also provided an update on the cost of the Combustion Turbine package for the Avalon CT which had increased from initial estimates as a result of market conditions. Hydro is confident that the Avalon CT and Bay d'Espoir Unit 8 remain the least-cost, reliable and environmentally responsible supply solutions for customers.

MANAGEMENT DISCUSSION & ANALYSIS

On June 20, 2025, Hydro Regulated submitted a supplemental capital application for the Life Extension of Bay d'Espoir Unit 7, proposing an authorized budget of $85.0 million with planned completion in 2028, and has responded to requests from the PUB for additional information. Hydro is awaiting next steps from the PUB.

In March 2025, after a lengthy regulatory proceeding, the PUB declined Hydro Regulated's application for the Southern Labrador supply plan budgeted at $110.9 million. Hydro believes that it provided substantial and sufficient evidence to demonstrate that its application met its mandate under the amended Public Utilities Act and the Electrical Power Control Act, 1994 and filed an appeal of the PUB's decision with the Provincial Court of Appeal in April 2025. In addition, Hydro Regulated submitted a request for reconsideration to the PUB, noting the conclusions upon which the PUB's decision was made were based on certain factual inaccuracies and misinterpretations of the evidence presented, however the PUB denied the request for reconsideration. Hydro Regulated's appeal to the Provincial Court of Appeal is ongoing. 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. This work is underway and is intended to supplement the information Hydro Regulated has previously developed for its application.

Hydro Regulated's annual 2026 Capital Budget Application was filed on July 15, 2025. This application excludes supplemental capital expenditures as well as Major Projects exceeding $50 million that are noted above. Two-thirds of the budget is dedicated to the renewal of aging infrastructure, and aligns with Hydro's ongoing commitment to ensuring the reliability of the system at least-cost. On January 30, 2026 the PUB issued its order approving $130.3 million of capital expenditures.

LOWER CHURCHILL

Since commissioning in April 2023, the LIL has been in service and successfully providing power to both the provincial grid and Nova Scotia. In 2025, the LIL demonstrated reliable performance with an Equivalent Forced Outage Rate (EqFOR) of 0.96% (based on a power transfer limit of 700 MW imposed by the system operator), an improvement over the EqFOR of 3.37% in 2024 and well within Hydro's expected reliability range for early operation of the LIL, which is between 1% to 10%.

The LIL typically transfers power up to its current operating limit of 700 MW. During the January 2026 system emergency, special permission was granted to operate above 700 MW, and there were instances where it operated up to 785 MW.

Although LIL software functionality required for operation up to 900 MW was proven prior to commissioning in April 2023. Hydro committed to completing controlled high-power testing when system conditions allow. The purpose of this test is to ensure that all systems and equipment function as designed when the LIL is operating at full power. The test will be performed in a planned and controlled manner, providing assurance that we can operate reliably in an unplanned outage situation. This testing is dependent on multiple system conditions being met across this province and in neighbouring jurisdictions. Hydro is continuing its efforts to complete testing in the coming weeks.

The Muskrat Falls plant has also continued to perform better than the Canadian average, ending 2025 with a 1.35% forced unavailability compared against a Canadian average of 5.27% unavailability.

MANAGEMENT DISCUSSION & ANALYSIS

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			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2025**	2024	Variance	**2025**	2024	Variance
Revenue	**402**	388	14	**1,477**	1,417	60
Fuels	**64**	62	2	**171**	169	2
Power purchased	**36**	31	5	**107**	111	(4)
Operating costs	**92**	91	1	**356**	366	(10)
Production, marketing and transportation costs	**9**	11	(2)	**31**	39	(8)
Transmission rental	**6**	6	-	**25**	32	(7)
Depreciation, depletion, amortization and impairment	**92**	122	(30)	**438**	423	15
Net finance expense	**107**	95	12	**417**	367	50
Rate mitigation expense	**113**	-	113	**704**	240	464
Other expense	**26**	14	12	**48**	27	21
Loss for the period before regulatory adjustments	**(143)**	(44)	(99)	**(820)**	(357)	(463)
Regulatory adjustments	**(196)**	(187)	(9)	**(935)**	(836)	(99)
Profit for the period	**53**	143	(90)	**115**	479	(364)

Non-GAAP Operating Profit Disclosure

Reconciliation of the Company's profit to operating profit for the three months and year ended December 31, 2025 and 2024 is as follows:

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2025**	2024	Variance	**2025**	2024	Variance
Profit for the period	**53**	143	(90)	**115**	479	(364)
Net impairment (reversal) expense	**(13)**	4	(17)	**20**	20	-
Operating profit for the period	**40**	147	(107)	**135**	499	(364)

