Newfoundland and Labrador Hydro and Nalcor Energy

Transparency and Accountability

2024 Annual Performance Report

June 2025

Message from the Board of Directors

Honourable Steve Crocker
Minister of Industry, Energy and Technology
Government of Newfoundland and Labrador
P.O. Box 8700
St. John's, NL A1B 4J6

Dear Minister Crocker:

In accordance with the **Hydro Corporation Act, 2024** and the **Transparency and Accountability Act**, I am pleased to provide the 2024 Annual Report for Newfoundland and Labrador Hydro (Hydro). Effective January 1, 2025, Hydro and Nalcor Energy (Nalcor) were amalgamated and continued as a corporation under the name "Newfoundland and Labrador Hydro".

The previously submitted 2023-2025 Strategic Plan for Hydro and Nalcor are in line with the applicable strategic directions of the Province in relation to the energy sector, as communicated by the Minister of Industry, Energy and Technology.

This report presents performance results and accomplishments for the 2024 calendar year for both Hydro and Nalcor and is the second year under the 2023-2025 Strategic Plan.

As the Board of Directors for Hydro, we are accountable for the preparation of this report and are accountable for the results.

John Green, K.C.
Chair, Board of Directors of
Newfoundland and Labrador
Hydro

Message from the Chair, and CEO

Dear Newfoundlanders and Labradorians,

We have never been more proud to deliver an annual report. This past year was transformational and memorable. It was a year that will be defined by smart, customer-focused resource planning, the resilience of our beloved company Town of Churchill Falls, and by an announcement that changes the course of the history of our province and sets the path for a more prosperous future for Newfoundland and Labrador.

That's where we'll begin. On December 12, we were truly honoured to join the Premiers of Newfoundland and Labrador and Québec, our respective Ministers as well as Grand Chief Pokue of Innu Nation, to announce a deal that will unlock more value from the Churchill River and course correct a decades old, unbalanced energy deal – the 1969 Churchill River Contract. The new Power Purchase Agreement, combined with the new developments that are part of the deal, represent more money, more jobs, and more energy for Newfoundlanders and Labradorians. Newfoundland and Labrador Hydro (Hydro) was humbled and proud to have a key seat at that negotiating table.

Our team has also been busy planning for the continued reliability of the province's electricity system. The need for reliable electricity is only growing. Across the Island, throughout Labrador, and even beyond our provincial borders, people need electricity they can count on. Last July, we delivered our 2024 Resource Adequacy Plan to the Newfoundland and Labrador Board of Commissioners of Public Utilities. It was an evidence-based plan to power the province—focused on meeting forecasted growth for the Island and maintaining reliability for Island customers at the least cost for our customers and which included exciting new electricity projects for the Island.

We are also thinking about growth in Labrador. In Labrador West, development is currently limited by a near capacity transmission system, which restricts the amount of available hydro electricity that can be delivered to the region. Last fall, we announced a study of transmission in the region—a step towards eliminating those constraints while also helping increase reliability in the region and supporting industrial development and decarbonization.

Together with the Government of Newfoundland and Labrador (Government), we finalized the Muskrat Falls Rate Mitigation Plan. Hydro's annual rate increase is now limited to 2.25 per cent up to and including 2030 for domestic residential rates, preventing rates from otherwise doubling. By foregoing financial dividends to Government, Hydro will use internally generated funds to pay the costs of supply from Muskrat Falls. Hydro finished the year in a strong financial position, with a net income of $479 million. This strong financial position enabled us to use internal funds to support the provincial Rate Mitigation Plan. As a Crown corporation, our financial strength will continue to provide value for customers and for Government.

As we reflect on 2024, there is an event that truly defines our culture and embodies our company values, and that is how this organization came together to support the people of Churchill Falls. Safety. Community. Commitment. Collaboration. Forward-thinking. These values were on full display last summer while forest fires threatened not only our world-class facility, but also the close-knit community of Churchill Falls. We are incredibly proud of our response and thankful for the support received from across the province and beyond.

Every day, we are proud of the incredible accomplishments made possible by the work of an even more incredible team. As we venture into 2025, with the expertise of the Hydro team and support from our Board of Directors and Government, we will continue to apply lessons learned from the past, listen to the people of Newfoundland and Labrador, and keep our customers top of mind.

We also remember our former Board of Directors Chair, Mr. Albert Williams, who passed last fall. Mr. Williams was a highly valued part of the Hydro team and a kindred spirit to all those working towards a bright future for our industry and province. We offer our condolences to his family, friends and colleagues; he will be missed.

Our vision for a clean energy future can only be achieved through collaboration and bringing together diverse perspectives. As we look for new ways to meet the future needs of our system, we will keep working to positively contribute to a sustainable, economically bright future for Newfoundland and Labrador.

We are committed to the significant work ahead in 2025 and look forward to delivering even more value as your Crown utility.

The future is bright.

John Green, K.C.
Chair, Board of Directors of
Newfoundland and Labrador
Hydro

Jennifer Williams
President and CEO
Newfoundland and Labrador
Hydro

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1.0 OVERVIEW

As of December 31, 2024, Newfoundland and Labrador Hydro (Hydro) and Nalcor Energy (Nalcor) were Crown Corporations that existed as Category 1 public bodies. As of January 1, 2025, Hydro and Nalcor were amalgamated and continued as a corporation under the name Newfoundland and Labrador Hydro. Hydro is required to submit three-year strategic plans in accordance with the **Transparency and Accountability Act** and to provide annual performance reports in accordance with this act, and the **Hydro Corporation Act, 2024**. This 2024 Annual Report is provided on behalf of Hydro and covers the pre-amalgamation Hydro and Nalcor entities during the 2024 year.

1.1 Mandates

The mandates of both Hydro and Nalcor are established in legislation. They render the organization responsible for the provision of electricity within Newfoundland and Labrador, and the development of provincial energy resources in a manner that supports the economic prosperity of Newfoundland and Labrador. The specific mandates for each entity in 2024 are further described in the sections that follow.[1]

1.1.1 Newfoundland and Labrador Hydro

The **Hydro Corporation Act, 2007**[2] mandates Hydro to be responsible for:

- Developing and purchasing power on an economic and efficient basis;
- Engaging within the province and elsewhere in the development, generation, production, transmission, distribution, delivery, supply, sale, purchase and use of power from water, steam, gas, coal, oil, wind, hydrogen and other products used or useful in the production of power; and
- Supplying power, at rates consistent with sound financial administration, for domestic, commercial, industrial or other uses in the province and, subject to the prior approval of the Lieutenant-Governor in Council, outside of the province.

The corporation may also engage in activities that the Lieutenant-Governor in Council approves.[3]

[1] On December 4, 2024, the **Hydro Corporate Act, 2024** received royal assent to repeal the **Energy Corporation Act** and the **Hydro Corporation Act, 2007**, and legislatively amalgamate and continue Newfoundland and Labrador Hydro and Nalcor Energy as a corporation under the name Newfoundland and Labrador Hydro, with an effective date of January 1, 2025.
[2] **Hydro Corporation Act, 2007**, Section 5(1).
[3] **Hydro Corporation Act, 2007**, Section 5(2).

1.1.2 Nalcor Energy

Nalcor's mandate, established under the **Energy Corporation Act**,[4] is to invest in, engage in and carry out activities in all areas of the energy sector in the province and elsewhere, in accordance with the priorities of the Government of Newfoundland and Labrador, including:

- Developing, generating, producing, transmitting, distributing, delivering, supplying, selling, exporting, purchasing and using power from wind, water, steam, gas, coal, oil, hydrogen or other products used or useful in the production of power;
- Exploring for, developing, producing, refining, marketing and transporting hydrocarbons and products from hydrocarbons;
- Manufacturing, producing, distributing and selling energy related products and services; and
- Research and development.

The corporation may also engage in activities that the Lieutenant-Governor in Council approves.[5]

1.2 Legal Structure

The Organization's legal structure at December 31, 2024[6] included the entities listed in Table 1.

[4] **Energy Corporation Act**, Section 5(1).
[5] **Energy Corporation Act**, Section 5(2).
[6] Nalcor Energy and Newfoundland and Labrador Hydro were legislatively amalgamated and continued as a corporation under the name Newfoundland and Labrador Hydro effective January 1, 2025.

Table 1: Legal Structure

Entity Name	Description of Interest
Newfoundland and Labrador Hydro	Wholly-owned subsidiary
Nalcor Energy – Oil and Gas Inc.[7]	Wholly-owned subsidiary
Nalcor Energy Marketing Corporation	Wholly-owned subsidiary
Muskrat Falls Corporation	Wholly-owned subsidiary
Labrador Transmission Corporation	Wholly-owned subsidiary
Labrador-Island Link Holding Corporation (LIL Holdco)	Wholly-owned subsidiary of LIL (2021) Limited Partnership
Labrador-Island Link Limited Partnership	Limited partnership in which Nalcor, through LIL Holdco, owns 100 per cent of the Class A Limited Units and Class C Limited Units and, through LIL GP, the GP Unit
Labrador-Island Link General Partner Corporation (LIL GP)	Wholly-owned subsidiary
Labrador-Island Link Operating Corporation	Wholly-owned subsidiary
Lower Churchill Management Corporation	Wholly-owned subsidiary
Churchill Falls (Labrador) Corporation Limited (CF(L)Co)	65.8 per cent owned joint operation of Hydro
Gull Island Power Company Limited	Wholly-owned subsidiary (inactive)
Lower Churchill Development Corporation	51 per cent owned subsidiary of Hydro (inactive)
Labrador-Island Link General Partner (2021) Corporation (LIL (2021) GP)	Wholly-owned subsidiary
Labrador-Island Link Holding (2021) Corporation (LIL (2021) Holdco)	Wholly-owned subsidiary
LIL (2021) Limited Partnership	Limited partnership in which Nalcor, through LIL (2021) Holdco, owns 100 per cent of the Class A Limited Units and, through LIL (2021) GP, owns 100 per cent of the GP Unit

[7] In 2019, a stand-alone Crown Corporation (i.e., The Oil and Gas Corporation of Newfoundland and Labrador (OilCo)) was established to work directly with the Department of Industry, Energy and Technology to accelerate growth opportunities in the petroleum industry. Nalcor Energy – Oil and Gas Inc. continues to hold ownership of existing equity interests and has transitioned to a supporting role in the management of these assets. OilCo is a Category 1 entity under the **Transparency and Accountability Act**, and is responsible for preparing strategic plans and annual reports.

1.3 Lines of Business

The Organization[8] is the primary generator of electricity in Newfoundland and Labrador, operating 13 hydroelectric plants, one oil-fired plant, four gas/combustion turbines, and 23 remote diesel plants. Hydro also operates the Exploits hydroelectric plants on behalf of the provincial government and have entered into a number of power purchase agreements with non-utility generators to supplement our own generating capacity.

The Organization is comprised of both regulated and non-regulated operations and includes generation, transmission and distribution assets, as well as support services. The regulated portion of the Organization is primarily responsible for the provision of safe, reliable, least-cost, environmentally responsible electricity supply for domestic residential, commercial, and industrial needs. This portion of the Organization is regulated by the Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB) and its electricity rates are set through periodic general rate applications.[9]

The non-regulated portion of the business is responsible for the operation and development of other provincial energy resources. This includes the Lower Churchill assets,[10] CF(L)Co,[11] the Menihek Generating Station and the Maritime Link.[12] The non-regulated portion of the business is also responsible for Nalcor's interest in the Province's oil and gas developments[13] and the energy trading activities undertaken by Nalcor Energy Marketing.

The Organization is supported by a common set of corporate services. Costs associated with these services are proportionally shared between the regulated and non-regulated components of the business (e.g., finance and accounting, corporate planning and reporting, etc.).

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[8] Encompasses Newfoundland and Labrador Hydro and Nalcor in 2024.
[9] Energy sales to industrial customers in Labrador are non-regulated. Such rates are set in accordance with the Labrador Industrial Rates Policy.
[10] Includes 824 megawatts (MW) hydroelectric generating facility, Labrador Transmission Assets and LIL.
[11] Churchill Falls is one of the largest underground hydroelectric powerhouses in the world, with a rated capacity of 5,428 MW. The majority of electricity produced by the Churchill Falls Generating Station is sold to Hydro-Québec under a long-term contract; however, CF(L)Co sells 225 MW to Hydro for use in Labrador West and 300 MW of energy for use in the province. Any surplus recapture energy (i.e., energy that is surplus to Newfoundland and Labrador's needs) which is not used by Hydro is made available to Nalcor Energy Marketing for export.
[12] The Maritime Link is owned by NSP Maritime Link Inc., a wholly-owned subsidiary of Emera Newfoundland & Labrador Holdings Inc. and an affiliate of Nova Scotia Power.
[13] Nalcor Oil and Gas is an equity partner in three offshore fields: White Rose, Hibernia Southern Extension and Hebron. OilCo was created by legislation to accelerate growth opportunities in the petroleum industry and manages these interests on behalf of Nalcor Oil and Gas.

See Appendix A for Generation and Transmission Maps, and Appendix B for an overview of Lines of Business.

1.4 Number of Employees and Physical Location

The Organization's headquarters is located in St. John's, Newfoundland and Labrador. Appendix C provides an overview of the Organization's energy portfolio with assets located throughout the province.

At December 31, 2024, the Organization had 1,535 employees,[14] 63 per cent of whom were located in rural parts of the island and Labrador. In 2024, the gender composition of the Organization's employee group was 72 per cent male and 28 per cent female. Table 2 provides an overview of the composition of the Organization's employees at December 31, 2024.

Table 2: 2024 Employee Composition by Gender and Location

Gender	Rural	Urban	Total	Per cent
Female	171	258	**429**	**28**
Male	799	307	**1106**	**72**
Total	**970**	**565**	**1535**	
Per cent	**63**	**37**		

The Organization is executing multi-year plans to support diversity and inclusion. In addition to target setting for gender representation, the Organization continues to pursue diversity and inclusion strategies to attract, recruit, develop and retain members of designated groups including Indigenous peoples, persons with disabilities and members of visible minorities. The Organization has also reviewed its recruitment and talent management processes through a diversity and inclusion lens. Such efforts have contributed to an increase in the Organization's percentage of female employees from 22 per cent in 2011, to 28 per cent in 2024.

1.5 Boards of Directors

As Hydro and Nalcor remained separate legal entities at year-end, each entity had a separate Board of Directors. The Boards of Directors are accountable to provide oversight to the Organization's policies, plans, performance, risks, and ensuring consistency with the Organization's mandates. Members of the Hydro and Nalcor Boards of Directors are appointed by Government upon recommendation by the Independent Appointments

[14] Number of employees refers to how many individual people were employed at Hydro at December 31, 2024. Number of employees differs from Full Time Equivalents. Hydro had 1,514 Full Time Equivalents in 2024.

Commission, which is an independent body established by the Province to provide merit-based recommendations for appointments. While two separate Boards of Directors existed to support the legal entity requirements of Hydro and Nalcor, both Boards of Directors worked jointly to provide oversight of the entire Organization. The composition of the Hydro and Nalcor Boards of Directors as of December 31, 2024 was as shown in Table 3.[15,16]

Table 3: Board Members as of December 31, 2024

Hydro	Nalcor
John Green, K.C., Chair[17]	John Green, K.C., Acting Chair
Geoff Goodyear	David Oake
Bob Barnes	Debbie Molloy
Brian Walsh	Derek Purchase
Chris Loomis	Dr. Edna Turpin
David Oake	Geoff Goodyear
Debbie Molloy	Jack Hillyard
Donna Brewer	Jennifer Williams
Dr. Edna Turpin	Mark MacLeod
Jennifer Williams	
Jim Haynes	
John Mallam	
Trina Troke	

1.6 2024 Revenues and Expenses

1.6.1 Newfoundland and Labrador Hydro

In 2024, Hydro had consolidated profit of $479 million. Nalcor and Hydro were legislatively amalgamated into a new corporation that will continue under the name “Newfoundland and Labrador Hydro”. This amalgamation was effective January 1, 2025. As a result, the December 31, 2024 consolidated financial statements for both Hydro and Nalcor are provided as Appendix D and E, respectively, to this report. Hydro’s December 31, 2024 Management Discussion and Analysis, provided as Appendix F to this report, provides information surrounding its revenues and expenses, consolidated and segmented financial results, liquidity and capital resources and key business risks.

[15] https://www.exec-abc.gov.nl.ca/public/agency/detail/?id=711&

[16] Hydro and Nalcor were legislatively amalgamated effective January 1, 2025. Thus, as of that date, the Hydro Board of Directors solely provided sole oversight, and the Nalcor Board ceased.

[17] John Green, K.C. was appointed as Acting Chair of the Hydro and Nalcor Boards of Directors on June 22, 2023, and was appointed Chair of the Hydro Board of Directors on December 20, 2024.

2.0 HIGHLIGHTS AND PARTNERSHIPS

The Organization works with a variety of agencies, departments and commissions to execute its mandates. During 2024, the Organization worked closely with each of the entities identified in support of the strategic directions of the Province related to the energy sector.

2.1 Department of Industry, Energy and Technology

The Organization worked with the Department of Industry, Energy and Technology (IET) to support policy-related considerations for the energy sector, as well as specific corporate strategic issues outlined in the Organization's strategic plan.

In 2024, the Organization continued to work with the Province on implementation of the Province's Renewable Energy Plan.[18] Hydro supported the advancement of a number of actions outlined in the plan, including: increasing the electrification of fossil-fuel powered vehicles and space heating; expanding the province's electric vehicle (EV) fast-charger network; evaluation of new renewable energy projects; seeking opportunities to support the renewable energy priorities of Indigenous Governments and Organizations; and exploring federal investment opportunities to enhance the provincial electrical system. As a result of these efforts, in 2024, there was record usage at Hydro's EV Fast-Charging Network, with over 118,100 sessions providing 476 megawatt hours (MWh) of energy, which is enough electricity for an average EV to drive more than 2.3 million kilometres.

Hydro also worked with IET in a number of areas, including: identifying opportunities to increase the efficiency of the province's electricity system to maximize the use and benefit renewable energy; and to encourage renewable energy integration in isolated diesel systems. On behalf of the Province, the Organization also delivered rebates to residential customers in isolated diesel systems in Labrador through a monthly credit on their electricity bills. Hydro also provided expertise on electricity rate matters including updates on the implementation of the Network Additions Policy.

2.2 Department of Finance and Treasury Board

The Organization worked with the Department of Finance and Treasury Board to inform Government's annual budgetary process, as well as to engage on various files, including rate mitigation.

[18] Maximizing our Renewable Energy Future - https://www.gov.nl.ca/iet/files/Renewable-Energy-Plan-Final.pdf

2.3 Newfoundland and Labrador Board of Commissioners of Public Utilities

The PUB is responsible for regulatory oversight of Hydro's regulated utility activities and where its non-regulated activities impact regulated operations. This responsibility covers a wide range of activities including approval of: revenue requirements and the allocation of the revenue requirements among customer classes; rates; open access transmission tariffs and policies; rate structures; collection policies; policies on customer contribution requirements for the provision of service; long-term debt financing; system planning criteria; capital expenditures including electricity system additions; and capital budget application guidelines. The role of the PUB is detailed in the **Public Utilities Act** and the **Electrical Power Control Act, 1994**. Provincial legislation mandates that power be delivered to consumers in the province at the lowest possible cost, in an environmentally responsible manner, consistent with reliable service.

In addition to substantial regular ongoing reporting, Hydro continued to advance regulatory proceedings impacting cost recovery, reliability and resource adequacy, and capital investment. From a cost recovery perspective, Hydro implemented the final Rate Mitigation Plan as announced by Government on May 16, 2024. The plan, as directed in OC2024-062 and OC2024-063, will ensure domestic residential rate increases, for customers subject to Island Interconnected System rates, attributable to Hydro's costs are targeted at 2.25 per cent annually up to and including 2030. The Rate Mitigation Plan also requires that any additional funding required to reduce the balance in Hydro's Supply Cost Variance Deferral Account (SCVDA) and, achieve the 2.25 per cent targeted rate increase, come from Hydro's own sources, to the extent possible, and for Hydro to retire the 2023 ending SCVDA balance of $271 million over the 2024–2026 period. A total of $240.3 million was applied to the SCVDA balance in 2024 to reduce funding required from customers.[19] To effect the Rate Mitigation Plan Hydro received approval of adjustments to: Island Industrial Customers as it related to the Project Cost Recovery Rider and Rate Stabilization Plan;[20] utility rate;[21] customer rate adjustments for the Island Interconnected system, L'Anse au Loup and Isolated Rural customers;[22] and Conservation and the Demand Management Cost Recovery Adjustment to be charged to Island Industrial Customers.[23] Hydro also received approval for its Wholesale Utility Rate effective January 1, 2025.[24]

The Organization continued to advance the regulatory proceeding related to supply adequacy for the provincial electricity system, helping to inform future decisions related to

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[19] https://nlhydro.com/newfoundland-and-labrador-hydro-releases-2024-third-quarter-financial-results/#:~:text=This%20consisted%20of%20the%20%2490,million%20owing%20in%20the%20SCVDA
[20] Approved in Board Order No. P.U. 4(2024).
[21] Approved in Board Order No. P.U. 15(2024).
[22] Approved in Board Order No. P.U. 19(2024).
[23] Approved in Board Order No. P.U. 17(2024).
[24] Approved in Board Order No. P.U. 1(2025).

system reliability, long-term supply and back-up requirements.[25] Hydro submitted its 2024 Resource Adequacy Plan, including its recommended expansion plan, on July 9, 2024.[26] The recommended expansion plan includes the construction of a new hydroelectric unit at Bay d'Espoir, the installation of a new combustion turbine resource on the Avalon with renewable fuel capabilities and the integration of additional energy to enable Hydro to serve the increasing electricity load on the system and to provide reliable backup generation to enable the planned retirement of aging fossil fuel-based assets. Since filing the 2024 Resource Adequacy Plan, Hydro has presented and answered detailed questions at four technical conferences, followed by Requests for Information filed by the PUB and Intervenors.[27]

From a capital investment perspective, in 2024, Hydro obtained full approval of its 2025 Regulated Capital Budget Application of $135.7 million.[28] Additionally, Hydro revised its applications related to the long-term supply plan for the isolated Southern Labrador communities of Charlottetown and Pinsent's Arm, Mary's Harbour, Port Hope Simpson, and St. Lewis,[29] which obtain their electricity through diesel generation, and for the Bay d'Espoir Hydroelectric Generating Station Penstock 1 Refurbishment Project.[30] The long-term supply plan for Southern Labrador updated the project cost to $110.9 million and with planned completion in 2029 and the proceeding remained ongoing through to the end of 2024.[31] The Penstock 1 Refurbishment Project updated the project cost to $65.9 million.

2.4 Other Departments/Public Bodies

The Organization also shared commitments with the Department of Environment and Climate Change, Department of Fisheries, Forestry and Agriculture, Department of Digital Government and Service NL, Office of Indigenous Affairs and Reconciliation, as well as the federal Departments of Fisheries and Oceans Canada and Environment and Climate Change Canada in relation to the environmental aspects of the corporation's activities.

In 2024, the Organization continued to engage with the Department of Environment and Climate Change to demonstrate compliance for the requirements with environmental assessment releases. Provincial and federal departments were also engaged to ensure all necessary approvals and permits are in place for the new assets and for the Organization's ongoing operations. The Organization also engaged with the Climate Change Division of

[25] This regulatory proceeding, the Reliability and Resource Adequacy Review, will continue through 2025.
[26] http://www.pub.nl.ca/applications/NLH2018ReliabilityAdequacy/index.php
[27] Hydro is preparing to file a build application for a new hydroelectric unit at Bay d'Espoir and a new combustion turbine resource on the Avalon in March 2025.
[28] Approved in Board Order No. P.U. 28(2024).
[29] http://www.pub.nl.ca/applications/2021/NLH2021Capital/NLH2021Capital_SUPP_Phase1SouthernLabrador/index.php
[30] Approved in Board Order No. P.U. 26(2024).
[31] Not approved in Board Order P.U. 12(2025), which Hydro appealed on April 24, 2025.

the Department of Environment and Climate Change to support the Province's commitment to a low-carbon economy. The Organization was also a participant in many federal level working groups with Water Power Canada and Electricity Canada that engaged with the Government of Canada on regulatory requirements, and in particular on Canada's draft Clean Electricity Regulations, which has the potential to significantly influence decisions for all utilities in Canada.

Working with the Province, Hydro administered several electrification, conservation and demand management programs on behalf of the Province, including: the EV Rebate Program which offered rebates towards the purchase of EVs; and the Oil to Electric Rebate Program which offered rebates towards the cost of transitioning oil-heated homes to electricity-based heat; and an expansion of the Public EV Fast Charging Network. Hydro also availed of federal funding to promote EV adoption, and worked closely with Newfoundland Power, under takeCHARGE, on a number of strategic initiatives.

The Lower Churchill Project (LCP) Impact and Benefits Agreement (IBA) with Innu Nation was signed in 2011 and will remain in effect for the duration of power generation at the Muskrat Falls and Gull Island sites. On October 24, 2024, Nalcor and Innu Nation amended the LCP IBA to reflect an agreement on rate mitigation. In 2017, Nalcor entered into a six-year Community Development Agreement with the NunatuKavut Community Council (NCC). This agreement expired on November 30, 2023. In October of 2024, Hydro entered into a Relationship Framework Agreement with NCC with a sharper focus on renewable projects to be developed by NCC or its subsidiary, Nunacor.

3.0 ISSUES

In its 2023-2025 Strategic Plan, the following issues were identified as strategic priorities for Hydro:

- Issue 1: Serving Our Province;
- Issue 2: Working Together; and
- Issue 3: Enabling Sustainable Growth.

4.0 OUTCOMES

The 2023-2025 Strategic Plan for Hydro highlighted three strategic issues/themes around which goals and objectives were established. For each strategic issue, the information provided below is reflective of work completed in 2024, the second year of the three-year planning period in relation to these issues.

4.1 Serving Our Province

As the province's Crown utility and primary generator of electricity, Hydro provides an essential service to the people of the province and brings value to the provincial economy, powering homes and businesses in Newfoundland and Labrador with energy that is safe, reliable, cost-conscious and environmentally responsible. As we continue implementation of our strategic plan, we will continue to prioritize our core function: serving the province as a Crown utility owned by, and operated for, the people of Newfoundland and Labrador. This includes making sound decisions that are aligned with good utility practice, being transparent in how we conduct our business and welcoming stakeholder feedback. Specifically, the Organization is prioritizing the following:

- Revitalizing the Organization: The Organization has undergone significant change in recent years and has unified to become Newfoundland and Labrador Hydro. We are working to instill a culture that is founded in a common understanding that Hydro is a Crown utility and, in both its regulated and non-regulated operations, we will continue to responsibly develop and deliver energy that the people of the province, and beyond, can count on.
- Delivering Reliable Electricity to Customers at the Lowest Possible Cost: The Organization uses good utility practice to plan, operate, and maintain the provincial electrical power systems and deliver reliable service – that is consistent with its environmental and legislative obligations – at the lowest possible cost.
- Recognizing Indigenous History and Strengthening Indigenous Relationships: As a Crown utility, the Organization has a vital role to play on the path towards Truth and Reconciliation. To build respectful, sincere, and meaningful relationships with Indigenous Peoples, the Organization is working to prioritize employee education, respect for Indigenous history, and engagement with Indigenous governments, organizations, and communities.
- Engaging the People and Entities that the Organization Serves: The Organization has proudly served the people of Newfoundland and Labrador for more than 60 years in more than 200 communities across the province, and now also generates renewable power consumed by customers in Atlantic Canada, Québec, Ontario, and the Northeastern United States. To ensure customer service remains at the core of its operations, the Organization continues to prioritize proactive stakeholder engagement.

Issue 1: Serving Our Province	
Goal 1 By December 31, 2025, the Organization will have revitalized its role as a Crown utility and advanced material filings and proceedings that are fundamental to its utility operations (e.g., those related to system reliability and resource adequacy, customer rates, rate mitigation, corporate governance, etc.).	
Objective By December 31, 2024, the Organization will have further progressed its efforts to revitalize its role as a Crown utility and advanced material filings and proceedings that are fundamental to its utility operations.	
Indicators	**2024 Accomplishments**
Supported the amalgamation of the Organization's legal entities by reviewing our commercial, legal, and governance structures.	• The internal Legislative Amalgamation Working Group completed the necessary analysis and preparatory work to support a legally amalgamated organization. This included supporting Government's second and third reading of the amalgamation Bill on November 18 and 20, respectively, which received Royal Assent on December 4. • Amalgamation became effective January 1, 2025.
Prepared for a General Rate Application (GRA) reflecting Muskrat Falls project costs, rate mitigation, and necessary revisions to established regulatory mechanisms following announcement of the Province's Rate Mitigation Plan.	• Government announced its final Rate Mitigation Plan on May 16, (which limited domestic residential rate increases resulting from Hydro's costs to 2.25 per cent annually from 2024 to 2030, inclusive), provided Hydro with information necessary to prepare its GRA. As such, Hydro is actively preparing its next GRA which is currently anticipated to be filed in the latter part of 2025.
Achieved Net Income of $339 million and Operating Expenses of $308 million in 2024.	• Net income of $479 million. The increase results from rate mitigation policy decision being different from that assumed in budget and increased revenue from a short-term energy sales agreement with Hydro-Québec, partially offset by reduced Muskrat Falls energy sales to Hydro and increased operating expenses. • Operating expenses of $366 million increased from that budgeted due to an amendment to the IBA with Innu Nation and increased professional fees associated with

	the Memorandum of Understanding (MOU) reached with Hydro-Québec on the Churchill River assets.
Revised Information Management (IM) Governance Model and advanced Duty to Document legislation readiness.	• Revised IM Governance Model. Roll out activities included drafting updates to the IM policy to align with the IM governance model and engaging with key contacts across the Organization to review roles and responsibilities. • External consultant, Wood Canada, completed an assessment of existing document control practices, processes, and standards regarding engineering drawings and technical specifications. Hydro initiated the development of an action plan based on the assessment and recommendations and began piloting a number of items in key areas of the Organization. • Advanced Hydro's readiness for Duty to Document legislation by drafting policy and guidelines, updating Duty to Document register, and continuing stakeholder engagement.
Reviewed organizational processes related to potential Code of Conduct non-compliances.	• Reviewed internal investigation processes for efficiency and effectiveness. • Rolled out new platform for reporting non-compliances creating further efficiencies. • Rolled out revisions to Code of Conduct and Ethics.
Advanced analysis and understanding of supply options in support of the Reliability and Resource Adequacy Study (RRA) Proceeding.	• Informed the PUB's RRA review process, including through knowledge sharing and opportunities to facilitate regulatory efficiency and expediency. • Filed reports to the PUB, including the: o Long-term Load Forecast Report (March 28); o 2024 Resource Adequacy Plan (July 9); and o Analysis of Recommendations, Mitigations, and Enhancements of the Labrador-Island Link (July 9). • Held technical conferences in September and October to provide the Board's consultant and parties the opportunity to ask specific questions to Hydro about its 2024 Resource Adequacy Plan, related filings, plans, and analyses. • Responded to requests for information regarding the RRA.

Supported considerations for the future of Churchill Falls long-term.	• On December 12, Hydro signed a historic MOU with Hydro-Québec to terminate and replace CF(L)Co's existing power contracts, develop Gull Island, expand capacity of the Churchill Falls plant through upgrades to existing infrastructure and the development of a second powerhouse, and develop associated transmission. The non-binding MOU provides the basis for the negotiation of definitive agreements (with a planned completion date of April 30, 2026). Hydro estimates the deal will result in more than $225 billion to the provincial treasury over the life of the agreements, not including economic spin-offs from further business development in Labrador. This includes roughly $180 billion to treasury from the new rates paid by Hydro-Quebec for Churchill Falls power from the existing plant.
Continued support of the Province in rate mitigation and commenced implementation.	• Provided significant support to enable the finalization of Government's Rate Mitigation Plan. This plan ensures that domestic residential rates increases for customers subject to Island Interconnected System rates, attributable to Hydro's costs, are targeted at 2.25 per cent annually up to and including 2030. • Filed and received PUB approval for applications for July 1, Utility Rates and Rural Rates, which included the implementation of Government's Rate Mitigation Plan, effective August 1, 2024. • At the PUB's request, filed the Implementation of the Rate Mitigation Plan report in October. • Hydro reduced the balance accumulating in the SCVDA by applying $240.3 million to the SCVDA (i.e., $90 million from internally generated funds, as directed by Government, and $150 million of convertible debt drawing) in accordance with Government's Rate Mitigation Plan.
2025 Objective By December 31, 2025, the Organization will have revitalized its role as a Crown utility and advanced material filings and proceedings that are fundamental to its utility operations.	

Indicators

- Progressed workplan initiatives necessary to support the negotiation of Definitive Agreements and complete development studies as outlined in the MOU for the New Energy Partnership between Hydro and Hydro-Québec.
- Collectively achieved planned milestones related to Major Projects to advance our ability to meet future load growth and system renewal projects.
- Commenced early execution of approved Major Projects.
- Advanced analysis and understanding of supply options in support of the Reliability and Resource Adequacy Proceeding.
- Monitored and progressed rate mitigation requirements.
- Prepared a GRA reflective of Government Rate Mitigation Plan, incorporating Muskrat Falls Project costs.
- Achieved Net Income of $132 million.
- Achieved Operating Costs of $332 million.
- Executed Regulated Capital Program within -20 per cent and +10 per cent of $230 million budget.
- Executed Non-Regulated Capital Program within -20 per cent and +10 per cent of $171 million budget.
- Further advanced our IM governance and maturity.
- Implemented planned information system solutions.
- Commenced implementation of adjustments to organizational processes related to potential Code of Conduct non-compliances.
- Supported implementation associated with January 1, 2025 effective date. Identified and addressed any post-amalgamation issues.

Issue 1: Serving Our Province

Goal 2

By December 31, 2025, the Organization will have continued to deliver reliable electricity to its customers at the lowest possible cost.

Objective

By December 31, 2024, Hydro will have continued to apply good utility practice to plan, operate, and maintain the provincial electrical system and continued to deliver reliable service at the lowest possible cost.

Indicators	2024 Accomplishments
Continued to complete post-commissioning action items for the new Lower Churchill Project assets.	• Continued to progress post-commissioning commercial matters with Emera and Kohlberg Kravis Roberts & Co. • Ongoing engineering studies into reinforcement options of the LIL transmission assets to sustain reliability, address common failure modes, and mitigate risks to the Island Interconnected System. Targeting completion in 2025. • Successfully installed new equipment and testing to mitigate cable switching transients at the LIL Transition Compounds in October. • New LIL software was installed and commissioned in October. This software includes all of the functionality needed for operation up to its full 900 MW rating. Through dynamic commissioning, non-critical software-related items were identified. The software to address these non-critical issues successfully passed Factory Acceptance Testing in November. • Received clearance to lift the 450 MW LIL limit in November, with the LIL being free to operate up to 700 MW. • The 900 MW testing is planned for 2025.
Achieved project completion of 80 per cent for the 2024 regulated and non-regulated capital program.	• Attained a project completion rate of 64.8 per cent for the 2024 regulated capital program. As per Capital Budget Application Guidelines, this completion rate excludes work completed under programs or any partially completed work. The remaining 35.2 per cent of projects were primarily not completed as a result of constraints with the scheduling of internal engineering and construction resources, outage availability and procurement delays. The overall completion rate for the Regulated Capital Program, including projects and programs (fully and partially completed) was 75 per cent. • Attained a project completion rate of 75 per cent for the 2024 non-regulated capital program, due to delays caused by the Churchill Falls forest fires. Projects that were higher in safety and reliability impacts were prioritized during 2024, while others were deferred to 2025.

Achieved a System Average Interruption Duration Index (SAIDI) of 2.64 outage hours per customer or less.	• Performance on SAIDI was better than planned with the actual duration of 2.33 outage hours/customer. This equaled the 2023 actual and was the strongest performance since 2012.
Achieved a System Average Interruption Frequency Index (SAIFI) of 1.10 interruptions per customer or less.	• SAIFI target was not achieved, largely due to under-frequency load shedding events on July 28, which contributed 0.5 to the year-end outcome of 1.65. This rare and unexpected event occurred during maintenance activities, due to a factory wiring error in a gas insulated switchgear breaker, which has since been corrected. The majority of impacted customers were restored within 45 minutes. Excluding this event highlights overall good performance.
Achieved Guaranteed Winter Availability Contract (GWAC) target of 94 per cent of maximum revenue at Churchill Falls.	• Exceeded target GWAC with 94.9 per cent of maximum revenue at Churchill Falls.
Continued standardization of capital investment planning and approach.	• Progressed the capital planning improvement plan as scheduled, including by integrating a standard approach into capital investment planning going forward.
Maintained our cybersecurity program with a focus on training and awareness, network segmentation, and incident response.	• Continued to focus on and improve cybersecurity in the following areas: network access controls; intrusion detection; incident response; penetration testing; software patching; backups; and training and awareness. • Conducted internal phishing campaigns to help strengthen Hydro's Cybersecurity Awareness Program. • Completed disaster recover tests. • Engaged with industry experts and developed an Artificial Intelligence policy to be implemented in 2025. • Refreshed incident response plan. • Presented Hydro's cybersecurity program to the PUB in November. • Implemented robust access control policies for Microsoft cloud environment, including Azure Tenant and Office365.

	• To further strengthen the cybersecurity program, Hydro continued to collaborate with experts in the industry and technology vendors, including: o Engaged with Newfoundland Power to reinforce cybersecurity of the provincial electrical grid; o Received regular updates from the Canadian Centre for Cyber Security; o Attended Energy Sector Community Calls and sector meetings where cybersecurity information is shared; o Participated on Electricity Canada's Technology Committee, and Cybersecurity Committee, where Hydro attended meetings with, and obtained lessons learned from, utilities across the country; and o Consulted with technology vendors to obtain their perspective on industry trends and specific technologies.
Strengthened cybersecurity protection in our Operational Technology systems.	• Met target of zero operational technology cyber incidents. • Expanded anomaly detection solution to remote sites. • Implemented new Security Event and Incident Management system. • Conducted a security review and enhancement of the Data Historian system.
Advanced our planning and scheduling function to improve productivity and efficiency in this area.	• Continued data integrity improvement for key generation asset - Bay d'Espoir plant. This included developing a complete asset register and identifying and prioritizing critical assets and equipment.
Reviewed and begun standardization of our asset management processes companywide to further promote effective asset life-cycle activities and decision-making.	• Developed document numbering and equipment identification standards for Major Projects. These documents and associated processes are currently being used as the initial point of introduction with eventual roll out of standard equipment naming and document numbering across all Hydro assets. The standardization of equipment identification and ease of collection/retrieval of technical information is foundational in asset management long-term maturity.

2025 Objective
By December 31, 2025, Hydro will have used good utility practice to plan, operate, and maintain the provincial electrical system and delivered reliable service at the lowest possible cost.
Indicators • Continued to complete post-commissioning action items for the Lower Churchill assets. • Achieved project completion of 80 per cent for the 2025 Regulated Capital Program. • Achieved project completion of 80 per cent for the 2025 Non-Regulated Capital Program. • Achieved a SAIDI of 2.56 hours of interruption per customer or less. • Achieved a SAIFI of 1.25 interruptions per customer or less. • Achieved GWAC target of 94 per cent of maximum revenue at Churchill Falls. • Maintained our cybersecurity program with a focus on training and awareness, network segmentation, and incident response. • Strengthened cybersecurity protection in our operational technology systems. • Conducted a review of regulated fleet's current Fleet Management approach. • Advanced our planning and scheduling function to achieve efficiencies and work prioritization. • Delivered an updated Long-Term Asset Management Plan for Churchill Falls that balances system reliability requirements and cost constraints. • Enhanced utilization of existing maintenance management system to improve management of critical assets.