Revenue

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2025**	2024	Variance	**2025**	2024	Variance
Electricity sales	**326**	303	23	**1,190**	1,134	56
Petroleum and natural gas sales, net of royalty expense	**50**	51	(1)	**230**	215	15
Other revenue	**26**	34	(8)	**57**	68	(11)
Total revenue	**402**	388	14	**1,477**	1,417	60

Electricity sales

Electricity sales for the three months ended December 31, 2025 were $326 million, an increase of $23 million compared to the same period in 2024. Electricity sales for the year ended December 31, 2025 were $1,190 million, an increase of $56 million compared to the same period in 2024. The increases were primarily due to higher export prices and higher revenue

MANAGEMENT DISCUSSION & ANALYSIS

from regulated customers. The increases were partially offset by timing of energy deliveries related to a short-term energy contract with HQ. Certain variances in revenue are offset in the regulatory adjustments line.

Electricity sales volume is summarized in the table below:

	Three months ended		**Twelve months ended**	
For the periods ended December 31 (GWh)	**2025**	2024	**2025**	2024
Regulated	**2,052**	1,963	**7,529**	7,286
Hydro-Québec	**5,888**	6,171	**22,226**	27,063
Emera - NS Block	**374**	478	**1,226**	1,486
Other export	**404**	412	**2,330**	2,391
Other domestic	**437**	503	**1,839**	1,864
	9,155	9,527	**35,150**	40,090

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

	Three months ended		**Twelve months ended**	
For the periods ended December 31	**2025**	2024	**2025**	2024
Average Export Electricity Price (USD/MWh)[1]	**75**	49	**57**	36
Realized Export Electricity Price (USD/MWh)[2]	**75**	49	**57**	36
Realized Export Electricity Price (CAD/MWh)[3]	**104**	69	**80**	49

[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 months and year ended December 31, 2025 were higher compared to the same periods in 2024 as a result of reduced Canadian hydro energy supply, rising natural gas prices and colder winter temperatures.

Petroleum and natural gas sales, net of royalty expense

Petroleum and natural gas sales, net of royalty expense for the three months ended December 31, 2025 were comparable to the same period in 2024. Petroleum and natural gas sales, net of royalty expense for the year ended December 31, 2025 was $230 million, an increase of $15 million compared to the same period in 2024. The increase in revenue, net of royalties, is primarily due to higher volumes sold for Hebron and Hibernia South Extension (HSE) offset by reduced oil prices.

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

	Three months ended		**Twelve months ended**	
For the periods ended December 31	**2025**	2024	**2025**	2024
Average Dated Brent Price (USD/bbl)[1]	**63**	73	**68**	78
Realized Price (CAD/bbl)[2]	**88**	101	**95**	106
Oil Sales Volume (thousands of bbls)	**736**	642	**3,235**	2,261

[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 impact of foreign exchange hedges.

Other revenue

Other revenue for the three months ended December 31, 2025 was $26 million, a decrease of $8 million compared to the same period in 2024. Other revenue for the year ended December 31, 2025 was $57 million, a decrease of $11 million compared to the same period in 2024. The decrease was driven by reduced sales of renewable energy credits.

MANAGEMENT DISCUSSION & ANALYSIS

Fuels
Fuel costs for the three months and year ended December 31, 2025 were comparable to the same periods in 2024.

Power purchased
Power Purchased for the three months and year ended December 31, 2025 was comparable to the same periods in 2024.

Operating costs

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2025**	2024	Variance	**2025**	2024	Variance
Salaries and benefits	**47**	40	7	**182**	168	14
Maintenance and materials	**21**	20	1	**86**	85	1
Professional services	**14**	21	(7)	**49**	46	3
Impacts and Benefits agreement and amendment	**4**	3	1	**14**	35	(21)
Insurance	**3**	3	-	**14**	15	(1)
Travel and transportation	**3**	3	-	**10**	11	(1)
Other operating costs	**-**	1	(1)	**1**	6	(5)
Total operating costs	**92**	91	1	**356**	366	(10)

Operating costs for the three months ended December 31, 2025 were comparable to the same period in 2024. Operating costs for the year ended December 31, 2025 were $356 million, a decrease of $10 million compared to the same period in 2024. The decrease was primarily due to an amendment to the Impacts and Benefits Agreement with Innu Nation in 2024 resulting in a retroactive payment, partially offset by higher salaries and benefits costs.

Production, marketing and transportation costs
Production, marketing and transportation costs for the three months and year ended December 31, 2025 were comparable to the same periods in 2024.