Issue 1: Serving Our Province	
Goal 3 By December 31, 2025, the Organization will have strengthened its recognition of Indigenous history and Indigenous relationships.	
Objective By December 31, 2024, the Organization will have further progressed its efforts to strengthen relationships with Indigenous governments, organizations, and communities.	
Indicators	**2024 Accomplishments**
Advanced our engagement strategy with Indigenous governments and organizations.	• Ongoing discussions with Indigenous governments and organizations regarding engagement protocols and ways in which Hydro can support initiatives important to Indigenous Communities, including employment opportunities and education. ○ Participated in regular discussions with Innu Nation and the Nunatsiavut Government to foster information sharing during the Hydro-Québec negotiation process.

	◦ Participated in ongoing discussions with Miawpukek Mi'kamawey Mawi'omi First Nation to discuss community priorities and share information regarding upcoming work in Bay d'Espoir. ◦ Initiated a Hydro and Nunatsiavut government load growth working group to explore load reduction, energy alternatives and funding opportunities. ◦ Established Indigenous tables to support open communication and dialogue during Hydro-Québec negotiations. • On September 27, President and CEO participated in the annual Manishan Nui Gathering at Gull Island. • Participated in high school graduation ceremonies in Innu communities. • Appointed a full time Senior Manager of Indigenous Affairs to support engagement with Indigenous governments and organizations.
Advanced commitments in the Impact and Benefits Agreement.	• IBA Training and Recruitment Coordinator continued to strengthen relationships with Innu schools and Innu community groups. • Continued efforts to increase Innu Nation member employment at Muskrat Falls, for example: ◦ Continued to visit high schools to promote Hydro as an employer of choice; ◦ Continued to offer post-secondary scholarships to high school Innu Nation members; and ◦ Worked with employment organizations such as Trades NL and Labrador Aboriginal Training Partnership to identify opportunities for Innu Nation members.
Continued to engage with NCC on a new agreement.	• Finalized and signed a six-year Relationship Framework Agreement with NCC.
Educated our employees and promoted respect for Indigenous culture, history, values, and traditional knowledge.	• To honour and recognize National Truth and Reconciliation Day, Hydro: ◦ Recognized the day as part of its 2024 holiday observances; ◦ Offered a companywide virtual session on Innu cultural awareness, hosted by Hydro's Training Administrator, Indigenous Affairs and Community Relations; ◦ Shared information with all employees about the

	National Day for Truth and Reconciliation, including the history of residential schools, ways to recognize the day, and additional resources; and ○ Encouraged employees to take part in the reconciliation process and provided examples of ways of doing so (e.g., connect with local Friendship Centre, take part in public ceremonies/events, wear orange, and take the time to learn more on the history of residential schools).
2025 Objective By December 31, 2025, the Organization will have strengthened relationships with Indigenous governments, organizations, and communities.	
Indicators • Advanced our engagement strategy with Indigenous governments and organizations. • Fulfilled commitments within Indigenous Agreements. • Continued to educate our employees and promote respect for Indigenous culture, history, values, and traditional knowledge. • Continued to support opportunities for Indigenous procurement and employment opportunities within our organization.	

Issue 1: Serving Our Province	
Goal 4 By December 31, 2025, the Organization will have proactively engaged those it serves.	
Objective By December 31, 2024, the Organization will have engaged with customers, partners, and communities and continued implementation of processes and programs to meet their needs.	
Indicators	**2024 Accomplishments**
Collaboratively consulted with all relevant stakeholders on future changes to our provincial electricity system.	• Hydro participated in a number of activities to educate stakeholders on the province's electricity system, including: ○ Launched a digital engagement to invite customers and the public to participate in an online survey with questions on reliability, rates and growth (January); ○ Hosted a technical briefing and media availability on the 2024 Resource Adequacy Plan (July); ○ Held technical conferences regarding the 2024 Resource Adequacy Plan, related filings, plans, and analyses (September and October); ○ Responded to requests for information regarding the RRA;

	o Held meetings with various towns and communities regarding planned electricity projects; o Presented at the Newfoundland & Labrador Construction Association Central General Membership meeting (June); and o Attended the Labrador West Transmission Study Announcement in Labrador (November). • President and CEO spoke at various events including: o Northwinds' Electricity Invitational Forum in (January); o Canadian Engineering Leadership Conference at Memorial University (January); o Future of Labrador Economic Summit in Labrador West (February); o Energy NL Conference as the keynote lunch speaker (June); o ARC Energy Research Institute webinar; o Insights from NL Business Leaders webinar; o Premier's Boston tech and innovation trade mission (September); o Placentia Chamber of Commerce (September); and o An event to recognize Happy Valley-Goose Bay for its support during the Churchill Falls forest fires.
Proactively coordinated and shared annual system plans (e.g., outages, investments, etc.) with affiliated partners, stakeholders, and impacted communities.	• Reduced annual planned maintenance outages for Labrador City and Wabush, from the typical two 12-hour outages each, to approximately two hours for Labrador City and 12 hours for Wabush. This was accomplished through the use of live line techniques and generation supply from Hydro-Québec (through Fermont). This is a new approach and will be incorporated into the annual planning of the Labrador West outages. • Continued proactive and responsive outage communications activities, as well as management of Joint Outage/Storm Communications Plan with Newfoundland Power. • Continued to proactively share messages with Government and impacted stakeholders (Government of Canada, Communities, etc.) regarding system planning events,

	winter readiness, and ongoing planned and unplanned outages. • Continued to share proactive education and preparedness content for customers through social channels and website.
Completed customer satisfaction surveys.	• Conducted a biennial residential customer satisfaction survey. The results were: ○ 89 per cent of residential customers indicated overall satisfaction with Hydro in general; and ○ 91 per cent of residential customers indicated they were satisfied with Hydro's Customer Service. • Continued to advance annual customer service annual work plan.
Continued to proactively mitigate our risks related to climate change through advancement of our review of our Climate Change Mitigation and Adaptation Plan.	• Completed a gap analysis of Hydro's existing Climate Change Mitigation and Adaptation Plan with other Canadian utility plans, and guidance from industry experts (e.g., Electricity Canada and International Energy Agency). • Participated in meetings with Government to review provincial climate change projection data and ensure alignment with Government's strategic priorities. • Implemented improvements to strengthen the electricity system's responsiveness to extreme weather and climate change related impacts, including: ○ Increased use of equipment aimed at increasing reliability in areas with increased wind, ice and snow (e.g., airflow spoilers, higher creep insulators, use of three steel standoff brackets with attached insulators); and ○ Completed the first phase of widening Hydro's Right of Way transmission corridors in Gros Morne National Park (through engagement with, and receiving approval from, the Government of Canada),[32] in order to reduce the risk of trees falling onto a transmission line and causing an outage, due to more frequent winds and dryer conditions in the area. • Continued to enhance Hydro's preparation and responsiveness to severe weather including:

[32] Newfoundland and Labrador Hydro Line Modifications in Gros Morne National Park

	○ Monitored the potential of significant weather events; ○ Assessed the level of preparedness required; ○ Arranged adequate electricity generation; and ○ Completed a risk assessment to ensure adequate staffing levels, equipment availability, critical spares, etc.

2025 Objective

By December 31, 2025, Hydro will have implemented certain new processes and programs to meet customer needs and continued ongoing customer and stakeholder engagement.

Indicators

- Conducted inclusive and collaborative engagement on future changes to our provincial electricity system.
- Engaged in proactive and transparent communication with provincial government on financial projections and results.
- Proactively coordinated and shared annual system plans (e.g., outages, investments, etc.) with affiliated partners, stakeholders, and impacted communities.
- Improved Hydro's ability to respond to significant events due to Climate Change.
- Continued to proactively mitigate our risks related to climate change through advancement of our review of Hydro's Climate Change Mitigation and Adaptation Plan.

4.2 Working Together

Whether in the field or in the office, all of the Organization's workforce are utility professionals who remain steadfast in their commitment to supporting the communities where they live and work and they operate with good utility practice.

As the energy industry evolves to support the transition from fossil fuels to clean, renewable energy, the Organization must proactively prepare its workforce and adapt to ensure the Organization can continue to reliably serve the people of the province into the future. The Organization will continue to foster a workforce that is proud to serve the province, and values keeping each other safe, diverse perspectives, listening to one another, supporting new ideas, and collaborating with respect. Specifically, the Organization is focusing on:

- Continuing to Prioritize the Safety and Health of its Employees: A safe and healthy work environment is critical. The Organization remains committed to preventing injury and illness and supporting the safety and overall health of its employees.
- Foster Proud and Engaged Teams: As the Organization continues to unify and the energy sector expands and transforms, it is paramount that the Organization supports a collaborative, inclusive, and engaged workforce of unionized and non-unionized employees who work together to meet the energy needs and

opportunities within the province. As responsible corporate citizens, it is important for the Organization to contribute to local communities and support and encourage employees to be active members of their communities as well.

- Anticipate and Develop Workforce Requirements: The Organization is working to optimize its workforce with consideration to the changing labour market and changing energy sector. It is proactively assessing its current and future needs to ensure it has the right mix of skills and people to efficiently and effectively serve the province.

Issue 2: Working Together	
Goal 5 By December 31, 2025, the Organization will have demonstrated its continued commitment to the health and safety of its employees.	
Objective By December 31, 2024, the Organization will have continued to advance efforts to further strengthen and expand its safety culture.	
Indicators	**2024 Accomplishments**
Achieved Total Recordable Injury Frequency Rate (TRIF)[33] of **1.25**.	• Successfully achieved lower than target, through a TRIF of 0.96.
Continued a risk-based review of existing practices, processes and programs to ensure foundational focus on health and safety organization wide.	• Launched a Safety Transformation working group to focus on electrical safety and continue support of Hydro's safety culture, as well as address findings from high potential incident trend analysis. The multidisciplinary team is comprised of union and management members from different levels and locations across the Organization and is tasked with leading the focus via engagement throughout the business. • Continued focus on ergonomics to reduce workplace injuries, including through: o Sharing tips and guidance with staff; o Providing musculoskeletal injuries (MSI) information sessions for regional safety and health coordinators; o Completing a physical demand analysis for key positions and prioritizing the next job positions;

[33] TRIF is a is a measure of safety performance, and includes the following injuries: fatalities, lost time, medical treatment and first aid with restrictions. For TRIF rate, a lower number is better.

	- Delivering the Workplace NL MSI prevention course to Hydro's LIL line crew; and - Continuing to develop and enhance the Ergonomics Program. • Implemented Workplace NL safety and health supervisory training as mandatory, to enhance the formal safety training for supervisors. • Lessons learned through the successful execution of the Churchill Falls Town Emergency Response Plan in response to forest fires impacting the townsite and plant/switchyard, will be shared to help with emergency planning.
Implemented safety and health lessons learned from 2023.	• Conducted mandatory annual safety-led sessions with senior management and supervisors on their role in creating a safe work environment. • Launched a Safety Culture Survey for employees and contractors in October, during the annual Safety Pause. Approximately 80 per cent of the employee population completed the survey. Results will help inform future organizational safety and health priorities and support continual improvement of Hydro's safety culture. • Began implementation of a safe job planning program company wide and updated the electrical safety program.
Continued to advance mental health initiatives, and ensure support programs and resources are in place for employees.	• Hydro's Safety, Health & Environment Week (May 5 – 11), included various corporate and local mental health events, including: sessions on mental health, information on employee supports available through the Employee Family Assistance Program, and wellness clinics. • Offered The Working Mind training sessions for employees and managers, as part of mental health and well-being initiatives. • Reallocated existing funds, to provide each of Hydro's ten wellness regions with eligibility to receive funding to support wellness initiatives. This change in approach is reflective of feedback received through the Organization's Health and Wellness Committee, which includes a focus on employees' mental health.

Supported employees in Early and Safe Return to Work with disability case management support and attendance support.	• Continued work to support supervisors and employees with overall attendance management, including training, policy awareness, and availability of tools and resources.

2025 Objective

By December 31, 2025, the Organization will have strengthened and advanced its processes to support a strong safety culture.

Indicators

- Achieved a TRIF of ≤ 1.25.
- Prioritized focus on electrical safety, incident prevention and safety accountability by executing on safety transformation work.
- Identified and implemented solutions that support and prioritize safety in the field.
- Planned and executed occupational injury and illness prevention initiatives and communications.
- Continued to advance health and wellness initiatives, and ensured support programs and resources are in place for employees.
- Supported employees in Early and Safe Return to Work with disability case management support and attendance support.

Issue 2: Working Together

Goal 6

By December 31, 2025, the Organization will have fostered a culture that encourages and supports proud and engaged teams.

Objective

By December 31, 2024, the Organization will have further advanced programs, policies, and activities to nurture a collaborative, engaged workforce of proud employees.

Indicators	2024 Accomplishments
Educated employees on the importance of Equity, Diversity & Inclusion (ED&I).	• Celebrated various ED&I related events, including communication for: o Black History Month (February); o Pink Shirt Day (February 27); o Ramadan, including through sharing information on how colleagues can show support during fasting and prayer at the workplace (March); o National Accessibility Week (May); o International Women in Engineering Day (June 23); o Gender Equality Week (September);

	- o Veteran's Week (November); and - o Purple Ribbon Campaign (November). • Held sessions for: o Hydro's Accessibility Plan (February) where our Executive Sponsor and Kathy Hawkins (Inclusion NL) presented on our plan and the **Accessibility Act**; o International Women's Day (March 8) on Imposter Syndrome; o Pride Month (June) on Rainbows in the Office, providing information and tips on ways to promote and foster an inclusive work place; o National Day for Truth and Reconciliation (September 30), where our Training Administrator, Indigenous Affairs and Community Relations employee shared insights on Innu Culture and being inclusive; and o International Day of Persons with Disabilities (December 3) on the Power of Language. • Presented an overview of Hydro's Accessibility Plan at the InclusionNL Accessibility Symposium (April 26).
Provided appropriate tools, resources, and targets to promote inclusive work environments.	• Created a Meeting Guidelines information deck to help facilitate engagement and inclusion in the workplace, including tips for in-person, virtual and hybrid meetings. • Launched a call for new ED&I ambassadors from across the organization. • Completed all applicable actions for our Accessibility Plan, through the Accessibility Committee.
Implemented an internal communication and engagement strategy to ensure employees are informed, consulted and heard.	• Developed an employee engagement strategy based on results of employee engagement survey and additional consultation. Strategy will be implemented over a two-year period before the next employee engagement survey. Release of the strategy will occur in 2025. • Presentations on the strategy were delivered to Executive, Senior Managers and Board Committee. All employees were informed of next steps through a Good to Know learning session, as well as through the Hydro Highlights newsletter, and circulation of spring and fall Key Messages document for senior leadership to share with staff.

Began development of a Community Renewal Plan for Churchill Falls.	• Completed and operationalized the daycare extension project. • Completed Phase 1 of the Town Accessibility Study, with a focus on assessment of barriers to accessibility for community facilities. • Hosted members of InclusionNL in Churchill Falls to complete an accessibility assessment of public buildings in the community (October).
Promoted awareness and understanding of our refreshed vision and values through Phase 3 of the brand roll out plan.	• Launched a new website in April, reflective of Hydro's updated brand, and meeting Website Content Accessibility Guidelines – important for increasing usability and accessibility for persons with disabilities. • Hydro's brand guidelines and graphic standards manual now completed with guidance on vehicle branding, signage and promotional materials. • Work occurring to build Hydro's Employee Value Proposition which will continue to connect existing and prospective employees to Hydro's brand and values.
Engaged in proactive, meaningful, and regular communication with IBEW representatives.	• Continued engagement between Hydro senior leadership and IBEW union leadership through various avenues including "Safety Connection" Meetings. • Prioritized and re-established regular labour management committee and grievance reviews. • Met with Atlantic Representative of IBEW International to re-establish a connection that expands beyond Hydro's respective locals (1615 and 2351) and brings a holistic approach to strengthening relations. • Collaboration with IBEW Locals leadership on safety transformation working group to inform safety priorities within Hydro.

Executed the next phase of the Energy from the Heart community program roll out to increase awareness and engagement.	• Significant donations and support provided to organizations throughout 2024 in support of the five focus areas of the Energy from the Heart community program (safety and mental health, social and community wellbeing, diversity and inclusion, science, technology, engineering and math (STEM) and environment). • Continued to build connection and engagement through events like Energy Breakfast, Acts of Kindness Week and the employee Cheer Challenge which resulted in a donation of $10,000 to the Community Food Sharing Association. • Following the forest fires in Churchill Falls, Hydro donated approximately $16,750 to various organizations that provided support (e.g., Canadian Red Cross, Search and Rescue teams). • The Energy to Give matching program provided more than $16,000 in matching funds to employees who volunteered or fundraised. • Through the Hydro Helps payroll deduction program employees gave over $10,000 to not-for-profit organizations.

2025 Objective

- By December 31, 2025, the Organization will have implemented certain programs, policies, and activities to nurture a collaborative, engaged workforce of proud employees and continued to advance others.

Indicators

- Commenced implementation of multi-year internal communication and engagement strategy to ensure employees are informed, consulted, and heard.
- Continued development of a Community Renewal Plan for Churchill Falls.
- Undertook proactive, coordinated and purposeful engagement with IBEW, and reviewed and refreshed Hydro's labour relations strategy.
- Continued to educate employees on the importance of Inclusion, Diversity, Equity and Accessibility.
- Provided appropriate tools, resources and targets to promote inclusive work environments.
- Continued to build awareness and understanding of Hydro's refreshed vision and values.
- Continued promotion of the Energy from the Heart community program to build awareness and engagement.

Issue 2: Working Together

Goal 7

By December 31, 2025, the Organization will have developed and commenced implementation of a workforce planning strategy.

Objective

By December 31, 2024, the Organization will have developed a workforce planning strategy to optimize its workforce with consideration to the changing labour market and the changing energy landscape.

Indicators	2024 Accomplishments
Developed and commenced implementation of a multi-year plan that will identify the skills and expertise we will require to operate as a Crown utility and support the growth of the renewable energy industry.	• Initiated development of an Integrated Workforce Plan framework for Hydro. • Continued to participate and provide input into the econext-led, Clean Energy Committee. • Contributed to labour market forecasting as a Canada Strategic Partner with BuildForce (Construction Trades). • Placed a renewed focus on data analytics to identify workforce trends and determine areas to focus efforts to mitigate/address people risk and drive data-based decisions. • Participating in engagement and information sessions with various stakeholder groups regarding upcoming activity on Major Projects.
Commenced review of organizational training to support the development of a training strategy and approach.	• Considered the outcomes of the training audit in developing the plan for training initiatives for Hydro. • Fully centralized Hydro's training oversight and budget process. • Monitored and achieved completion rates of 80 per cent related to the Environmental Management System training courses.

Developed Recruitment and Retention Strategy to mitigate attrition risk.	• Recruitment and retention strategies implemented include:
	    o Continued workforce planning specific to major projects priorities with key risks associated with attraction and retention continued to be managed through a collaborative effort within Hydro;
	    o Continued monitoring of attrition statistics to identify trends for key and critical areas and roles;
	    o Reviewed co-op, Apprentice, Engineer in Training and

	Graduate Trainee programs for expansion opportunities; o Implemented enhancements to the co-op program to build future talent pipeline and experience; o Offered upgrading opportunities for existing staff to support hard to fill positions (e.g., offered upgrading to Electrical Maintenance B employees to enable them to become apprentices, in order to increase the number of future industrial electricians); o Commenced review of promotional and advertisement methods for recruitment; and o Attended Career Fairs in St. John's and St. Anthony (focusing on trades and engineering).
Supported employee retention through review of compensation programs and initiatives, including completion of a third-party compensation review.	• Continued consultation with Government on compensation matters. • Implemented Government-approved compensation changes for non-union employees, Eric G. Lambert Teachers and front line supervisors. • Third-party compensation consultant review completed, and results shared with Government. • Cost of living adjustments applied to non-union, non-executive salaries scales effective January 1, 2024, and further increase approved for January 1, 2025.
Ongoing engagement to identify and implement practical supports to address front line supervisor concerns and reduced workload burden where possible.	• Continued efforts to support front line supervisors and field management, with in-field visits by various support functions across Hydro. • Developed and delivered information sessions on Dealing with Difficult Conversations, Respectful Workplace and Collective Agreement Interpretation to support supervisors. • Dedicated support to frontline supervisors through the business partners function within the People and Culture team. • Development of new onboarding program to provide a more streamlined and efficient process for supervisors.
2025 Objective By December 31, 2025, the Organization will have commenced implementation of its workforce planning strategy to optimize its workforce with consideration to the changing labour market and the changing energy landscape.	

Indicators

- Developed an Integrated Workforce Planning Framework and supported the development of workforce plans related to Hydro's core utility operations, Major Projects and new developments.
- Focused on targeted recruitment and retention strategies to address most significant talent risks and build talent pipeline.
- Continued follow-on work related to compensation review.
- Ongoing engagement to identify and implement practical supports to address front line supervisor concerns and reduce workload burden where possible.

4.3 Enabling Sustainable Growth

The energy industry is working hard to transition away from fossil fuels to meet climate goals, including federal and provincial net-zero by 2050 targets, as well as the federal target of a net-zero electricity grid by 2035. The Organization is at the forefront of this energy transition and the Province is in an enviable position in this regard. In 2024, more than 90 per cent of the electricity supplied to customers in the province was from renewable sources.[34] As operation of the Muskrat Falls project assets is further optimized, this amount will continue to increase. Throughout this transition, the Organization will continue to optimize its use of these assets to reduce generation from the Holyrood Thermal Generating Station in favour of clean, cost-conscious energy from renewable energy resources.

Creating a sustainable, greener tomorrow for future generations of Newfoundlanders and Labradorians continues to be an organizational priority. The Organization has worked with the Province to support the development of its Renewable Energy Plan, "Maximizing Our Renewable Future," and, as the province's Crown utility, plays a substantial role in executing many of the energy-related initiatives outlined in the plan. The province's rich energy resources provide tremendous opportunity – from hydro and wind electricity generation to green hydrogen production. The Organization is committed to drawing on its experiences and leveraging the knowledge and expertise of its people, local communities and partners to make thoughtful, balanced decisions. Specifically, the Organization is prioritizing:

- Supporting Growth of Renewable Energy Supply: The Organization is collaborating with the Province and industry stakeholders to evaluate and advance viable projects.

[34] This calculation excludes Newfoundland Power's generation. In addition, Hydro sells Renewable Energy Certificates (RECs) to third parties for a portion of its renewable generation.

- Advancing Electrification and Demand Management: The Organization is advancing electrification in a prudent manner that benefits customers and the provincial electrical system and while working to minimize the impact on peak demand.
- Optimizing the Value of Provincial Energy Resources: The Organization is responsibly optimizing energy resources (i.e., extract the most value from excess energy) for the benefit of the province and continuing to ensure customers receive safe, reliable and cost-conscious energy.
- Integrating Renewable Energy Resources in Local Communities: The Organization is working with Indigenous communities and organizations to safely and responsibly integrate renewable energy resources in isolated diesel communities.

Issue 3: Enabling Sustainable Growth	
Goal 8 By December 31, 2025, the Organization will have demonstrated its commitment to optimizing provincial energy resources and supporting growth of renewable energy supply.	
Objective By December 31, 2024, the Organization will have further advanced its analysis, and any related policy development required to support the optimization of provincial energy resources to contribute to sustainable economic prosperity within Newfoundland and Labrador.	
Indicators	**2024 Accomplishments**
Provided our utility expertise to identify and support viable opportunities as new industries such as hydrogen emerge.	• Supported Government by providing advice and analysis on policy, legislation and regulation as it relates to the evolving wind-hydrogen industry. • Supported commercial integration of wind-hydrogen projects, through ongoing engagement, and the development and execution of system impact studies and agreements.
Evaluated potential renewable energy development opportunities and proposals for integration into our provincial electricity system.	• Reviewed various proposed arrangements (e.g., primarily non-firm energy; energy exchange) for integration into the provincial grid.

Continued to execute the Network Additions Policy and the Labrador electricity system expansion plans.	• Labrador – Non-Firm Customers:
	  ○ In Labrador West, studies were completed for all applicants seeking non-firm power.
	  ○ In Labrador East, Hydro supported applicants as they continued to assess locations and determine if they want to proceed with additional study work.
	  ○ Non-firm Rates as approved by the PUB were implemented as of March 2024.
	• Labrador - Firm Customers:
	  ○ Received an exemption to Regulation 17 in Order No. P.U. 14(2024) to provide service to approximately 22 MW of new firm load consistent with the principles in the Network Additions Policy in Labrador East. Regulation 17 provided an approved restriction on load additions in excess of 200 kilowatt (kW) for Labrador and remained in place so that Hydro could monitor and manage load growth in the region and continue to ensure the system is not overwhelmed to the point that delivery of reliable service is impacted.
	  ○ Continued to advance requests from mining companies seeking new firm capacity in Labrador West. Hydro entered into study agreements with all potential new mining loads to complete a joint system impact study and a facilities study, which will define necessary assets and estimate costs for required transmission upgrades to deliver power to new mining loads in Labrador West.

2025 Objective

By December 31, 2025, the Organization will have supported the optimization of provincial energy resources to contribute to sustainable economic prosperity within Newfoundland and Labrador.

Indicators

- Supported Government and participated in industry engagement initiatives to explore the development of a policy for potentially integrating new renewable energy suppliers into our provincial electricity system.
- Worked with existing and potential industrial customers to advance load additions within the province.

Issue 3: Enabling Sustainable Growth	
Goal 9 By December 31, 2025, the Organization will have advanced electrification and demand management within Newfoundland and Labrador.	
Objective By December 31, 2024, the Organization will have further progressed electrification and demand management programming in a manner that benefits customers and the provincial electrical system and minimizes the impact on peak demands.	
Indicators	**2024 Accomplishments**
Collaborated with government to facilitate rebates for electric vehicle and smart chargers.	• Administered the provincial EV rebate on behalf of Government. In 2024, over 730 EV rebates were issued (both fully electric and plug-in hybrid). • Administered the multi-year Federal Commercial EV Charger Program which finished in 2024, funding the installation of 68 chargers for businesses, not-for-profits and municipalities in 2024 (118 since program inception). • Hydro, in partnership with Government, is expanding its EV charging network with new Ultra-Fast Chargers. Significant progress was made in 2024, with installation planned for 2025.
Supported the expansion of the provincial direct current fast-charging network.	• Hydro's 23 public EV fast-charging network, enabled over 18,100 customer uses, providing 476 MWh of energy (an 81 per cent increase from 2023), the equivalent to electricity volume for an average EV to drive more than 2.3 million kilometres. • Prepared for the installation of ten new ultra-fast EV charging stations (175-350 kW) at six sites in 2025.
Encouraged efficient heating systems which limit the impact on system peak demand.	• Delivered Government's Oil to Electric program under takeCHARGE with Newfoundland Power, to help over 2,500 oil heating customers switch to electric space heating in 2024 (over 200 in Hydro's service area). • Continued to promote conversions to heat pumps versus resistance heat, which limits the impact on the electrical system of space heating conversions. • Studied the feasibility of electric thermal storage through the latest Conservation and Demand Management Potential Study. Work will continue in 2025 on this initiative.

Through the takeCHARGE Program continued to promote energy efficiency initiatives and peak demand management in partnership with Newfoundland Power.	• Met all of Hydro's Conservation and Demand Management energy savings targets. • Secured funding for the Green Industrial Facilities program for Isolated Fish Plants in partnership with Natural Resources Canada. • Worked with Newfoundland Power on the development of a new five-year potential study for the Island Interconnected System. • Supported Newfoundland Power's ongoing EV Demand Response Pilot, which encourages customers to charge their EV's during off-peak hours.
Promoted the use of alternate sources of heat for customers in isolated diesel communities to support load management.	• Secured funding for the installation of energy efficiency woodstoves in remote Labrador communities. Work will continue on this initiative over the next several years.
Provided customer education for heating alternatives.	• Provided customers education to enhance knowledge and understanding of electrification and demand management initiatives through website, social and customer newsletter content.

2025 Objective

By December 31, 2025, t the Organization will have prudently advanced electrification and demand management programming in a manner that benefits customers and the provincial electrical system and minimizes the impact on peak demands.

Indicators

- Completed a conservation and demand management plan, and integrated with resource planning.
- Supported transportation electrification while mitigating the impact on system peak.
- Supported the expansion of the provincial DC fast-charging network.
- Encouraged efficient heating systems for the interconnected systems, which limit the impact on system peak demand.
- Continued to promote energy efficiency initiatives and peak demand management through the takeCHARGE! Program, a partnership with Newfoundland Power.
- Encouraged efficient heating systems for the isolated systems, which limit the impact for system demand and energy requirements (e.g., wood heat pilot program).
- Undertook customer education for heating alternatives.

Issue 3: Enabling Sustainable Growth	
Goal 10 By December 31, 2025, the Organization will have demonstrated its efforts to optimize the value of provincial energy resources by maximizing the value from energy sales and other opportunities.	
Objective By December 31, 2024, the Organization will have continued to pursue opportunities to maximize the value of its energy and supported industrial customer growth in a manner that is cost-conscious and consistent with environmental and legislative responsibilities.	
Indicators	**2024 Accomplishments**
Completed assessment of the regulatory, financial and other implications of an agreement for coordinated operation of regulated and non-regulated assets, and if this assessment concludes such an agreement is warranted, work to have one finalized and approved by the PUB.	• Assessed the new Rate Mitigation Plan and opportunities under the existing ponding agreement, and determined that a separate long-term marketing agreement is not warranted at this time.
Maximized value of exports/transmission assets and use rights.	• Continued to evaluate and pursue opportunities for the maximized value of excess energy that would provide the greatest value to ratepayers. This included: ○ Continued use of Muskrat Falls energy to supply Labrador customers, enabling increased exports of recapture energy to market; ○ Utilized firm transmission rights to move energy into New England from January through May 2024; and ○ Continued to utilize Hydro’s non-firm transmission rights to move energy into New England, resulting in a net profit of $2.9 million USD relative to selling in New York.

Worked with our subsidiary companies to meet commitments under Muskrat Falls agreements and the Energy Access Agreement.	• Successfully delivered energy commitments to Nova Scotia under the Energy and Capacity Agreement. • Continued to deliver energy to Nova Scotia under the Energy Access Agreement. The first contract year ended August 31, with the second contract year commencing September 1.
Maximized value of renewable energy attributes.	• Maximized value from the monetization of Greenhouse Gas Performance Credits under the **Management of Greenhouse Gas Act**, achieving $20.1 million CAD in sales. • Continued to monitor state and market developments for potential impact on Renewable Energy Credit pricing.
Identified additional market opportunities for Renewable Energy Credits.	• Continued to sell environmental attributes and sought out new opportunities with counterparts.
Supported Government's review of the province's current offshore oil and gas interests.	• Supported Government through its consideration of the potential sale of the oil and gas interests.

Worked with existing and potential industrial customers to better understand their needs and facilitate their integration into our provincial electrical grid in a manner that is cost-conscious and consistent with environmental and legislative responsibilities.	• Continued to advance requests from mining companies seeking new firm capacity in Labrador West, including:
	  o Entering into study agreements with all potential new mining loads to complete a joint system impact study and a facilities study, which will define necessary assets and estimate costs for required transmission upgrades to deliver power to new mining loads in Labrador West.
	  o Secured up to $666,296 in funding from the Federal Government's Smart Renewables and Electrification Pathways Program to support these studies.
	• Completed commissioning of the interconnection of the new transmission line to Marathon Gold's Valentine Lake mine site.
	• Met with various mining companies to discuss the process for interconnecting a new large load to the transmission system. Collaborated with other utilities to complete high level assessments on the impact of new load in various regions.

2025 Objective

By December 31, 2025, the Organization will have identified, explored, and executed opportunities to maximize the value of its energy and supported industrial customer growth in a manner that is cost-conscious and consistent with environmental and legislative responsibilities.

Indicators

- Maximized value of exports, transmission assets and use rights.
- Worked with affiliated companies to meet commitments under Muskrat Falls agreements and the Energy Access Agreement.
- Maximized value of renewable energy attributes.
- Identified additional market opportunities for Renewable Energy Credits.

Issue 3: Enabling Sustainable Growth

Goal 11

By December 31, 2025, the Organization will have demonstrated its commitment to supporting the integration of renewable energy resources in local communities.

Objective

By December 31, 2024, the Organization will have further engaged with stakeholders regarding the operations and development of renewable energy resources and provided environmental supports as required.

Indicators	2024 Accomplishments
Engaged with Indigenous partners to support opportunities to further integrate renewables in isolated diesel communities.	• Entered into a Power Purchase Agreement with Nunacor to purchase energy from a 20 kW solar generation project in Port Hope Simpson. The project has been in service since August 2024. • Worked with the Independent Power Producer, St. Mary's River Energy, to optimize the use of available renewable energy in Mary's Harbour. Together, Hydro and St. Mary's River Energy modified their control systems to allow for improved use of the battery. • Hydro continues to support Indigenous partners who are in various stages of project development. In 2024, Hydro developed power purchase and operating agreements, completed detailed interconnection costs estimates, and provided technical support for renewable energy integration requirements.

Explored opportunities for federal or other funding to support utility operations while integrating renewables from independent power producers.	• Continued engagement with Government of Canada, to identify and define funding opportunities including transmission projects contemplated in Labrador and in which Indigenous equity ownership may be possible. • Submitted two Expressions of Interest for funding to the federal Smart Renewables and Electrification Pathways Program, Utility Support Stream. The two projects were for a dedicated Renewable Integration Team, as well as supervisory control and data acquisition additions to Hydro's distribution system. • Supported Frontier Power Systems and their application to Natural Resources Canada for funding of their proposed Wind and Battery system in Ramea.
Provided environmental oversight and regulatory compliance in support of renewable energy projects.	• Provided environmental and regulatory compliance support for renewable energy projects. For example, advanced environmental assessment support for Bay d'Espoir Unit 8 project, including through holding stakeholder meetings in November.
Completed 95 per cent of Environmental Management System targets.	• Achieved year-end target of 95 per cent completion, reflecting Hydro's commitment to environmental stewardship and compliance requirements. A significant effort was made to recover from the impacts of Churchill Falls forest fire evacuations. • Successful formal integration of Muskrat Falls and Soldiers Pond operations into Environmental Management System following external registration audit, resulting in receiving ISO 14001: 2015 Environmental Management System registration.

2025 Objective

By December 31, 2025, the Organization will have worked with stakeholders regarding the operations and development of renewable energy resources and provided environmental supports as required.

Indicators

- Supported development of renewables in isolated communities.
- Provided environmental oversight and regulatory compliance, in support of renewable energy projects.
- Completed 95 per cent of Environmental Management System targets.

5.0 OPPORTUNITIES AND CHALLENGES

Implementing priorities, as set out in the 2023-2025 Strategic Plan, requires the Organization to continue to build on its accomplishments and address future challenges and opportunities. The key opportunities and challenges outlined below, reflect the second year of the Organization's 2023-2025 strategy and support the Province's energy sector strategic directions.

5.1 Safety and Health of Our Employees

In 2024, Hydro experienced an improvement in overall safety performance, with fewer recordable injuries, and those experienced were lower in severity. Hydro continues to place safety as its number one priority. Through forums such as the annual Safety and Health Summit, employee engagement initiatives, and continual process improvements, focus remains on fostering a strong safety culture and a workplace where everyone goes home safe, every day.

5.2 Memorandum of Understanding with Hydro-Québec

On December 12, Hydro signed a historic MOU with Hydro-Québec to terminate and replace CF(L)Co's existing power contracts, develop Gull Island, expand capacity of the Churchill Falls plant and develop associated transmission. The non-binding MOU provides the basis for the negotiation of definitive agreements (with a planned completed date of April 30, 2026). Hydro estimates the deal will result in more than $225 billion to the provincial treasury over the life of the agreements, not including economic spin-off. This presents significant opportunity for long-term value generation for our province. As Hydro moves forward, it will progress workplan initiatives necessary to timely negotiate Definitive Agreements and complete development studies as outlined in the MOU.

5.3 Ability to Meet Future Load Growth

Changing consumer behavior, industry changes and opportunities, as well as evolving climate change policies have all accelerated the demand for clean electricity. This accelerating shift is driving industrial and commercial growth, the electrification of vehicles, and a switch from oil to electric home heating. There is also significant interest from the province's evolving wind-hydrogen industry for access to grid power, as well as the need to consider the ongoing reliability of our provincial electricity grid. Based on the minimum investment required for the Island, Hydro needs at least 385 MW of additional capacity and 1.4 TWh of new energy by 2034 to address load growth and reliability needs[35]. This includes, but is not limited to, the requirement of two large capacity resource additions by 2031, in order to meet anticipated load growth at that time.

[35] http://www.pub.nl.ca/applications/NLH2018ReliabilityAdequacy/correspondence/From%20NLH%20-%202024%20Resource%20Adequacy%20Plan%20-%202024-07-09.PDF

In March 2025, Hydro submitted its Build Application for capital expenditures associated with the installation of Bay d'Espoir Unit 8 and a Combustion Turbine on the Avalon; the first step to meeting the minimum investment required for the Island, described above. Hydro's RRA process and analysis of the demand and energy needs of the province will continue throughout 2025, 2026 and into the future. Hydro continues to work with the PUB, the Province and stakeholders to ensure future load growth can be met, while continuing to meet its mandate of providing least cost, reliable electricity in an environmentally responsible manner.

5.4 Attraction, Retention and Employee Engagement

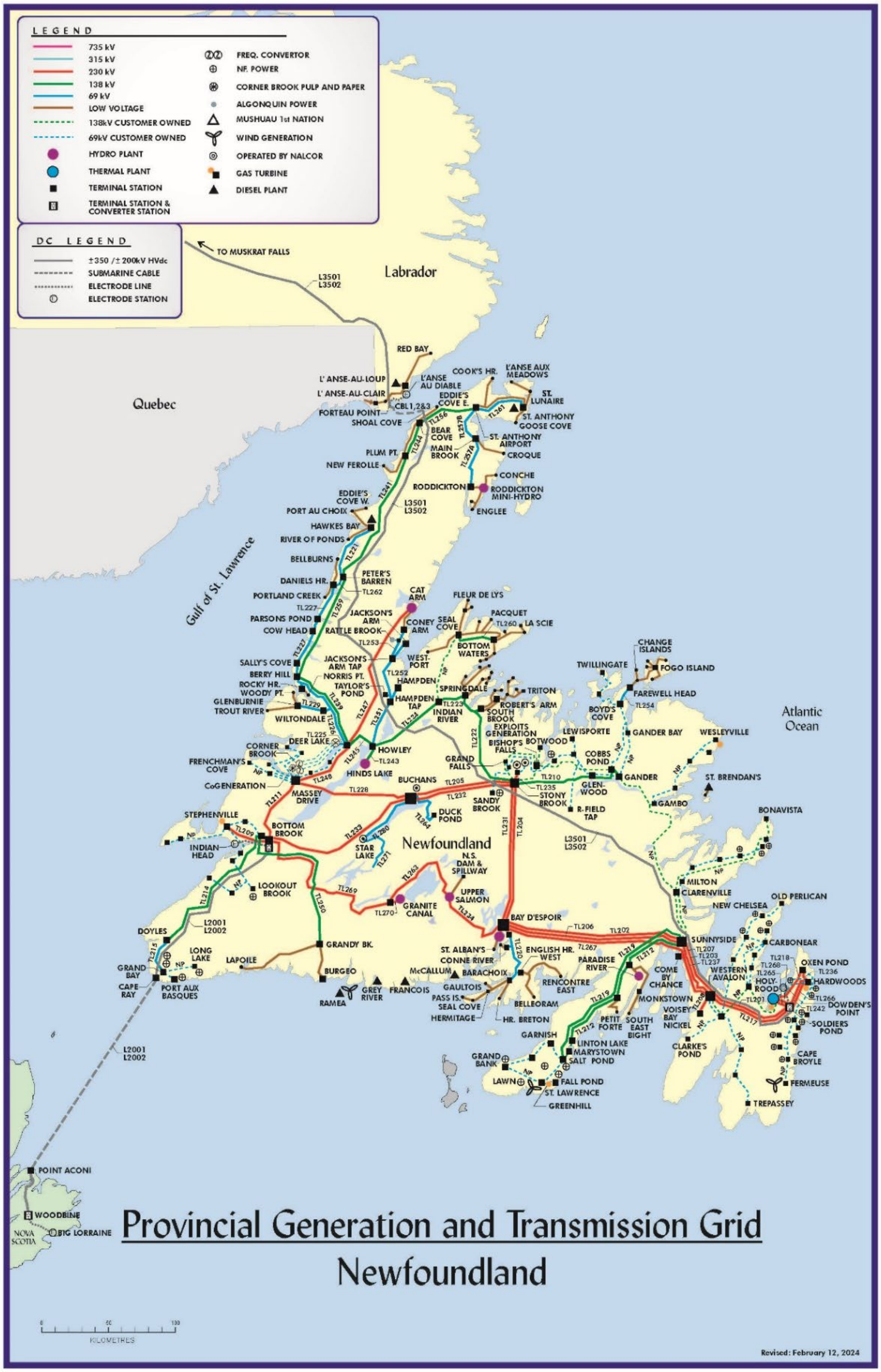
Industry experts predict that the electricity sector needs 28,000 workers by 2028.[36] As such, the future success of the organization is tied to attracting and retaining qualified employees who are engaged and invested in the organization. Hydro's ability to deliver on our organizational priorities can be materially impacted by engagement levels. A lack of employee engagement can also lead to increased absenteeism and may also affect safety, productivity and overall corporate performance.