Transmission rental
Transmission rental for the three months and year ended December 31, 2025 was comparable to the same periods in 2024.

Depreciation, depletion, amortization and impairment
Depreciation, depletion, amortization and impairment for the three months ended December 31, 2025 was $92 million, a decrease of $30 million compared to same period in 2024. The decrease for the quarter was due to variations in oil and gas impairment and reversals related to White Rose. Depreciation, depletion, amortization and impairment for the year ended December 31, 2025 was $438 million, an increase of $15 million compared to the same period in 2024. The increase was due to higher depletion expense as a result of increased oil and gas production.

Rate mitigation expense
Rate mitigation for the three months ended December 31, 2025 was $113 million, an increase of $113 million compared to the same period in 2024. Rate mitigation for the year ended December 31, 2025 was $704 million, an increase of $464 million compared to the same period in 2024. The increase was mainly due to variations in the timing and amount of government directed rate mitigation.

Net finance expense
Net finance expense for the three months ended December 31, 2025 was $107 million, an increase of $12 million compared to the same period in 2024. Net finance expense for the year ended December 31, 2025 was $417 million, an increase of $50 million compared to the same period in 2024. The increase was primarily due to lower interest income due to reduced interest rates and an increase in Class B partnership units due to KKR's increased ownership buy-in in the LIL, in 2024, in line with the Newfoundland & Labrador Development Agreement.

MANAGEMENT DISCUSSION & ANALYSIS

Other expense

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2025**	2024	Variance	**2025**	2024	Variance
Loss on disposal of assets	**14**	7	7	**19**	21	(2)
Rental and royalty	**6**	5	1	**19**	21	(2)
HSE Redetermination adjustment	**-**	-	-	**-**	(23)	23
Other	**6**	2	4	**10**	8	2
Total other expense	**26**	14	12	**48**	27	21

Other expense for the three months ended December 31, 2025 was $26 million, an increase of $12 million compared to the same period in 2024. The increase for the quarter was primarily caused by higher loss on disposal of assets in Hydro Regulated related to overhauls and refurbishments. This variance is offset through regulatory mechanisms in the regulatory adjustments line. Other expense for the year ended December 31, 2025 was $48 million, an increase of $21 million compared to the same period in 2024. The increase for the year ended was due to the settlement of the HSE Redetermination in Q2 2024.

Regulatory adjustments

Regulatory recoveries for the three months ended December 31, 2025 were comparable to the same period in 2024. Regulatory recoveries for the year ended December 31, 2025 were $935 million, an increase of $99 million compared to the same period in 2024. The increases were due to higher deferrals related to increased power purchase costs under the Muskrat Falls PPA (MF PPA) partially offset by higher cost recovery riders.

MANAGEMENT DISCUSSION & ANALYSIS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION HIGHLIGHTS

Significant changes in the Consolidated Statement of Financial Position between December 31, 2025 and December 31, 2024 include:

ASSETS *(millions of Canadian dollars)*	Increase (Decrease)	**Explanation**
Cash and cash equivalents	(110)	See Liquidity and Capital Resources for additional details on movement in cash during the period ended December 31, 2025.
Short-term investments	99	Increase is due to reclassification of sinking funds related to debt maturing in one year.
Property, plant and equipment	49	Increase due to capital additions in Hydro Regulated and Churchill Falls.
Investments	(140)	Decrease is primarily due to reclassification of sinking funds related to debt which matures within one year and maturity of Muskrat Falls deposit notes.
Regulatory assets, net of regulatory liabilities	230	Increase mainly 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	(340)	Decrease is due to repayment of short-term borrowings by Hydro Regulated during the period, facilitated largely by the application of rate mitigation funding. The balance of short term-borrowings will fluctuate depending on the timing of cash inflows and outflows.
Trade and other payables	44	Increase due to capital accruals related to increased capital spend and variances in HST payables due to higher utility and industrial sales.
Deferred Credits	(34)	Decrease is primarily due to revenue recognized relating to delivery of the NS block partially offset by additions related to Menihek and Maritime Link.
Current portion of long-term debt	226	Increase is due to debt maturing within one year.
Long-term debt	150	Increase due to drawing of federal convertible debt for rate mitigation.
Retained earnings	115	Increase due to profit recorded for the year.

MANAGEMENT DISCUSSION & ANALYSIS

SEGMENTED RESULTS

The following presents an overview of the Company's profit or loss for the three months and year ended December 31, 2025, by operating segment, in comparison to the three months and year ended December 31, 2024. This discussion should be read in conjunction with Note 34 of the consolidated financial statements.

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2025**	2024	Variance	**2025**	2024	Variance
Hydro Regulated	**(11)**	(4)	(7)	**7**	20	(13)
Muskrat Falls	**57**	46	11	**359**	239	120
LC Transmission	**52**	57	(5)	**212**	222	(10)
Churchill Falls	**16**	19	(3)	**51**	56	(5)
Energy Trading	**22**	18	4	**82**	50	32
Other Electric	**(118)**	(4)	(114)	**(693)**	(225)	(468)
Oil and Gas	**36**	11	25	**98**	116	(18)
Inter-segment	**(1)**	-	(1)	**(1)**	1	(2)
Profit for the period	**53**	143	(90)	**115**	479	(364)

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 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			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2025**	2024	Variance	**2025**	2024	Variance
Revenue	**238**	216	22	**895**	785	110
Expenses	**445**	407	38	**1,824**	1,602	222
Loss for the period before regulatory adjustments	**(207)**	(191)	(16)	**(929)**	(817)	(112)
Regulatory adjustments	**(196)**	(187)	(9)	**(936)**	(837)	(99)
(Loss) profit for the period	**(11)**	(4)	(7)	**7**	20	(13)

Hydro Regulated's loss for the three months ended December 31, 2025 was $11 million, which was comparable to the same period in 2024. The profit for the year ended December 31, 2025 was $7 million, which was $13 million lower than the same period in 2024. The decrease was due to higher operating costs, higher depreciation expense due to growth in asset base, and lower interest recoveries.

MANAGEMENT DISCUSSION & ANALYSIS

Regulated energy sales and supply are summarized below:

For the periods ended December 31 (GWh)	Three months ended **2025**	Three months ended 2024	Twelve months ended **2025**	Twelve months ended 2024
Customer Energy Sales:				
Utility	**1,586**	1,512	**5,829**	5,702
Rural	**328**	327	**1,193**	1,135
Industrial	**138**	124	**507**	449
Energy Sales	**2,052**	1,963	**7,529**	7,286
Generation:				
Hydraulic generation[1]	**905**	984	**4,160**	4,401
Holyrood generation	**290**	282	**728**	666
Standby generation[2]	**-**	(3)	**1**	(1)
Thermal diesel generation	**12**	14	**50**	50
Purchases:				
Domestic[3]	**461**	492	**1,768**	1,822
Off-Island[4]	**517**	278	**1,299**	745
Gross generation	**2,185**	2,047	**8,006**	7,683
Losses	**133**	84	**477**	397
Net generation	**2,052**	1,963	**7,529**	7,286

[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 December 31, 2025 was $57 million, an increase of $11 million compared to the same period in 2024. Profit for the year ended December 31, 2025 was $359 million, an increase of $120 million compared to the same period in 2024. The increase is due to higher energy sales revenue from Hydro Regulated under the MF PPA mainly due to the higher volume of accumulated deferred energy recognized in 2025.

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. 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 months and year ended December 31, 2025 was comparable to the same period in 2024.

MANAGEMENT DISCUSSION & ANALYSIS

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 and year ended December 31, 2025 was comparable to the same periods in 2024.

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.

Profit for the three months ended December 31, 2025 was comparable to the same period in 2024. Profit for the year ended December 31, 2025 was $82 million, an increase of $32 million compared to the same period in 2024. The increase was primarily due to higher market prices in the northeastern United States as a result of reduced Canadian hydro energy supply, rising natural gas prices and colder winter temperatures.

OTHER ELECTRIC

Other Electric includes non-cash revenues and expenditures associated with the delivery of the NS Block energy to Emera, 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 loss for the three months ended December 31, 2025 was $118 million, an increased loss of $114 million compared to the same period in 2024. Other Electric's loss for the year ended December 31, 2025 was $693 million, an increased loss of $468 million compared to the same period in 2024. The variance for both the quarter and the year is attributable to higher rate mitigation expenses incurred in line with the Province's Rate Mitigation Plan.

MANAGEMENT DISCUSSION & ANALYSIS

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 has a joint arrangement working interest 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 also 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 months and year ended December 31, 2025 and 2024 is as follows:

	Three months ended			**Twelve months ended**		
For the periods ended December 31 (millions of Canadian dollars)	**2025**	2024	Variance	**2025**	2024	Variance
Profit for the period	**36**	11	25	**98**	116	(18)
Net impairment (reversal) expense	**(13)**	4	(17)	**20**	20	-
Operating profit for the period	**23**	15	8	**118**	136	(18)

Oil and Gas's profit for the three months ended December 31, 2025 was $36 million, an increase of $25 million compared to the same period in 2024. The increase was primarily due to variations in oil and gas impairment and reversals related to White Rose. The profit for the year ended December 31, 2025 was $98 million, a decrease of $18 million compared to the same period in 2024. The decrease was driven by settlement of the HSE redetermination in the prior year partially offset by the net impact of increased oil production.