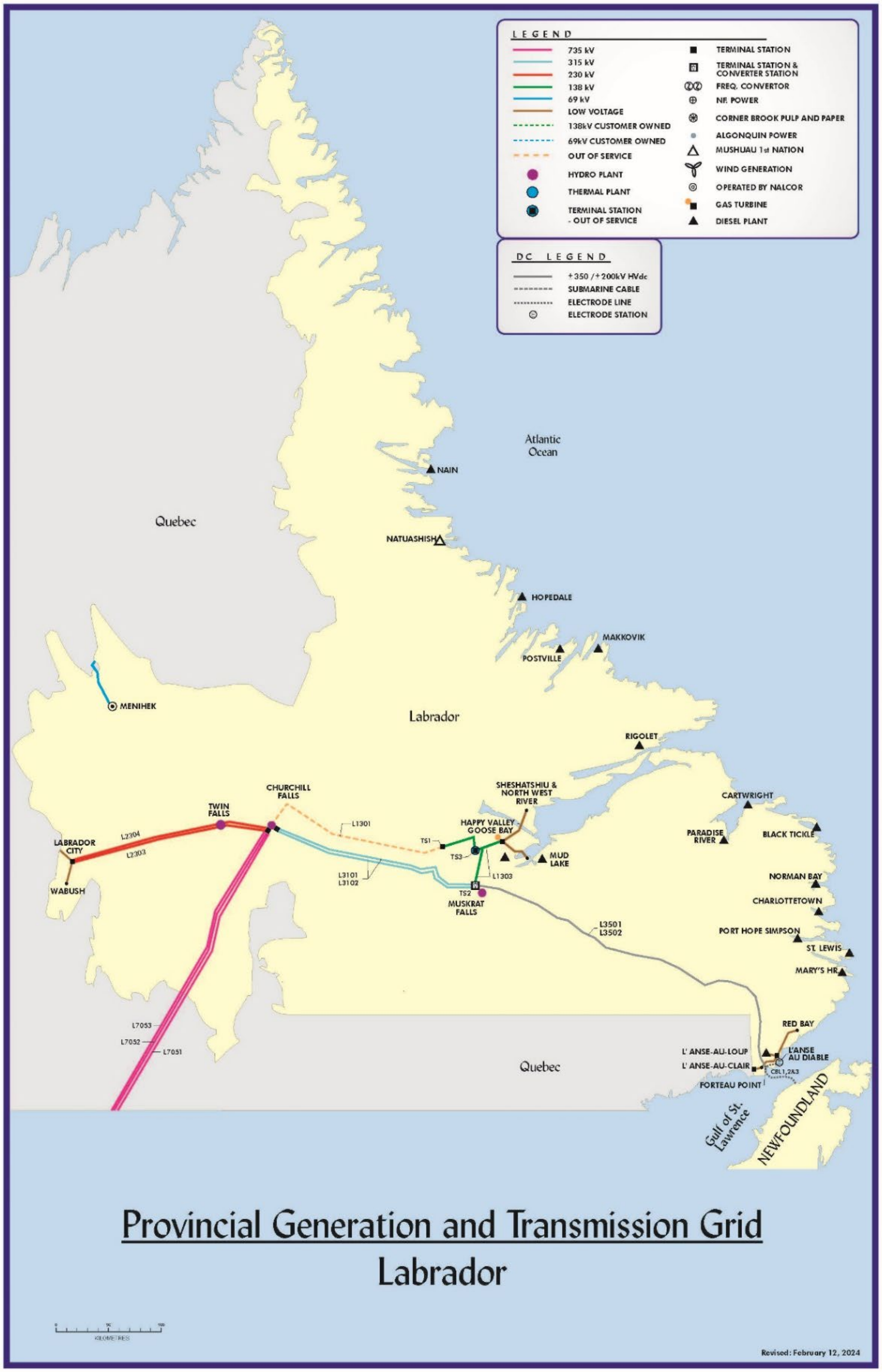
The labour market continues to be competitive with growth in new sectors, changing workforce demographics and competition beyond the local market due to the emergence of remote work opportunities. Hydro is actively monitoring trends and focusing on areas of the business that require increased support. While attrition may present opportunities, it also presents a risk to retention of key skill sets and critical knowledge.

Strategies supporting effective resourcing and retention remains a priority focus. Hydro continues to examine compensation which is a critical factor in talent attraction and retention. Workforce planning efforts are ongoing with a focus on supporting the organization's Major Projects priorities for future system supply additions as well as commencing work related to the MOU. Hydro's ability to successfully deliver on these high priority initiatives will be contingent upon having trained, qualified, engaged employees available to timely complete this work.

[36] Electricity Human Resources Canada, https://ehrc.ca/wp-content/uploads/2024/05/Electricity-in-Demand-Labour-Market-Insights.pdf

Appendix A:
Generation and Transmission Map


LEGEND
735 kV
315 kV
230 kV
138 kV
69 kV
LOW VOLTAGE
138kV CUSTOMER OWNED
69kV CUSTOMER OWNED
HYDRO PLANT
THERMAL PLANT
TERMINAL STATION
TERMINAL STATION & CONVERTER STATION
FREQ. CONVERTOR
NF. POWER
CORNER BROOK PULP AND PAPER
ALGONQUIN POWER
MUSHUAU 1st NATION
WIND GENERATION
OPERATED BY NALCOR
GAS TURBINE
DIESEL PLANT
DC LEGEND
±350 /± 200kV HVdc
SUBMARINE CABLE
ELECTRODE LINE
ELECTRODE STATION
TO MUSKRAT FALLS
L3501
L3502
Labrador
Quebec
Gulf of St. Lawrence
Atlantic Ocean
Newfoundland
RED BAY
L'ANSE-AU-LOUP
L'ANSE-AU-CLAIR
L'ANSE AU DIABLE
FORTEAU POINT
SHOAL COVE
CBL1,2&3
COOK'S HR.
L'ANSE AUX MEADOWS
EDDIE'S COVE E.
ST. LUNAIRE
ST. ANTHONY
GOOSE COVE
ST. ANTHONY AIRPORT
BEAR COVE
MAIN BROOK
CROQUE
PLUM PT.
NEW FEROLLE
CONCHE
RODDICKTON
RODDICKTON MINI-HYDRO
ENGLEE
EDDIE'S COVE W.
PORT AU CHOIX
HAWKES BAY
RIVER OF PONDS
BELLBURNS
DANIELS HR.
PETER'S BARREN
PORTLAND CREEK
PARSONS POND
COW HEAD
CAT ARM
JACKSON'S ARM
RATTLE BROOK
CONEY ARM
SEAL COVE
FLEUR DE LYS
PACQUET
LA SCIE
BOTTOM WATERS
JACKSON'S ARM TAP
WEST-PORT
NORRIS PT.
TAYLOR'S POND
HAMPDEN
HAMPDEN TAP
SPRINGDALE
TRITON
ROBERT'S ARM
SOUTH BROOK
INDIAN RIVER
SALLY'S COVE
BERRY HILL
ROCKY HR.
WOODY PT.
GLENBURNIE
TROUT RIVER
WILTONDALE
DEER LAKE
CORNER BROOK
FRENCHMAN'S COVE
CoGENERATION
MASSEY DRIVE
HOWLEY
HINDS LAKE
BUCHANS
GRAND FALLS
EXPLOITS GENERATION
BISHOP'S FALLS
BOTWOOD
LEWISPORTE
CHANGE ISLANDS
FOGO ISLAND
TWILLINGATE
FAREWELL HEAD
BOYD'S COVE
GANDER BAY
WESLEYVILLE
COBBS POND
GANDER
GLEN-WOOD
STONY BROOK
SANDY BROOK
R-FIELD TAP
GAMBO
ST. BRENDAN'S
BONAVISTA
DUCK POND
STEPHENVILLE
BOTTOM BROOK
INDIAN HEAD
STAR LAKE
N.S. DAM & SPILLWAY
UPPER SALMON
GRANITE CANAL
LOOKOUT BROOK
MILTON
CLARENVILLE
NEW CHELSEA
OLD PERLICAN
CARBONEAR
BAY D'ESPOIR
SUNNYSIDE
DOYLES
L2001
L2002
LONG LAKE
GRAND BAY
CAPE RAY
PORT AUX BASQUES
LAPOILE
GRANDY BK.
BURGEO
RAMEA
GREY RIVER
FRANCOIS
McCALLUM
ST. ALBAN'S
CONNE RIVER
BARACHOIX
ENGLISH HR. WEST
PARADISE RIVER
COME BY CHANCE
WESTERN AVALON
HOLYROOD
OXEN POND
HARDWOODS
DOWDEN'S POINT
SOLDIERS POND
GAULTOIS
PASS IS.
SEAL COVE
HERMITAGE
RENCONTRE EAST
BELLEORAM
HR. BRETON
MONKSTOWN
VOISEY BAY NICKEL
PETIT FORTE
SOUTH EAST BIGHT
GARNISH
LINTON LAKE
MARYSTOWN
SALT POND
GRAND BANK
CLARKE'S POND
CAPE BROYLE
FERMEUSE
TREPASSEY
LAWN
FALL POND
ST. LAWRENCE
GREENHILL
POINT ACONI
WOODBINE
BIG LORRAINE
NOVA SCOTIA
Provincial Generation and Transmission Grid
Newfoundland
KILOMETRES
Revised: February 12, 2024


LEGEND
735 kV
315 kV
230 kV
138 kV
69 kV
LOW VOLTAGE
138kV CUSTOMER OWNED
69kV CUSTOMER OWNED
OUT OF SERVICE
HYDRO PLANT
THERMAL PLANT
TERMINAL STATION - OUT OF SERVICE
TERMINAL STATION
TERMINAL STATION & CONVERTER STATION
FREQ. CONVERTOR
NF. POWER
CORNER BROOK PULP AND PAPER
ALGONQUIN POWER
MUSHUAU 1st NATION
WIND GENERATION
OPERATED BY NALCOR
GAS TURBINE
DIESEL PLANT
DC LEGEND
+350 /+200kV HVdc
SUBMARINE CABLE
ELECTRODE LINE
ELECTRODE STATION
Atlantic Ocean
NAIN
Quebec
NATUASHISH
HOPEDALE
MAKKOVIK
POSTVILLE
MENIHEK
Labrador
RIGOLET
SHESHATSHIU & NORTH WEST RIVER
CARTWRIGHT
CHURCHILL FALLS
TWIN FALLS
L1301
HAPPY VALLEY GOOSE BAY
PARADISE RIVER
BLACK TICKLE
LABRADOR CITY
L2304
L2303
TS1
TS3
MUD LAKE
L3101
L3102
L1303
NORMAN BAY
WABUSH
TS2
MUSKRAT FALLS
CHARLOTTETOWN
L3501
L3502
PORT HOPE SIMPSON
ST. LEWIS
MARY'S HR.
RED BAY
L7053
L7052
L7051
L' ANSE-AU-LOUP
L'ANSE AU DIABLE
L' ANSE-AU-CLAIR
Quebec
FORTEAU POINT
Gulf of St. Lawrence
NEWFOUNDLAND
Provincial Generation and Transmission Grid
Labrador
Revised: February 12, 2024

Generating Unit[37,38]	Maximum Continuous Unit Rating (MW)
Bay d'Espoir 1	76.5
Bay d'Espoir 2	76.5
Bay d'Espoir 3	76.5
Bay d'Espoir 4	76.5
Bay d'Espoir 5	76.5
Bay d'Espoir 6	76.5
Bay d'Espoir 7	154.4
Cat Arm 1	67
Cat Arm 2	67
Hinds Lake	75
Upper Salmon	84
Granite Canal	40
Paradise River	8
All Hydraulic Units - Regulated	**954.4**
Churchill Falls[39]	5,428
Muskrat Falls 1	206
Muskrat Falls 2	206
Muskrat Falls 3	206
Muskrat Falls 4	206
All Hydraulic Units – Non-Regulated	**6,252**
Holyrood 1	170
Holyrood 2	170
Holyrood 3	150
All Thermal Units	**490**
Stephenville	50
Hardwoods	50
Happy Valley	25
Holyrood GT	123.5
All Gas Turbines	**248.5**

[37] Hydro also operates the 80 MW Exploits Generation System on behalf of Government, which includes three hydroelectric facilities on the Interconnected System (Star Lake, Grand Falls and Bishop's Falls). In addition, Hydro has a number of power purchase agreements in place, including for hydro, co-generation, wind (54 MW) and biogas (approximately 0.4 MW).
[38] Hydro operates 23 remote diesel plants throughout the province, including two on the Interconnected System to provide backup power (totalling 14.7 MW), and 21 in isolated communities (five on the Island and 16 in Labrador, totalling 34 MW).
[39] This includes 300 MW in recapture power from Churchill Falls, as well as 225 MW from Twin Falls.

Appendix B:
Newfoundland and Labrador Hydro - Lines of Business

Newfoundland and Labrador Hydro - Lines of Business

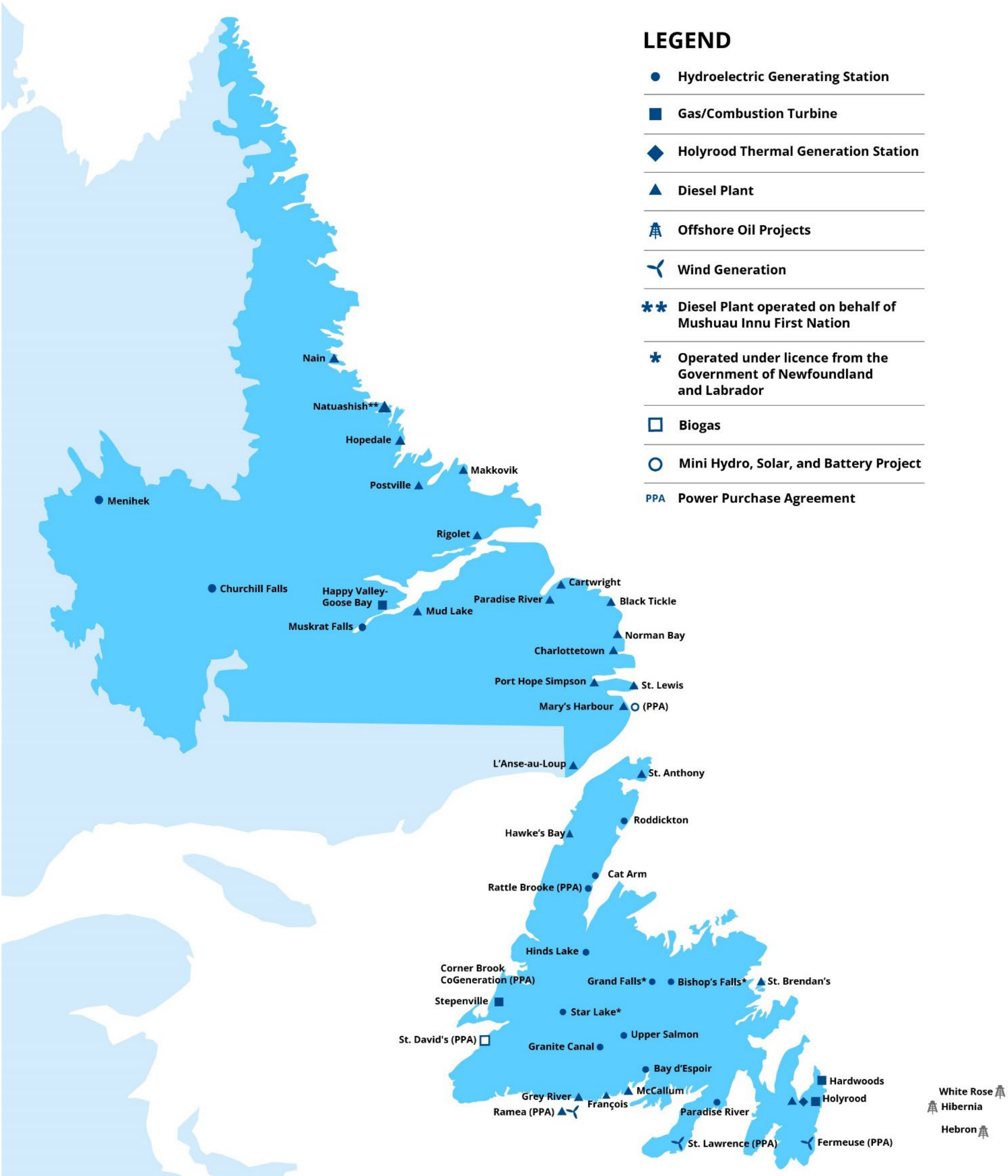
Newfoundland and Labrador Hydro (Hydro) delivers power to utility, industrial, residential and commercial customers in more than 200 communities in the province at the lowest possible cost consistent with safe, reliable and sustainable service.

Hydro activities can be grouped as follows:

- Electricity production – Hydro has an installed generating capacity of approximately 1,800 megawatts (MW) which includes the operations of hydroelectric generating stations, oil-fired plant, gas turbines, and diesel plants, including isolated diesel generating and distribution systems.
- Transmission and distribution – Hydro operates and maintains approximately 7,000 kilometres of transmission lines (regulated and non-regulated) and numerous terminal stations which connect to generation and provide delivery points for Newfoundland Power on the island, industrial customers, and Hydro's rural distribution systems province-wide. Hydro also operates and maintains over 3,000 kilometres of distribution lines throughout the province.
- The Newfoundland and Labrador System Operator acts as the independent operator to manage the provincial electricity system in real-time. It also provides Open Access to the provincial transmission network, which means providing transmission service to users like Hydro and other utilities, in an open, non-discriminatory and non-preferential manner.
- Customer service activities address the electricity requirements of Newfoundland Power, industrial customers and over 39,370 direct residential and commercial customers in rural Newfoundland and Labrador[40], and manages the only certified metering inspection centre in the province.
- Electricity system planning involves forecasting electricity requirements in the province and advancing options to ensure adequate supply of generation resources and transmission and distribution infrastructure to reliably meet forecasted demand and future system needs.

[40] http://www.pub.nl.ca/indexreports/20152019energysupply/From%20NLH%20-%20Energy%20Supply%20Monthly%20Report%20-%20December%202024%20-%202025-01-16.PDF

Appendix C:
Energy Portfolio


LEGEND
Hydroelectric Generating Station
Gas/Combustion Turbine
Holyrood Thermal Generation Station
Diesel Plant
Offshore Oil Projects
Wind Generation
** Diesel Plant operated on behalf of Mushuau Innu First Nation
* Operated under licence from the Government of Newfoundland and Labrador
Biogas
Mini Hydro, Solar, and Battery Project
PPA Power Purchase Agreement
Nain
Natuashish**
Hopedale
Makkovik
Postville
Menihek
Rigolet
Churchill Falls
Happy Valley-Goose Bay
Muskrat Falls
Mud Lake
Paradise River
Cartwright
Black Tickle
Norman Bay
Charlottetown
Port Hope Simpson
St. Lewis
Mary's Harbour
(PPA)
L'Anse-au-Loup
St. Anthony
Roddickton
Hawke's Bay
Cat Arm
Rattle Brooke (PPA)
Hinds Lake
Corner Brook CoGeneration (PPA)
Grand Falls*
Bishop's Falls*
St. Brendan's
Stepenville
Star Lake*
Upper Salmon
St. David's (PPA)
Granite Canal
Bay d'Espoir
Hardwoods
Holyrood
Grey River
McCallum
François
Ramea (PPA)
Paradise River
St. Lawrence (PPA)
Fermeuse (PPA)
White Rose
Hibernia
Hebron

Appendix D:
Newfoundland and Labrador Hydro Consolidated Financial Statements

NEWFOUNDLAND AND LABRADOR HYDRO
CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024

Deloitte.

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Independent Auditor's Report

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

Opinion

We have audited the consolidated financial statements of Newfoundland and Labrador Hydro (the "Company"), which comprise the consolidated statement of financial position as at December 31, 2024, and the consolidated statements of profit and comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including material accounting policy information (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2024, and its financial performance and its cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board ("IASB").

Basis for Opinion

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS Accounting Standards as issued by the IASB, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Deloitte LLP

Chartered Professional Accountants
March 20, 2025

NEWFOUNDLAND AND LABRADOR HYDRO
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31 (millions of Canadian dollars)	Notes	**2024**	2023
ASSETS			
Current assets			
Cash		**94**	115
Trade and other receivables	5	**161**	130
Inventories	6	**119**	115
Prepayments		**6**	7
Contract receivable	25	**3**	13
Deferred asset	7	**84**	68
Other current assets	9	**32**	18
Total current assets		**499**	466
Non-current assets			
Property, plant and equipment	8	**3,070**	2,958
Other long-term assets	9	**237**	247
Total assets		**3,806**	3,671
Regulatory deferrals	10	**1,493**	889
Total assets and regulatory deferrals		**5,299**	4,560
LIABILITIES AND EQUITY			
Current liabilities			
Short-term borrowings	12	**590**	230
Trade and other payables	11	**228**	195
Current portion of contract payable	25	**325**	274
Current portion of long-term debt	12	**7**	7
Derivative liability	24	**84**	68
Current portion of deferred credits	13	**9**	5
Deferred revenue		**4**	-
Other current liabilities		**6**	3
Total current liabilities		**1,253**	782
Non-current liabilities			
Long-term debt	12	**2,001**	2,017
Deferred contributions	14	**48**	44
Deferred credits	13	**16**	17
Decommissioning liabilities	15	**27**	27
Employee future benefits	17	**108**	100
Contract payable	25	**401**	178
Other long-term liabilities		**6**	3
Total liabilities		**3,860**	3,168
Shareholder's equity			
Share capital	18	**23**	23
Contributed capital	18	**147**	148
Reserves		**16**	19
Retained earnings		**1,201**	1,159
Total equity		**1,387**	1,349
Total liabilities and equity		**5,247**	4,517
Regulatory deferrals	10	**52**	43
Total liabilities, equity and regulatory deferrals		**5,299**	4,560

Commitments and contingencies (Note 26) and Subsequent event (Note 30)

See accompanying notes

On behalf of the Board:

DIRECTOR   DIRECTOR

NEWFOUNDLAND AND LABRADOR HYDRO
CONSOLIDATED STATEMENT OF PROFIT AND COMPREHENSIVE INCOME

For the year ended December 31 (millions of Canadian dollars)	Notes	**2024**	2023
Energy sales		**874**	863
Other revenue	19	**323**	412
Revenue		**1,197**	1,275
Fuels		**169**	187
Power purchased	20	**1,138**	944
Operating costs	21	**196**	199
Transmission rental		**19**	19
Depreciation and amortization		**102**	99
Net finance expense	22	**104**	89
Other expense	23	**24**	10
Expenses		**1,752**	1,547
Loss for the year before regulatory adjustments		**(555)**	(272)
Regulatory adjustments	10	**(597)**	(342)
Profit for the year		**42**	70
Other comprehensive loss			
Actuarial loss on employee future benefits regulatory adjustment		**(1)**	(2)
Actuarial loss on employee future benefits	17	**(3)**	(11)
Net fair value gain on reserve fund		**1**	1
Other comprehensive loss for the year		**(3)**	(12)
Total comprehensive income for the year		**39**	58

See accompanying notes

NEWFOUNDLAND AND LABRADOR HYDRO
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(millions of Canadian dollars)		Share Capital	Contributed Capital	Reserves	Retained Earnings	Total
Balance at January 1, 2024		**23**	**148**	**19**	**1,159**	**1,349**
Profit for the year		**-**	**-**	**-**	**42**	**42**
Other comprehensive loss for the year		**-**	**-**	**(3)**	**-**	**(3)**
Total comprehensive income for the year		**-**	**-**	**(3)**	**42**	**39**
Regulatory adjustment	**18**	**-**	**(1)**	**-**	**-**	**(1)**
Balance at December 31, 2024		**23**	**147**	**16**	**1,201**	**1,387**
Balance at January 1, 2023		23	149	31	1,094	1,297
Profit for the year		-	-	-	70	70
Other comprehensive loss for the year		-	-	(12)	-	(12)
Total comprehensive income for the year		-	-	(12)	70	58
Regulatory adjustment	18	-	(1)	-	-	(1)
Dividends	18	-	-	-	(5)	(5)
Balance at December 31, 2023		23	148	19	1,159	1,349

See accompanying notes

NEWFOUNDLAND AND LABRADOR HYDRO
CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31 (millions of Canadian dollars)	Notes	**2024**	2023
Operating activities			
Profit for the year		**42**	70
Adjustments to reconcile profit to cash (used in) provided from operating activities:			
Depreciation and amortization		**102**	99
Regulatory adjustments	10	**(597)**	(342)
Finance income	22	**(25)**	(24)
Finance expense	22	**129**	113
Loss on disposal of property, plant, and equipment	23	**8**	7
Other		**5**	1
		(336)	(76)
Changes in non-cash working capital balances	28	**1**	(14)
Increase in contract payable	25	**274**	287
Decrease (increase) in contract receivable	25	**10**	(13)
Increase in deferred revenue	25	**4**	-
Interest received		**10**	11
Interest paid		**(128)**	(113)
Net cash (used in) provided from operating activities		**(165)**	82
Investing activities			
Additions to property, plant and equipment and intangible assets	8	**(219)**	(197)
Contributions to sinking funds	9	**(7)**	(7)
Decrease in related party loan receivable		**-**	30
Withdrawals from reserve fund	9	**2**	-
Changes in non-cash working capital balances	28	**(2)**	12
Net cash used in investing activities		**(226)**	(162)
Financing activities			
Increase in short-term borrowings	12	**360**	99
Other		**10**	4
Changes in non-cash working capital balances	28	**-**	(5)
Net cash provided from financing activities		**370**	98
Net (decrease) increase in cash		**(21)**	18
Cash, beginning of the year		**115**	97
Cash, end of the year		**94**	115

See accompanying notes

NEWFOUNDLAND AND LABRADOR HYDRO
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS

Newfoundland and Labrador Hydro (Hydro or the Company) is incorporated under a special act of the Legislature of the Province of Newfoundland and Labrador (the Province). The principal activity of Hydro is the generation, transmission and sale of electricity. Hydro's operations include both regulated and non-regulated activities. Hydro is a 100% owned subsidiary of Nalcor Energy (Nalcor). Hydro's head office is located at 500 Columbus Drive in St. John's, Newfoundland and Labrador, A1B 0C9, Canada.

Hydro holds interests in the following entities:

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

A 51.0% interest in Lower Churchill Development Corporation (LCDC), an inactive subsidiary. LCDC is incorporated under the laws of Newfoundland and Labrador and was established with the objective of developing all or part of the hydroelectric potential of the Lower Churchill River.

2. MATERIAL ACCOUNTING POLICIES

2.1 Statement of Compliance and Basis of Measurement

These annual audited consolidated financial statements (financial statements) have been prepared in accordance with IFRS® Accounting Standards, as issued by the International Accounting Standards Board (IASB).

These financial statements have been prepared on a historical cost basis, except for financial instruments at fair value through profit or loss (FVTPL) and fair value through other comprehensive income (FVTOCI) which have been measured at fair value. The financial statements are presented in Canadian Dollars (CAD) and all values rounded to the nearest million, except when otherwise noted. The financial statements were approved by Hydro's Board of Directors (the Board) on March 7, 2025.

2.2 Basis of Consolidation

The financial statements include the financial statements of Hydro, its subsidiary companies, its proportionate share of investments in joint arrangements and its share of investments over which Hydro exercises significant influence using the equity method of accounting. In addition, the financial statements of all structured entities, for which Hydro has been determined the primary beneficiary, are included in these financial statements. Intercompany transactions and balances have been eliminated upon consolidation.

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. 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 10. 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 and generators, governors and exciters, and auxiliary systems, as well as water conveying and control structures, including dams, dikes, tailraces, surge chambers, 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, dikes and liners and cooling systems.

Transmission and distribution include transmission and distribution lines and terminal stations. Transmission lines include the support structures, foundations, conductors and insulators associated with lines at voltages of 735, 230, 138 and 69 kilovolt (kV). Terminal station assets which are used to step up voltages of electricity for transmission and to step down voltages for distribution, provide switching and protection functions, and include auxiliary systems.

Distribution system assets include poles, transformers, insulators, and conductors.

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

The carrying amount of a replaced asset is derecognized when replaced. Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recorded in Other expense. Pursuant to Board Order No. P.U. 30 (2019), the 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, costs of technical services 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 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 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 Consolidated Statement of Profit and Comprehensive Income.

2.9 Investment in Joint Arrangement

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

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

2.10 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 Consolidated Statement of Profit and Comprehensive Income as a regulatory adjustment.

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

2.11 Provisions

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

2.12 Decommissioning, Restoration and Environmental Liabilities

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

2.13 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. Churchill Falls also recognizes revenue from contracts with customers related to the sale of electricity, capacity and telecommunication services. 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.

2.14 Leasing

<u>Lessee Accounting</u>

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.

2.15 Foreign Currencies

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

2.16 Income Taxes

Hydro is exempt from paying income taxes under Paragraph 149(1) (d.2) of the Income Tax Act.

2.17 Financial Instruments

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

Financial assets are classified at amortized cost, 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, and sinking fund investments.

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

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

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

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, sinking funds and the reserve fund.

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

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

2.18 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 revenue in the Consolidated Statement of Financial Position and transferred to the Consolidated Statement of Profit and Comprehensive Income on a systematic and rational basis over the useful lives of the related assets.

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

2.19 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 allowed rate of return on average rate base approved in Board Order No. P.U. 30 (2019) is 5.4% in 2024 and 5.4% in 2023. 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 10.

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.

Management exercises judgment in its recognition of government grants in Other revenue. Specifically, that it has complied with the conditions of government grants as the expenses have been incurred and recognized in the appropriate regulatory deferral.

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) Consolidation of Joint Arrangements
Management exercises judgment when applying the criteria outlined in IFRS 11 to determine whether joint arrangements constitute joint ventures or joint operations. Management has determined that its interest in Churchill Falls is considered a joint operation.

(vi) Regulatory adjustments

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

3.2 Use of Estimates

(i) Property, Plant and Equipment

Amounts recorded for depreciation are based on the useful lives of Hydro's assets. The useful lives of property, plant and equipment 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 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 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 severance payment upon retirement. The expected cost of providing these other employee benefits is accounted for on an accrual basis, and has been actuarially determined using the projected unit credit method prorated on service, and Management's best estimate of salary escalation, retirement ages of employees and expected health care costs.

(iv) Deferred Assets and Derivative Liabilities

Effective October 1, 2015, Hydro entered into a power purchase agreement (PPA) with Nalcor Energy Marketing Corporation (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 at December 31, 2024, 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/interpretations that have been issued and are effective for accounting periods commencing on or after January 1, 2024, as specified.

- *Amendments to IAS 1 – Presentation of Financial Statements – Classification of Liabilities as Current or Non-Current and Non-Current Liabilities with Covenants*[1]
- *Amendments to IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosure – Contracts Referencing Nature-dependent Electricity*[2]
- *IFRS 18 – Presentation and Disclosures in Financial Statements* [3]

[1] Effective for annual periods beginning on or after January 1, 2024.
[2] Effective for annual periods beginning on or after January 1, 2026, with earlier application permitted.
[3] Effective for annual periods beginning on or after January 1, 2027, with earlier application permitted.

4.1 Amendments to IAS 1 – Presentation of Financial Statements – Classification of Liabilities as Current or Non-Current and Non-Current Liabilities with Covenants

The IASB issued amendments to IAS 1 to promote consistency in applying the requirements by helping companies determine whether, in the Statement of Financial Position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The classification is based on rights that are in existence at the end of the reporting period and specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability. Additional information was added to clarify that only covenants with which an entity is required to comply on or before the reporting date affect the classification of a liability as current or non-current. In addition, an entity has to disclose information in the notes that enables users of the financial statements to understand the risk that non-current liabilities with covenants could become repayable within 12 months. The amendments are applied retrospectively upon adoption. The application of these amendments did 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. Management is currently assessing the potential impact on Hydro's financial statements.

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4.3 IFRS 18 – Presentation and Disclosures in Financial Statements

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

An entity is required to apply IFRS 18 for annual reporting periods beginning on or after 1 January 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.

5. TRADE AND OTHER RECEIVABLES

As at December 31 (millions of Canadian dollars)	Note	**2024**	2023
Trade receivables		**130**	125
Other receivables		**30**	12
Due from related parties	25	**25**	16
Loss allowance		**(24)**	(23)
		161	130

As at December 31 (millions of Canadian dollars)	**2024**	2023
0-60 days	**158**	128
60+ days	**3**	2
	161	130

As at December 31 (millions of Canadian dollars)	**2024**	2023
Loss allowance, beginning of the year	**(23)**	(19)
Change in balance during the year	**(1)**	(4)
Loss allowance, end of the year	**(24)**	(23)

6. INVENTORIES

As at December 31 (millions of Canadian dollars)	**2024**	2023
Fuel	**59**	59
Materials and other	**60**	56
	119	115

Fuel inventory includes No. 6 fuel in the amount of $44.4 million (2023 - $41.0 million). The cost of inventories recognized as an expense during the year is $174.6 million (2023 - $192.5 million) and is included in operating costs and fuels.

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7. DEFERRED ASSET

The deferred asset related to Hydro's Power Purchase Agreement (PPA) with Energy Marketing is amortized into income on a straight-line basis over the assumed twelve month term of the contract, which commenced on January 1, 2024. In December 2024, 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 $83.9 million (2023 - $68.1 million) to be amortized into income on a straight-line basis over the assumed twelve month term, commencing on January 1, 2025. The components of change are as follows:

As at December 31 (millions of Canadian dollars)	**2024**	2023
Deferred asset, beginning of the year	**68**	86
Additions	**84**	68
Amortization	**(68)**	(86)
Deferred asset, end of the year	**84**	68

8. PROPERTY, PLANT AND EQUIPMENT

(millions of Canadian dollars)	Generation Plant	Transmission and Distribution	Other	Assets Under Development	Total
Cost					
Balance at January 1, 2023	2,147	1,525	350	67	4,089
Additions	-	-	-	199	199
Disposals	(10)	(2)	(8)	-	(20)
Transfers	64	64	21	(149)	-
Decommissioning liabilities and revisions	9	-	-	-	9
Other adjustments	(1)	-	-	(2)	(3)
Balance at December 31, 2023	2,209	1,587	363	115	4,274
Additions	**1**	**-**	**-**	**220**	**221**
Disposals	**(19)**	**(2)**	**(9)**	**-**	**(30)**
Transfers	**112**	**85**	**30**	**(227)**	**-**
Decommissioning liabilities and revisions	**1**	**-**	**-**	**-**	**1**
Other adjustments	**(4)**	**-**	**-**	**2**	**(2)**
Balance at December 31, 2024	**2,300**	**1,670**	**384**	**110**	**4,464**
Depreciation					
Balance at January 1, 2023	751	332	149	-	1,232
Depreciation	45	36	16	-	97
Disposals	(5)	(1)	(7)	-	(13)
Balance at December 31, 2023	791	367	158	-	1,316
Depreciation	**49**	**37**	**14**	**-**	**100**
Disposals	**(13)**	**(1)**	**(8)**	**-**	**(22)**
Balance at December 31, 2024	**827**	**403**	**164**	**-**	**1,394**
Carrying value					
Balance at January 1, 2023	1,396	1,193	201	67	2,857
Balance at December 31, 2023	1,418	1,220	205	115	2,958
Balance at December 31, 2024	**1,473**	**1,267**	**220**	**110**	**3,070**

Capitalized interest for the year ended December 31, 2024 was $2.0 million (2023 - $1.9 million) related to assets under development.

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9. OTHER LONG-TERM ASSETS

As at December 31 (millions of Canadian dollars)		**2024**	2023
Sinking funds	(a)	**211**	206
Reserve fund	(b)	**50**	50
Intangible assets		**6**	7
Right-of-use assets		**2**	2
		269	265
Less: current portion		**(32)**	(18)
		237	247

(a) As at December 31, 2024, sinking funds include $211.2 million (2023 - $205.9 million) related to repayment of Hydro's long-term debt. Sinking fund investments consist of bonds, debentures, short-term borrowings and coupons issued by, or guaranteed by, the Government of Canada, provincial governments or Schedule 1 banks, and have maturity dates ranging from 2025 to 2033.

Hydro debentures, which are intended to be held to maturity, are deducted from debt while all other sinking fund investments are shown separately on the Consolidated Statement of Financial Position as assets. Annual contributions to the various sinking funds are in accordance with bond indenture terms, and are structured to ensure the availability of adequate funds at the time of expected bond redemption. Effective yields range from 1.42% to 6.82% (2023 – 1.42% to 6.82%).

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

As at December 31 (millions of Canadian dollars)	**2024**	2023
Sinking funds, beginning of the year	**206**	202
Contributions	**7**	7
Change in sinking fund investments in own debentures	**(17)**	(17)
Earnings	**15**	14
Sinking funds, end of the year	**211**	206
Less: sinking fund investments maturing within one year	**(20)**	(7)
	191	199

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

(millions of Canadian dollars)	2025	2026	2027	2028	2029
Sinking fund instalments	7	4	4	4	4

(b) Churchill Falls maintains a $75.0 million segregated reserve fund pursuant to the terms of the Shareholders' Agreement to contribute towards the funding of capital expenditures related to Churchill Falls' existing facilities and their replacement.