Reserves

Oil and Gas contracts independent reserve evaluators to prepare reports on remaining oil reserves related to its working interest in offshore developments. Gross reserves represent Oil and Gas' working interest in remaining reserves, while net reserves represent remaining reserves less royalties. Remaining reserve data for both proved and probable reserves to be recovered as at December 31, 2025 with 2024 comparatives are summarized in the table below:

	2025 Light and Medium Oil		2024 Light and Medium Oil	
As at December 31 (thousands of bbls)	**Gross**	**Net**	Gross	Net
Developed[1]	**11,224**	**8,227**	11,266	8,121
Undeveloped[2]	**6,897**	**5,343**	11,140	8,176
Total Proved[3]	**18,121**	**13,570**	22,406	16,297
Probable[4]	**22,307**	**16,448**	21,558	15,607
Total Proved Plus Probable	**40,428**	**30,018**	43,964	31,904

[1]Barrels that are expected to be produced from existing wells and installed facilities.

[2]Barrels that are expected to be produced from known accumulations of oil and gas, requiring additional wells or infrastructure in order to extract.

[3]Barrels that can be estimated with a high degree of certainty to be recoverable.

[4]Barrels that are less certain to be recovered than proved reserves.

MANAGEMENT DISCUSSION & ANALYSIS

LIQUIDITY AND CAPITAL RESOURCES

CASH FLOW HIGHLIGHTS

For the period ended December 31 (millions of Canadian dollars)	Twelve months ended **2025**	2024	Variance	**Explanation**
Cash and cash equivalents, beginning of the year	**1,164**	694	470	
Net cash provided from operating activities	**372**	260	112	Increase was driven by higher energy sales in Hydro Regulated and Energy Marketing.
Net cash used in investing activities	**(432)**	(329)	(103)	Increase driven by planned increases in capital additions in Hydro Regulated and Churchill Falls.
Net cash (used in) provided from financing activities	**(50)**	539	(589)	Decrease due to rate mitigation funding from internal sources used to repay short-term borrowings.
Cash and cash equivalents, end of the year	**1,054**	1,164	(110)	

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 $1.0 billion and total borrowings to $3.2 billion (excluding CF and LCP entities). Commencing January 1, 2026, the short-term borrowing limit reduced to $800 million.

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). The Company has the available capital resources to sufficiently fund these requirements.

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.

MANAGEMENT DISCUSSION & ANALYSIS

As at December 31, 2025, 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**	**-**	**6**	**734**
Demand Operating Facilities:				
Churchill Falls	**10**	**-**	**2**	**8**
Energy Trading	**20**	**-**	**4**	**16**
Oil and Gas	**40**	**-**	**17**	**23**
Promissory Notes:				
Hydro Regulated	**300**	**250**	**-**	**50**
Total credit facilities[2]	**1,110**	**250**	**29**	**831**

[1]On July 31, 2025, the maturity of these credit facilities was extended to July 31, 2026.

[2] Per Provincial Legislation, Hydro's outstanding short term credit balance, excluding CF and LCP entities, may not exceed $800 million at any time as of January 1st, 2026.

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)	**December 31 2025**	December 31 2024
Short-term borrowings	**250**	590
Long-term debt (net of sinking funds)[1]	**11,097**	10,724
Class B limited partnership units[1]	**968**	980
Lease liabilities[1]	**5**	5
Total debt	**12,320**	12,299
Total shareholder's equity	**8,062**	7,938
Debt to capital	**60%**	61%

[1]Includes current portion.

CAPITAL EXPENDITURES

	Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2025**	2024	Variance
Hydro Regulated	**247**	163	84
Muskrat Falls	**3**	3	-
LC Transmission	**23**	30	(7)
Churchill Falls	**91**	58	33
Other Electric	**37**	26	11
Oil and Gas	**86**	92	(6)
Total capital expenditures	**487**	372	115

Capital expenditures for the year ended December 31, 2025 were $487 million, an increase of $115 million compared to the same period in 2024. The increase was primarily due to additions in Hydro Regulated and Churchill Falls. The increase in Hydro Regulated relates to the PUB approved refurbishment of Hydro Regulated's Bay d'Espoir Penstock #1, as well as early works for the planned system expansion in Bay d'Espoir and the Avalon CT. The increase in Churchill Falls relates to planned upgrades to existing assets.