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

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

As at December 31 (millions of Canadian dollars)	**2024**	2023
Reserve fund, beginning of the year	**50**	49
Principal withdrawals	**(2)**	-
Mark-to-market adjustment	**2**	1
Reserve fund, end of the year	**50**	50
Less: current portion	**(12)**	(11)
	38	39

10. REGULATORY DEFERRALS

(millions of Canadian dollars)		January 1 2024	Reclass & Disposition	Regulatory Activity	**December 31 2024**	Remaining Recovery Settlement Period (years)
Regulatory asset deferrals						
Power purchase expense recognition	(a)	440	-	286	**726**	n/a
Supply cost variance deferral account	(b)	271	-	261	**532**	n/a
Muskrat Falls PPA monetization	(c)	13	-	61	**74**	n/a
Retirement asset pool	(d)	40	-	6	**46**	n/a
Foreign exchange losses	(e)	39	-	(2)	**37**	17.0
Rate stabilization plan (RSP)	(f)	47	12	(28)	**31**	n/a
Muskrat Falls PPA sustaining capital	(g)	5	-	11	**16**	n/a
Business system transformation program	(h)	9	-	2	**11**	n/a
Deferred energy conservation costs	(i)	7	-	1	**8**	n/a
Supply deferral	(j)	12	(12)	6	**6**	n/a
Other		6	-	-	**6**	n/a
		889	-	604	**1,493**	
Regulatory liability deferrals						
Removal provision	(k)	(23)	-	(4)	**(27)**	n/a
Holyrood thermal generating station (TGS) accelerated depreciation deferral account	(l)	(10)	-	(4)	**(14)**	n/a
Insurance amortization and proceeds	(m)	(4)	-	-	**(4)**	n/a
Other		(6)	-	(1)	**(7)**	n/a
		(43)	-	(9)	**(52)**	

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

For the year ended December 31 (millions of Canadian dollars)		**2024**	2023
Power purchase expense recognition	(a)	**(286)**	(275)
Supply cost variance deferral account	(b)	**(261)**	(81)
Muskrat Falls PPA monetization	(c)	**(61)**	13
RSP	(f)	**28**	14
Muskrat Falls PPA sustaining capital	(g)	**(11)**	(4)
Supply deferral	(j)	**(6)**	(12)
Retirement asset pool	(d)	**(6)**	(5)
Holyrood TGS accelerated depreciation deferral account	(l)	**4**	10
Removal provision	(k)	**4**	1
Other		**(2)**	(3)
		(597)	(342)

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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 2024 would have decreased by $596.9 million (2023 - $342.4 million).

10.(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, 2024, IFRS power purchase expenses were $286.2 million (2023 - $274.5 million) higher than commercial payments which resulted in a total regulatory asset of $726.5 million (2023 - $440.3 million).

10.(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 come from Hydro and Nalcor's own sources, to the extent possible.

The Province has also directed Hydro and Nalcor to retire the ending 2023 Supply Cost Variance Deferral Account (SCVDA) balance of $271.3 million over the 2024-2026 period, and to transfer $90.0 million from Nalcor to Hydro, in 2024, as the first year of the three annual amounts to retire the 2023 balance. (In 2023 a $190.4 million grant was provided by the Province). In 2024, the second drawing on the convertible debenture of $150.3 million, including interest (2023 - $144.7 million), was received by LIL (2021) Limited Partnership and the funds were transferred to Hydro for the purpose of mitigating projected future customer rate increases that would be required to recover net supply costs. The total amount of rate mitigation funding received in 2024 was $240.3 million (2023 - $335.1 million). This rate mitigation funding offset by normal activity of the SCVDA of $500.8 million (2023 - $416.0 million), resulted in a net increase in the account of $260.4 million (2023 - $80.9 million). The total balance owing from customers for year ended December 31, 2024 is $531.7 million (2023 - $271.3 million). In February 2025, Hydro applied $441.0 million of rate mitigation funding against the SCVDA. Use of these funds from Hydro's own sources reduced Hydro's non-regulated net income.

10.(c) Muskrat Falls PPA Monetization

Under the Muskrat Falls PPA, 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 resulting in a regulatory receivable. In 2024, Hydro eliminated the 2023 balance of the regulatory receivable in the amount of $13.3 million upon actual monetization of the 2023 undelivered Schedule II energy and recorded a regulatory receivable for the estimated monetization of 2024 undelivered Schedule II energy of $73.8 million (2023 - $13.3 million).

10.(d) 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 2024, Hydro deferred $5.8 million (2023 - $4.8 million) of retirement asset activity resulting in a total balance of $45.9 million (2023 - $40.2 million).

10.(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 2024, amortization expense of $2.2 million (2023 - $2.2 million) was recorded.

10.(f) 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 2024, Hydro recovered $30.2 million (2023 - $16.5 million) from customers. As well, Board Order No. P.U. 10 (2024) approved the recovery of the 2023 Isolated Systems Supply Cost Variance Deferral from the RSP Current Plan resulting in an increase to the RSP of $11.6 million (2023 - $8.7 million). This activity and associated interest accrued of $2.2 million in 2024 (2023 - $3.0 million) resulted in a remaining balance for future recovery from customers of $31.0 million (2023 - $47.4 million).

10.(g) 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 2024, Hydro has deferred $11.0 million (2023 - $4.4 million) in contribution activity resulting in a total balance of $15.9 million (2023 - $4.9 million).

10.(h) 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 (2023 - $1.5 million), resulting in a total deferral of $10.7 million (2023 - $9.2 million).

10.(i) Deferred Energy Conservation Costs

In 2024, Hydro deferred $1.4 million (2023 - $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), Hydro recovered $0.9 million (2023 - $1.6 million) of the balance through a rate rider which resulted in a total deferred balance of $7.8 million (2023 - $7.3 million).

10.(j) Supply Deferral

The Supply Deferral consists of the Isolated Systems Supply Cost Variance Deferral only as per Board Order No. P.U. 33 (2021). During 2024, Hydro recorded a net decrease in the supply deferral asset of $5.6 million (2023 - $3.4 million increase) resulting in a balance from customers of $6.7 million (2023 - $12.3 million). The decrease is primarily due to the recovery of the 2023 Isolated System Supply Cost Variance Deferral balance as per Board Order No. P.U. 10 (2024) with $11.6 million of the total (2023 - $8.7 million) recovered from the current RSP Plan, partially offset by the normal operation of the deferral of $6.5 million (2023 - $5.6 million).

10.(k) 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 2024 activity of $4.1 million (2023 - $0.8 million) resulting in a total balance of $26.9 million (2023 - $22.8 million). The increase was driven by removal depreciation of $5.8 million (2023 - $5.5 million) which was partially offset by removal costs of $1.7 million (2023 - $4.7 million).

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10.(l) 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 2023 and 2024 and the accelerated depreciation expense included in the approved 2019 Test Year. For the year ended December 31, 2024, the Holyrood accelerated depreciation expense was $6.8 million lower (2023 - $12.3 million lower) than the 2019 Test Year depreciation resulting in a regulatory liability of $14.1 million (2023 - $9.8 million). The disposition of the balance of this account is subject to a further Board Order from the PUB.

10.(m) 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 2024, Hydro recorded a net decrease of $0.1 million (2023 - $0.1 million) to the regulatory liability resulting in a balance of $3.9 million (2023 - $4.0 million). The decrease was driven by insurance amortization of $0.1 million (2023 - $0.1 million).

11. TRADE AND OTHER PAYABLES

As at December 31 (millions of Canadian dollars)	Note	**2024**	2023
Trade payables		**129**	117
Due to related parties	25	**57**	36
Accrued interest payable		**17**	17
Other payables		**25**	25
		228	195

12. DEBT

12.1 Short-term Borrowings

Hydro has a $300.0 million provincially guaranteed promissory note program and a $500.0 million committed credit facility to fulfil its short-term funding requirements. As at December 31, 2024, there were four promissory notes outstanding for a total of $300.0 million with a maturity date of January 2, 2025 bearing interest rates ranging from 3.31% to 3.36% (2023 - two promissory notes for a total of $230.0 million maturing January 2, 2024 bearing interest rates ranging from 5.15% to 5.17%). Upon maturity, the promissory notes were reissued.

Hydro's $500.0 million committed revolving term credit facility has a maturity date of July 31, 2025. As at December 31, 2024, there was an advance on the credit facility in the amount of $290.0 million with a maturity date of January 2, 2025 bearing interest at a rate of 4.09% (2023 - $nil). Upon maturity the advance was reissued. This amount combined with the $300.0 million provincially guaranteed promissory note program resulted in total short-term borrowings of $590.0 million as at December 31, 2024 (2023 - $230.0 million).

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12.2 Long-term Debt

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

As at December 31 (millions of Canadian dollars)	Face Value	Coupon Rate %	Year of Issue	Year of Maturity	**2024**	2023
Hydro						
Y*	300	8.40	1996	2026	**299**	298
AB*	300	6.65	2001	2031	**303**	304
AD*	125	5.70	2003	2033	**124**	124
AF	500	3.60	2014/2017	2045	**483**	483
1A	600	3.70	2017/2018	2048	**636**	636
2A	300	1.75	2021	2030	**291**	290
Total	2,125				**2,136**	2,135
Less: Sinking fund investments in own debentures					**128**	111
					2,008	2,024
Less: Sinking fund payments due within one year					**7**	7
					2,001	2,017

*Sinking funds have been established for these issues.

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 with the exception of Series 1A and 2A. 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, 2024 was $8.9 million (2023 - $8.8 million).

13. DEFERRED CREDITS

The deferred credits primarily relate to Churchill Falls' obligation to provide required telecommunications services to Hydro-Québec in exchange for significant updates to the microwave telecommunications equipment linking the Churchill Falls Generating Station to Hydro-Québec's transmission system. On November 4, 2022, Churchill Falls received legal title to the assets in consideration for providing telecommunications services to Hydro-Québec over the term of the contract ending August 31, 2041. The deferred credit will be recognized in Other revenue evenly over the contract term as Churchill Falls satisfies its performance obligation.

The deferred credits also include contributions received by Hydro from customers to complete interconnection studies and obligations to provide future transmission services to Energy Marketing.

As at December 31 (millions of Canadian dollars)	**2024**	2023
Deferred credits, beginning of the year	**22**	22
Additions	**4**	1
Amortization	**(1)**	(1)
Deferred credits, end of the year	**25**	22
Less: current portion	**(9)**	(5)
	16	17

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14. 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)	**2024**	2023
Deferred contributions, beginning of the year	**45**	42
Additions	**6**	5
Amortization	**(1)**	(2)
Deferred contributions, end of the year	**50**	45
Less: current portion	**(2)**	(1)
	48	44

15. 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 for December 31, 2024 and 2023 are as follows:

As at December 31 (millions of Canadian dollars)	**2024**	2023
Decommissioning liabilities, beginning of the year	**29**	20
Liabilities settled	**(1)**	(1)
Accretion	**1**	1
Revisions	**1**	9
Decommissioning liabilities, end of the year	**30**	29
Less: current portion	**(3)**	(2)
	27	27

The total estimated undiscounted cash flows required to settle the Holyrood TGS obligations at December 31, 2024 are $34.9 million (2023 - $34.8 million). Payments to settle the liability are expected to occur between 2025 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 3.4% (2023 - 3.8%). Hydro has recorded $28.5 million (2023 - $26.4 million) related to Holyrood TGS obligations.

The total estimated undiscounted cash flows required to settle the PCB obligations at December 31, 2024 are $0.2 million (2023 - $0.3 million). Payments to settle the liability are expected to occur in 2025. 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 3.3% (2023 - 4.2%). Hydro has recorded $0.2 million (2023 - $0.2 million) related to PCB obligations.

Churchill Falls has recognized liabilities associated with the disposal of PCB. The total estimated undiscounted cash flows required to settle the PCB obligations at December 31, 2024 are $1.0 million (2023 - $1.6 million). The fair value of a portion of the decommissioning liabilities was determined using the present value of future cash flows discounted at the Company's credit adjusted risk free rate of 3.5% (2023 - 5.1%).

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.

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16. LEASES

Amounts Recognized in the Consolidated Statement of Profit and Comprehensive Income

For the year ended December 31 (millions of Canadian dollars)		**2024**	2023
Variable lease payments not included in the measurement of leases	(a)	**28**	30

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

The total cash outflow for leases for the year ended December 31, 2024 amount to $28.4 million (2023 - $29.8 million).

17. EMPLOYEE FUTURE BENEFITS

17.1 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, 2024 of $11.0 million (2023 - $9.9 million) are expensed as incurred.

17.2 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 2024, cash payments to beneficiaries for its unfunded other employee future benefits were $3.7 million (2023 - $3.5 million). An actuarial valuation was performed as at December 31, 2024.

As at December 31 (millions of Canadian dollars)	Notes	**2024**	2023
Accrued benefit obligation, beginning of the year		**100**	86
Current service cost		**3**	2
Interest cost		**5**	5
Benefits paid		**(4)**	(4)
Actuarial loss	(a)	**3**	11
Transfers		**1**	-
Accrued benefit obligation, end of the year		**108**	100

(a) Pursuant to Board Order No. P.U. 36 (2015), Hydro recorded $1.0 million (2023 - $2.0 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)	**2024**	2023
Component of benefit cost		
Current service cost	**3**	2
Interest cost	**5**	5
Total benefit expense for the year	**8**	7

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

	2024	2023
Discount rate - benefit cost	**4.65%**	5.20%
Discount rate - accrued benefit obligation	**4.70%**	4.65%
Rate of compensation increase	**3.50%**	3.50%

Assumed healthcare trend rates:

	2024	2023
Initial health care expense trend rate	**5.85%**	6.00%
Cost trend decline to	**3.60%**	3.60%

Current rate 5.85%, reducing linearly to 3.6% in 2040 and thereafter.

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

Increase (millions of Canadian dollars)	**2024**	2023
Current service and interest cost	**1**	1
Accrued benefit obligation	**14**	13

Decrease (millions of Canadian dollars)	**2024**	2023
Current service and interest cost	**(1)**	(1)
Accrued benefit obligation	**(11)**	(10)

18. SHAREHOLDER'S EQUITY

18.1 Share Capital

As at December 31 (millions of Canadian dollars)	**2024**	2023
Common shares of par value of $1 each		
Authorized - 25,000,000		
Issued, paid and outstanding - 22,503,942	**23**	23

18.2 Contributed Capital

As at December 31 (millions of Canadian dollars)	**2024**	2023
Contributed capital for the year	**155**	155
Regulatory adjustment, beginning of the year	**(7)**	(6)
Amortization recognized as a regulatory adjustment	**(1)**	(1)
	147	148

During 2024, Lower Churchill Management Corporation (LCMC) contributed $0.2 million (2023 - $0.2 million) in additions to property, plant and equipment. Pursuant to Board Order No. P.U. 1 (2017), Hydro recognized $1.1 million (2023 - $1.2 million) in amortization as a regulatory adjustment.

18.3 Dividends

For the year ended December 31 (millions of Canadian dollars)	**2024**	2023
Declared during the year		
Dividend for current year: $nil per share (2023 - $0.24)	**-**	5
	-	5

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19. OTHER REVENUE

For the year ended December 31 (millions of Canadian dollars)		**2024**	2023
Rate mitigation funding	(a)	**240**	335
Transmission tariff revenue		**37**	36
Greenhouse Gas performance credit sales		**20**	23
Service fee revenue	25	**12**	-
Recovery of supply power		**2**	9
Other		**12**	9
Total other revenue		**323**	412

(a) Rate mitigation funding is described in Note 10 (b).

20. POWER PURCHASED

The supply period and contractual payments of the PPA with Muskrat Falls, the PPA for Labrador Residual Block Use and the Labrador-Island Link TFA commenced in November 2021, February 2022 and April 2023, respectively. For the year ended December 31, 2024, Hydro recognized power purchase expense of $1,026.8 million (2023 - $865.9 million) associated with these agreements. 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 10.

21. OPERATING COSTS

For the year ended December 31 (millions of Canadian dollars)	**2024**	2023
Salaries and benefits	**122**	117
Maintenance and materials	**33**	41
Professional services	**14**	13
Travel and transportation	**9**	8
Insurance	**8**	8
Bad debt expense	**1**	5
Other operating costs	**9**	7
Total operating costs	**196**	199

22. NET FINANCE EXPENSE

For the year ended December 31 (millions of Canadian dollars)	**2024**	2023
Finance income		
Sinking fund	**15**	14
Reserve fund	**1**	1
Other	**9**	9
	25	24
Finance expense		
Long-term debt	**98**	98
Short-term borrowings	**21**	6
Debt guarantee fee	**9**	9
Other	**3**	2
	131	115
Interest capitalized during construction	**(2)**	(2)
	129	113
Net finance expense	**104**	89

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23. OTHER EXPENSE

For the year ended December 31 (millions of Canadian dollars)		**2024**	2023
Loss on disposal of property, plant and equipment	(a)	**8**	7
Rent and royalties		**6**	4
Foreign exchange loss		**3**	-
Removal costs	(a)	**2**	5
Insurance proceeds		**-**	(4)
Other		**5**	(2)
Total other expense		**24**	10

(a) The majority of these other expenses are deferred in either the Retirement Asset Pool account or Removal Provision account as described in Note 10.

24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

24.1 Fair Value

The estimated fair values of financial instruments as at December 31, 2024 and 2023 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, 2024 and 2023.

	Level	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
As at (millions of Canadian dollars)		**December 31, 2024**		December 31, 2023	
Financial assets					
Sinking funds - investments in Hydro debt issue	**2**	**128**	**129**	111	111
Sinking funds - other investments	**2**	**211**	**220**	206	214
Reserve fund	**2**	**50**	**50**	50	50
Financial liabilities					
Derivative liability	**3**	**84**	**84**	68	68
Long-term debt (including amount due within one year before sinking funds)	**2**	**2,136**	**2,063**	2,135	2,066

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, 2024:

(millions of Canadian dollars)	Carrying Value	Valuation Techniques	Significant Unobservable Input(s)	Range
Derivative liability (PPA)	84	Modelled pricing	Volumes (MWh)	34%-36% 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, 2024, the effect of using reasonably possible alternative assumptions for volume inputs to valuation techniques may have resulted in a +$1.5 million to +$3.2 million change in the carrying value of the derivative liability.

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The components of the change impacting the carrying value of the derivative liability for the years ended December 31, 2024 and 2023 are as follows:

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

(millions of Canadian dollars)	Level 3
Balance at January 1, 2023	(86)
Purchases	(68)
Changes in profit or loss	
Mark-to-market	23
Settlements	63
Total	86
Balance at December 31, 2023	(68)

24.2 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, including the use of derivative contracts. Permitted financial risk management strategies are aimed at minimizing the volatility of Hydro's expected future cash flows.

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

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 (%)**
	2024		2023	
Provincial Governments	**AA- to AAA**	**16.94%**	AA- to AAA	14.09%
Provincial Governments	**A- to A+**	**20.27%**	A- to A+	24.27%
Provincially owned utilities	**AA- to AAA**	**23.21%**	AA- to AAA	24.13%
Provincially owned utilities	**A- to A+**	**39.58%**	A- to A+	37.51%
		100.00%		100.00%

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Credit exposure on the reserve fund is mitigated by adhering to an investment policy which restricts the holdings to long-term debt instruments issued or guaranteed by the Government of Canada or any province of Canada. Investment in the long-term debt instruments of Canadian banks are also permitted, provided the bank is rated A or higher by Standard and Poor's. With the exception of Government of Canada, holdings of any one issuer are limited to 10% of the total principal amount of the portfolio. The following credit risk table provides information on credit exposure according to issuer type and credit rating for the reserve fund:

	Issuer Credit Rating	Fair Value of Portfolio(%)	Issuer Credit Rating	Fair Value of Portfolio (%)
	2024		2023	
Government of Canada	**AAA**	**0.00%**	AAA	0.00%
Provincial Governments	**AA- to AAA**	**31.17%**	AA- to AAA	24.05%
Provincial Governments	**A- to A+**	**29.63%**	A- to A+	35.60%
Provincially owned utilities	**AA- to AAA**	**7.49%**	AA- to AAA	6.07%
Provincially owned utilities	**A- to A+**	**3.30%**	A- to A+	1.74%
Schedule 1 Canadian banks	**AA- to AAA**	**9.50%**	AA- to AAA	9.30%
Schedule 1 Canadian banks	**A- to A+**	**18.91%**	A- to A+	23.24%
		100.0%		100.0%

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 80.2% (2023 - 80.8%) of total energy sales and 61.3% (2023 – 72.7%) of accounts receivable. Churchill Falls' exposure to credit risk on energy sales is limited, as Churchill Falls' main customer, Hydro-Québec is an investment grade utility.