MANAGEMENT DISCUSSION & ANALYSIS

KEY BUSINESS RISKS

Top risks are managed through Hydro's Enterprise Risk Management Framework which employs Risk Working Groups and Management Risk Committees that identify and assess top risks and develop and implement mitigations to reduce residual risks to an acceptable level. These top risks are reported semi-annually to the Governance Committee of the Board of Directors.

The following information describes the top risks inherent to the Company's activities. This section does not describe all applicable risks and is intended to be a summary of risks that could materially affect the business, results of operations and financial position or cash flows. Other risks may arise or risks not currently considered material may become material in the future. Certain risks could result in material impacts on the results of operations and financial position or cashflows of the Company.

Strategic Risks

Evolution of the Energy Industry and System Expansion

Hydro continues to plan and forecast for load growth driven by increasing customer demand. Changes in provincial economic forecasts, federal and provincial energy policy, customer usage patterns (including demand management) and industrial developments can be expected to impact how energy is utilized in the province and beyond.

A strategic priority for Hydro is to advance its Reliability and Resource Adequacy (RRA) study which aims to provide an in-depth analysis of how much electricity our customers will need over the next ten years and the best resource options to satisfy those growing needs. Hydro continues to advance studies and analysis of all viable supply options that can be used to serve this increased customer demand through the PUB. In 2025, Hydro submitted 'New Build' Applications for both Bay d'Espoir 8 ("BDE8") and the Avalon CT to the PUB with an anticipated total spend of $1.97 billion. These projects will increase capacity, peaking generation and specifically BDE8 will add operational flexibility to aid long-term maintenance. These files continue to be advanced with the PUB.

As Hydro continues to analyze and meet the future needs of the province, we will ensure that customers, Indigenous Peoples, communities, industry, the PUB, Intervenors, and Government will continually be engaged to ensure we can positively contribute to the sustainable, economically bright future of Newfoundland and Labrador.

Human Resource Management

Hydro's future success is linked to its ability to grow and adapt in response to the rapidly evolving energy landscape, including decarbonization, electrification, and new infrastructure and operational requirements. Delivering on Hydro's corporate priorities depends on a workforce that is appropriately sized, skilled, and engaged. The ability to attract, develop, and retain qualified employees—while managing retirements, voluntary turnover, and emerging skill requirements—represents a key human resource management risk. Hydro relies on workforce planning to anticipate future talent and capability needs, align staffing with long-term system and asset plans, and ensure continuity in critical roles. Effective attraction and retention of employees in a highly competitive labour market is essential to maintaining safe, reliable, and cost-conscious electricity service while advancing sustainable energy opportunities for the people of Newfoundland and Labrador. Hydro is managing its overall workforce cognizant of the balance of labour costs with prudent utility oversight and management.

Adaptation to Climate Change

The future effects of climate change globally and locally create risk for the organization. The province is experiencing increased dry and hot weather resulting in wildfires, changing precipitation patterns that impact hydrology, and changes in ice loading and patterns impacting transmission lines and generation facilities. Inadequate preparation for the effects of climate change could potentially expose the organization to safety, environmental, financial and reliability risks through major impacts to our assets and infrastructure.

Climate change mitigation and adaptation priorities help us proactively prepare. Our mitigation efforts are reflected in the priorities of our corporate strategic plan. Hydro is focusing its adaptation priorities through the development of a Climate Change Adaptation Plan. This framework will define Hydro's approach to mitigate its risk to climate change. Hydro continues to monitor environmental research available on vulnerabilities and proactively set mitigating measures in place to address climate change.

Sustainability of Electricity Rates

In 2024, the Province announced the finalization of the Rate Mitigation Plan with Hydro, resulting in mitigated rates. The plan came into effect on July 1, 2024, and will ensure domestic residential rate increases attributable to Hydro's costs, including the Muskrat Falls Project, are targeted at 2.25% annually, until 2030. Future investment in electricity system generation has potential to impact customer rates and is being managed through a transparent RRA process with the PUB.

Hydro plans to file its next GRA in 2026. While rates have been set for Hydro's regulated operations through 2030, the GRA allows for transparent exploration of Hydro's operating costs, ensuring Hydro operates in line with good utility practice and has a long-term view to sustainability of electricity rates.

Operational Risks

Safety & Health

Hydro's operations have material inherent safety risks and regulatory and legislative requirements. In particular, with respect to the provincial Occupational Health and Safety Act and Regulations, which have potential associated fines and penalties for non-compliance. Notably within utility operations, this includes risks related to working around energized equipment and operating dams and dykes. There are additional unique hazards associated with certain facilities such as the underground powerhouse at Churchill Falls, the thermal generating station at Holyrood and worksites related to various capital projects. Based on the industry and the nature of work performed, there are many hazards and risks that could result in serious injury or death to employees, contractors or members of the public. The Company has implemented a safety management system that is based on ISO 45001 Occupational Health and Safety.

Cyber Security Risk

The Company develops, maintains and manages complex Information Technology ("IT") systems that support critical business processes and Operational Technology ("OT") systems that operate the transmission grid and generation facilities. Key systems are subject to cyber security threats, which could lead to loss of data or system availability resulting in: financial loss, impacted service levels, reputational damage, physical or psychological distress or trauma, legal action, delays in issuing accurate internal or external reporting, including information required to maintain contractual and regulatory compliance or delays in issuing vendor payments, processing payroll, or providing customer billings. Disruptions in service for any reason could result in the loss of control of physical assets where critical systems that generate, monitor, maintain and transmit power to the power grid are affected. This may result in additional impacts such as unplanned power outages, damage to physical assets and the inability to meet contracts. It could create unsafe working conditions in plants that cannot be safely controlled or shutdown, which could result in loss of life.

The Company has been and continues to be diligent in advancing cyber security programs and investing in the following areas: network segmentation between Admin and OT environments; network access controls; intrusion detection; incident response; penetration testing; software patching; backups; and training and awareness.

MANAGEMENT DISCUSSION & ANALYSIS

Supply Chain

Supply chain globally has been impacted by lack of raw materials, work force capacity, logistical issues, rising costs and longer shipping and delivery times. Canada-US government relations, geo-political and macroeconomic events may also have a material impact on supply chains.

Hydro is communicating with suppliers and sharing information with the business as global supply chains continue to be subject to volatility. Hydro has taken a number of mitigating measures including, proactively engaging suppliers on delays, budgeting for inflationary pressures and working to enable effective and timely execution of projects.

Asset Condition & Maintenance

Hydro's operations are subject to risks inherent to operating generation and transmission assets. As assets approach the end of their service lives they become more costly to maintain and less reliable. Hydro maintains long-term asset management plans as well as integrated annual work plans that consolidate and monitor the activities within operating, capital, winter readiness and preventative and corrective maintenance programs. Utility assets are maintained and replaced in a manner that accounts for the age of the infrastructure and for the extreme weather conditions that are inherent to our climate.

The Company maintains a comprehensive corporate insurance program, typical for companies operating in similar industries. Insurance is subject to coverage limits and exclusions, as well as, time-sensitive claims discovery and reporting provisions, and may not be available for all of the risks and hazards to which the Company is exposed. In addition, no certainty can be given that insurance will adequately cover all of the Company's liabilities or will be generally available in the future, or if available, that premiums will be commercially justifiable.

Regulatory Risk

Hydro Regulated is subject to the normal uncertainties facing entities that operate under cost-of-service rate regulation, including approvals of regulatory applications and customer rates by the PUB. Hydro Regulated is entitled to recover prudently incurred costs of providing electrical service, including a fair rate of return. Hydro Regulated's capital budget is approved by the PUB in advance of executing its capital program; however, there is a delay in recovering the associated costs until the capital investments are reflected in rates resulting from a GRA.

There is no assurance that Hydro Regulated will receive approval of regulatory applications for deferral or recovery of costs from customers in advance of incurring those costs. There is also no assurance that rate orders issued by the PUB will result in Hydro Regulated recovering all costs incurred in providing electricity service.

Hydro Regulated works to provide timely, complete and justified filings and adopts a collaborative approach to regulatory matters including technical conferences and settlement negotiations, where appropriate. Management is also focused on ensuring that operational plans are achieved and Hydro Regulated complies with its regulatory obligations.

Financial Risks

Commodity Price and Foreign Exchange

Commodity price risk arises wherever a change in the market price for a particular commodity would cause a corresponding change to expected profit, cash flow and/or the fair value of assets or liabilities. Foreign exchange rate risk arises when a financial transaction is denominated in a currency other than the Company's base currency, the Canadian dollar. The Company's primary exposure to commodity price and foreign exchange risk is through the sale of crude oil, electricity exports and the purchase of No. 6 fuel for Hydro Regulated's generation facilities, all of which are transacted in U.S. Dollars.

MANAGEMENT DISCUSSION & ANALYSIS

The market price for electricity exports is impacted by a number of factors including emerging technologies, seasonality and changes in weather patterns and fluctuations in supply and demand. The market price for oil is also impacted by a number of factors such as supply and demand, geopolitical events, and severe weather.

Hydro's exposure to commodity price and foreign exchange fluctuations in the purchase of No. 6 fuel is mitigated by regulatory mechanisms that transfer the impact of commodity price risk and foreign exchange to customers. While regulatory mechanisms mitigate the impact of commodity price and foreign exchange volatility on profit, risk remains on the timing of cash flows, which is managed by ensuring sufficient short-term liquidity is available to address capital requirements.

There is potential for risk as geopolitical challenges evolve between Canada and the U.S. which may result in negative impacts to the utility industry. Hydro continues to work with the Province, industry peers and internally to understand these risks and develop potential risk treatments, and will continue to do so as the political landscape evolves.

Liquidity

Liquidity risk is the risk that Hydro will not be able to meet its financial obligations as they become due. The Company is exposed to liquidity risk with respect to its short-term contractual obligations and financial liabilities. Short-term liquidity is provided by cash and cash equivalents, funds from operations and maintenance of borrowing facilities sufficient to cover both anticipated and unexpected fluctuations within operations. Cash flows are monitored continuously, and the Company maintains committed revolving term credit facilities, demand operating credit facilities and a government guaranteed promissory note program to ensure additional liquidity is available. Short-term and total borrowings are restricted by legislated caps.

Hydro Regulated addresses longer-term capital funding through a process whereby the Province issues debt specifically on Hydro's behalf and lends the proceeds to Hydro on a cost recovery basis. The funding obligations associated with a portion of Hydro Regulated's long-term debt are managed through a sinking fund investment program.

Continued long-term liquidity depends on access to capital markets through the Province and on the Province's ability to provide loans or equity contributions, if required. Diminished liquidity may result in constraints on executing capital plans and carrying out planned investments and cash flow shortages could adversely affect the Company's ability to operate.

MANAGEMENT DISCUSSION & ANALYSIS

MATERIAL ACCOUNTING POLICIES AND SIGNIFICANT JUDGMENTS AND ESTIMATES

The Company's material accounting policies are described in Note 2 of the financial statements.

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*[1]
- *Amendments to IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosure - Contracts Referencing Nature-dependent Electricity*[1]
- *IFRS 18 – Presentation and Disclosures in Financial Statements*[2]

[1] Effective for annual periods beginning on or after January 1, 2026, with earlier application permitted.
[2] Effective for annual periods beginning on or after January 1, 2027, with earlier application permitted.

Further information on the impact of current and future changes in accounting policies is disclosed in Note 4 to the financial statements.

SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

Preparing the financial statements in accordance with IFRS® Accounting Standards requires management to make significant accounting judgments and estimates that impact reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amount of revenues and expenses during the reporting periods. Significant accounting judgments and estimates are based on historical experience, current conditions and various other assumptions believed to be reasonable under the circumstances. Due to changes in facts and circumstances, and the inherent uncertainty involved in making estimates, actual results may differ materially from current estimates. The estimates used are reviewed on an on-going basis by Management and, as adjustments become necessary, are recognized in profit or loss in the period in which they become known. A summary of the Company's significant accounting judgments and estimates are described in Note 3 of the financial statements.

RELATED PARTY TRANSACTIONS

The Company enters into various transactions with its shareholder and other related parties. Refer to Note 31 in the 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.

MANAGEMENT DISCUSSION & ANALYSIS

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.

Affidavit

IN THE MATTER OF the *Public Utilities Act*, ("*Act*"), and

IN THE MATTER OF Newfoundland and Labrador Hydro's Annual Return for 2025 filed in pursuant to Section 59(2) of the *Act*.

AFFIDAVIT

I, Lisa Hutchens, Vice President, Chief Financial Officer, of St. John's in the province of Newfoundland and Labrador, make oath and say as follows:

1) I am the Vice President, Chief Financial Officer, for Newfoundland and Labrador Hydro, and as such I either have personal knowledge of, or I have been so informed and verily believe, the matters and things contained within the Newfoundland and Labrador Hydro 2025 Annual Return.

2) I have read the contents of the 2025 Annual Return and they are true to the best of my knowledge, information, and belief.

SWORN at St. John's in the province of Newfoundland and Labrador this 30th day of April 2026, before me:

Michelle Compton

Commissioner for Oaths, Newfoundland and Labrador

Lisa Hutchens, Vice President, Chief Financial Officer, CPA

MICHELLE COMPTON
A Commissioner for Oaths in and for the Province of Newfoundland and Labrador
My commission expires on December 31, 2029