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 $500.0 million committed revolving term credit facility with a maturity date of July 31, 2025. Churchill Falls also maintains a $25.0 million (2023 - $25.0 million) minimum cash balance, business interruption insurance, as well as a $10.0 million (2023 - $10.0 million) unsecured credit facility.

Long-term liquidity risk for Hydro is managed by the issuance of a portfolio of debentures with maturity dates ranging from 2026 to 2048. Sinking funds have been established for certain issues.

For Churchill Falls, long-term liquidity risk is managed by maintenance of the reserve fund in accordance with the Shareholders' Agreement and a dividend management policy that meets long-term liquidity requirements associated with Churchill Falls' capital expenditure program.

The following are the contractual maturities of Hydro's financial liabilities, including principal and interest, as at December 31, 2024:

(millions of Canadian dollars)	<1 Year	1-3 Years	3-5 Years	> 5 Years	Total
Trade and other payables	228	-	-	-	228
Short-term borrowings	590	-	-	-	590
Derivative liability	84	-	-	-	84
Debt guarantee fee	9	17	16	116	158
Long-term debt including sinking funds	7	126	8	1,594	1,735
Interest	98	157	145	781	1,181
	1,016	300	169	2,491	3,976

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Market Risk

In the course of carrying out its operating, financing and investing activities, Hydro is exposed to possible market price movements that could impact expected future cash flow and the carrying value of certain financial assets and liabilities. Market price movements to which Hydro has significant exposure include those relating to prevailing interest rates, foreign exchange rates, most notably the USD/CAD, and current commodity prices, most notably the spot prices for 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. On September 14, 2016, the terms of the PPA were amended. Under the amendment, 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 2024 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.

Changes in prevailing interest rates will impact the fair value of financial assets classified as FVTOCI, which includes Churchill Falls' reserve fund. Expected cash flows from these assets are also impacted in certain circumstances, such as when reserve fund securities are sold prior to maturity.

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.

25. RELATED PARTY TRANSACTIONS

Hydro enters into various transactions with its parent 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
Nalcor	100% shareholder of Hydro
Churchill Falls	Joint arrangement of Hydro
The Province	100% shareholder of Nalcor
Energy Marketing	Wholly-owned subsidiary of Nalcor
Hydro-Québec	34.2% shareholder of Churchill Falls
Labrador-Island Link Operating Corporation (LIL Opco)	Wholly-owned subsidiary of Nalcor
Lower Churchill Management Corporation	Wholly-owned subsidiary of Nalcor
Muskrat Falls Corporation (Muskrat Falls)	Wholly-owned subsidiary of Nalcor
Nalcor Energy – Oil and Gas Inc.	Wholly-owned subsidiary of Nalcor
Labrador Transmission Corporation	Wholly-owned subsidiary of Nalcor
Board of Commissioners of Public Utilities (PUB)	Agency of the Province
Labrador-Island Link Limited Partnership	Limited partnership between a wholly-owned subsidiary of Nalcor and KKR Island Link Incorporated

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

As at December 31 (millions of Canadian dollars)	Notes	**2024**	2023
Trade and other receivables:	5		
The Province		**2**	1
Other related parties		**23**	15
Contract receivable:			
Other related parties	(a)	**3**	13
Trade and other payables:	11		
The Province		**14**	13
Parent		**16**	13
Joint operation		**5**	1
Other related parties		**22**	9
Contract payable (including current portion):			
Other related parties	(b)	**726**	452
Deferred revenue:			
Other related parties		**4**	-
Other current liabilities:			
Other related parties		**2**	2
Long-term debt (including current portion):			
The Province		**927**	926

For the year ended December 31 (millions of Canadian dollars)		**2024**	2023
Energy sales:			
The Province		**3**	3
Other related parties		**112**	109
Other revenue:			
The Province		**-**	190
Parent		**241**	153
Other related parties	(c)	**50**	37
Power purchased:			
Parent		**28**	30
Joint operation		**18**	18
Other related parties	20	**1,027**	866
Net operating costs (recoveries):			
Parent		**10**	8
Joint operation		**(1)**	-
Other related parties		**(1)**	(2)
Net finance expense (income):			
The Province		**36**	36
Other related parties		**(2)**	(2)
Other expense:			
The Province	(d)	**6**	4

(a) Payments under the Labrador-Island Link TFA commenced in April 2023. The contract receivable 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 entered into a PPA with Muskrat Falls for the purchase of energy and capacity from the Muskrat Falls Plant. The contract payable balance represents the timing difference between the value of the energy and capacity delivered to Hydro and the contractual payments made under the PPA.

NEWFOUNDLAND AND LABRADOR HYDRO
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(c) Included in other revenue is a contract between Muskrat Falls and Churchill Falls relating to a short-term energy purchase agreement.

(d) Churchill Falls is required to pay the Province an annual rental of 8% of the consolidated net profits before income taxes and an annual royalty of $0.50 per horsepower year generated, which is payable on an annual basis before March 31 of the following fiscal year.

25.1 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)	**2024**	2023
Salaries and employee benefits	**2**	2

26. 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 $142.3 million as at December 31, 2024 (2023 - $67.3 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

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

(millions of Canadian dollars)	2025	2026	2027	2028	2029
Power purchases	848	823	832	844	850

(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.

NEWFOUNDLAND AND LABRADOR HYDRO
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(millions of Canadian dollars)	2025	2026	2027	2028	2029
Transmission rental payments	21	21	21	21	5

(e) In 2023, Hydro entered into a new long-term Capacity Assistance Arrangement (CAA) with Corner Brook Pulp and Paper (CBPP). This was approved by the Board Order No. P.U. 32 (2023). Under the terms this CAA will provide Hydro with up to 90 MW of relief power in the winter period and 50 MW in the summer period over a 15 year term. Payments under this contract are made monthly at a rate of $80 per kW per year for the maximum capacity, escalating by an annual consumer price index.

(f) The Water Management Agreement between Churchill Falls and Muskrat Falls provides for coordinated production for the efficient use of water on the Churchill River system by ensuring that water is available to meet delivery requirements and contractual commitments for both Churchill Falls and Muskrat Falls, while maximizing the energy produced from the water resource. As at December 31, 2024, Muskrat Falls has stored the equivalent of approximately 1.0 TWh (2023 – 2.0 TWh) of energy in the Churchill Falls reservoir.

27. 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, short-term borrowings, 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:

(millions of Canadian dollars)	**2024**		2023	
Debt				
Sinking funds	**(211)**		(206)	
Short-term borrowings	**590**		230	
Current portion of long-term debt	**7**		7	
Long-term debt	**2,001**		2,017	
	2,387	**63.2%**	2,048	60.3%
Equity				
Share capital	**23**		23	
Contributed capital	**147**		148	
Reserves	**16**		19	
Retained earnings	**1,201**		1,159	
	1,387	**36.8%**	1,349	39.7%
Total Debt and Equity	**3,774**	**100.0%**	3,397	100.0%

27.1 Hydro

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 85%. As at December 31, 2024 and 2023, 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 those loans issued with a term not exceeding two years. On December 15, 2023, the Lieutenant-Governor in Council issued Order in Council OC2023-272 to increase the level of short-term borrowings permitted by Hydro to $700.0 million, effective until December 31, 2025 after which the level will decrease to $500.0 million commencing January 1, 2026. Effective January 1, 2025, these limits have been revised to $1.0 billion, reducing to $800.0 million commencing January 1, 2026 as a result of amalgamation as described in Note 30. As at December 31, 2024, there was $590.0 million (2023 - $230.0 million) of short term debt outstanding.

The Hydro Corporation Act, 2007 (the Act) limited Hydro's total borrowings outstanding at any point in time, which includes both short-term borrowings and long-term debt to $2.6 billion with new limits revised to $3.2 billion as a result of amalgamation.

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

27.2 Churchill Falls

Churchill Falls' objective when managing capital is to maintain its ability to continue as a going concern. The focus of the capital management policy is to provide flexibility to ensure cash continues to be available to satisfy capital requirements. Managing the level of dividend payments is a key aspect of ensuring the availability of funding to maintain the plant and infrastructure.

At present, the capital position of Churchill Falls is comprised entirely of equity capital (issued capital, shareholder contributions, reserves and retained earnings). The capital structure is adjusted through the amount of dividends paid to shareholders.

Churchill Falls maintains a $10.0 million Canadian or US equivalent unsecured operating credit facility with its banker. The facility provides coverage for overdrafts on Churchill Falls' bank accounts, with interest calculated at the Prime Rate. There were no amounts drawn on this facility as at December 31, 2024 (2023 - $nil).

Churchill Falls has issued three irrevocable letters of credit totaling $2.0 million (2023 - $2.0 million), $1.0 million of which does not impact the borrowing limit of the operating credit facility (2023 - $1.0 million). The letters of credit ensure satisfactory management of its waste management system and compliance with a certificate of approval for the transportation of special and hazardous wastes, granted by the Provincial Department of Environment and Conservation.

NEWFOUNDLAND AND LABRADOR HYDRO
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

28. SUPPLEMENTARY CASH FLOW INFORMATION

For the year ended December 31 (millions of Canadian dollars)	**2024**	2023
Trade and other receivables	**(31)**	(6)
Inventories	**(4)**	(3)
Prepayments	**1**	1
Trade and other payables	**33**	1
Changes in non-cash working capital balances	**(1)**	(7)
Related to:		
Operating activities	**1**	(14)
Investing activities	**(2)**	12
Financing activities	**-**	(5)
	(1)	(7)

29. SEGMENT INFORMATION

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

Hydro Regulated activities encompass sales of electricity to customers within the Province that are regulated by the PUB and for export markets. Hydro Non-Regulated activities include the sale of energy to mining operations in Labrador West and for export markets as well as Hydro's costs that are excluded from the determination of customer rates. Energy Marketing activities includes the sale of electricity and transmission to Hydro's affiliate, Energy Marketing.

(millions of Canadian dollars)	**Hydro Regulated**	**Churchill Falls**	**Energy Marketing**	**Non-Regulated Activities**	**Inter-Segment**	**Total**
	For the year ended December 31, 2024					
Energy sales	**740**	**108**	**4**	**58**	**(36)**	**874**
Other revenue	**285**	**15**	**19**	**-**	**4**	**323**
Revenue	**1,025**	**123**	**23**	**58**	**(32)**	**1,197**
Fuels	**169**	**-**	**-**	**-**	**-**	**169**
Power purchased	**1,083**	**-**	**4**	**86**	**(35)**	**1,138**
Operating costs	**150**	**47**	**-**	**-**	**(1)**	**196**
Transmission rental	**-**	**-**	**19**	**-**	**-**	**19**
Depreciation and amortization	**80**	**22**	**-**	**-**	**-**	**102**
Net finance expense (income)	**110**	**(6)**	**-**	**-**	**-**	**104**
Other expense	**10**	**8**	**-**	**6**	**-**	**24**
Expenses	**1,602**	**71**	**23**	**92**	**(36)**	**1,752**
Preferred dividends	**-**	**(4)**	**-**	**-**	**4**	**-**
(Loss) profit for the year before regulatory adjustments	**(577)**	**56**	**-**	**(34)**	**-**	**(555)**
Regulatory adjustments	**(597)**	**-**	**-**	**-**	**-**	**(597)**
Profit (loss) for the year	**20**	**56**	**-**	**(34)**	**-**	**42**
Capital expenditures*	**163**	**58**	**-**	**-**	**-**	**221**
Total assets	**4,342**	**871**	**87**	**9**	**(10)**	**5,299**

***Capital expenditures include non-cash additions of $0.2 million contributed by Lower Churchill Management Corporation and $2.0 million of interest capitalized during construction.**

NEWFOUNDLAND AND LABRADOR HYDRO
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	Hydro Regulated	Churchill Falls	Energy Marketing	Non-Regulated Activities	Inter-Segment	Total
(millions of Canadian dollars)	For the year ended December 31, 2023					
Energy sales	740	100	5	52	(34)	863
Other revenue	388	3	19	-	2	412
Revenue	1,128	103	24	52	(32)	1,275
Fuels	187	-	-	-	-	187
Power purchased	926	-	5	47	(34)	944
Operating costs	148	47	-	4	-	199
Transmission rental	-	-	19	-	-	19
Depreciation and amortization	73	26	-	-	-	99
Net finance expense (income)	94	(6)	-	1	-	89
Other expense	9	1	-	-	-	10
Expenses	1,437	68	24	52	(34)	1,547
Preferred dividends	-	(2)	-	-	2	-
(Loss) profit for the year before regulatory adjustments	(309)	37	-	-	-	(272)
Regulatory adjustments	(342)	-	-	-	-	(342)
Profit for the year	33	37	-	-	-	70
Capital expenditures*	150	49	-	-	-	199
Total assets	3,659	812	72	17	-	4,560

*Capital expenditures include non-cash additions of $0.2 million contributed by Lower Churchill Management Corporation and $1.9 million of interest capitalized during construction.

30. SUBSEQUENT EVENT

Effective January 1, 2025, Hydro and Nalcor were legislatively amalgamated into a new legal corporation that will continue under the name "Newfoundland and Labrador Hydro". The amalgamated corporation holds the combined assets and liabilities of the former Hydro and Nalcor entities and is bound by any previously existing contracts and agreements from the former entities. As well, the legislation confirms the continuation of any security or guarantees provided by the Provincial Government to Nalcor with Hydro.

Appendix E
Nalcor Energy Consolidated Financial Statements

NALCOR ENERGY
CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024

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Independent Auditor’s Report

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

Opinion

We have audited the consolidated financial statements of Nalcor Energy (the “Company”), which comprise the consolidated statement of financial position as at December 31, 2024, and the consolidated statements of profit and comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including material accounting policy information (collectively referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2024, and its financial performance and its cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (“IASB”).

Basis for Opinion

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS Accounting Standards as issued by the IASB, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Deloitte LLP

Chartered Professional Accountants
March 20, 2025

NALCOR ENERGY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31 (millions of Canadian dollars)	Notes	**2024**	2023
ASSETS			
Current assets			
Cash and cash equivalents	5	**1,164**	694
Restricted cash		**1,326**	1,224
Short-term investments	10	**77**	62
Trade and other receivables	6	**259**	184
Inventories	7	**155**	139
Prepayments		**18**	22
Total current assets		**2,999**	2,325
Non-current assets			
Property, plant and equipment	8	**17,848**	17,921
Intangible assets	9	**65**	75
Investments	10	**417**	469
Other long-term assets		**5**	5
Total assets		**21,334**	20,795
Regulatory deferrals	11	**1,493**	889
Total assets and regulatory deferrals		**22,827**	21,684
LIABILITIES AND EQUITY			
Current liabilities			
Short-term borrowings	14	**590**	230
Trade and other payables	12	**356**	306
Current portion of long-term debt	14	**70**	70
Current portion of Class B limited partnership units	15	**95**	88
Current portion of deferred credits	16	**104**	99
Other current liabilities	13	**26**	35
Total current liabilities		**1,241**	828
Non-current liabilities			
Long-term debt	14	**10,865**	10,788
Class B limited partnership units	15	**885**	669
Deferred credits	16	**1,528**	1,598
Decommissioning liabilities	17	**104**	100
Employee future benefits	18	**125**	116
Other long-term liabilities	19	**89**	84
Total liabilities		**14,837**	14,183
Shareholder’s equity			
Share capital	21	**123**	123
Shareholder contributions		**4,859**	4,859
Reserves		**(29)**	(30)
Retained earnings		**2,985**	2,506
Total equity		**7,938**	7,458
Total liabilities and equity		**22,775**	21,641
Regulatory deferrals	11	**52**	43
Total liabilities, equity and regulatory deferrals		**22,827**	21,684

Commitments and contingencies (Note 31) and Subsequent event (Note 34)

See accompanying notes

On behalf of the Board:

DIRECTOR

DIRECTOR

NALCOR ENERGY

CONSOLIDATED STATEMENT OF PROFIT AND COMPREHENSIVE INCOME

For the year ended December 31 (millions of Canadian dollars)	Notes	**2024**	2023
Energy sales	23	**1,349**	1,285
Other revenue	24	**68**	239
Revenue		**1,417**	1,524
Fuels		**169**	187
Power purchased		**111**	78
Operating costs	25	**366**	310
Production, marketing and transportation costs	26	**39**	32
Transmission rental		**32**	39
Depreciation, depletion, amortization and impairment		**423**	315
Net finance expense	27	**367**	299
Other expense (income)	28	**27**	(14)
Expenses		**1,534**	1,246
(Loss) profit for the year before regulatory adjustments		**(117)**	278
Regulatory adjustments	11	**(596)**	(341)
Profit for the year		**479**	619
Other comprehensive income (loss)			
Total items that may or have been reclassified to profit or loss:			
Actuarial loss on employee future benefits regulatory adjustment	18	**(1)**	(2)
Actuarial loss on employee future benefits	18	**(4)**	(14)
Net fair value gain on reserve fund	10	**2**	1
Reclassification adjustments related to:			
Cash flow hedges recognized in profit or loss		**4**	4
Other comprehensive income (loss) for the year		**1**	(11)
Total comprehensive income for the year		**480**	608

See accompanying notes

NALCOR ENERGY
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(millions of Canadian dollars)	Note	Share Capital	Shareholder Contributions	Fair Value Reserve	Employee Benefit Reserve	Retained Earnings	Total
Balance at January 1, 2024		**123**	**4,859**	**(50)**	**20**	**2,506**	**7,458**
Profit for the year		**-**	**-**	**-**	**-**	**479**	**479**
Other comprehensive income		**-**	**-**	**6**	**(5)**	**-**	**1**
Total comprehensive income for the year		**-**	**-**	**6**	**(5)**	**479**	**480**
Balance at December 31, 2024		**123**	**4,859**	**(44)**	**15**	**2,985**	**7,938**
Balance at January 1, 2023		123	4,859	(55)	36	2,187	7,150
Profit for the year		-	-	-	-	619	619
Other comprehensive loss		-	-	5	(16)	-	(11)
Total comprehensive income for the year		-	-	5	(16)	619	608
Dividends	21	-	-	-	-	(300)	(300)
Balance at December 31, 2023		123	4,859	(50)	20	2,506	7,458

See accompanying notes

NALCOR ENERGY
CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31 (millions of Canadian dollars)	Notes	**2024**	2023
Operating activities			
Profit for the year		**479**	619
Adjustments to reconcile profit to cash provided from operating activities:			
Depreciation, depletion, amortization and impairment		**423**	315
Amortization of deferred credits	16	**(113)**	(121)
Hibernia South Extension (HSE) Redetermination adjustment	28	**(23)**	(46)
Loss on disposal of assets	28	**21**	9
Maritime Link operating costs		**22**	19
Regulatory adjustments	11	**(596)**	(341)
Finance income	27	**(137)**	(135)
Finance expense	27	**504**	434
Other		**25**	25
		605	778
Changes in non-cash working capital balances	32	**(44)**	10
Interest received		**125**	120
Interest paid		**(426)**	(412)
Net cash provided from operating activities		**260**	496
Investing activities			
Additions to property, plant and equipment and intangible assets	33	**(366)**	(310)
Decrease in investments		**22**	21
Changes in non-cash working capital balances	32	**15**	(14)
Net cash used in investing activities		**(329)**	(303)
Financing activities			
Proceeds from long-term debt	14	**150**	145
Repayment of long-term debt		**(63)**	(61)
(Increase) decrease in restricted cash		**(102)**	83
Increase in deferred credits		**22**	14
Contributions of Class B limited partnership units	15	**233**	-
Increase in short-term borrowings		**360**	99
Dividends		**-**	(300)
Distributions of Class B limited partnership units	15	**(77)**	(45)
Other		**16**	-
Net cash provided from (used in) financing activities		**539**	(65)
Net increase in cash and cash equivalents		**470**	128
Cash and cash equivalents, beginning of the year		**694**	566
Cash and cash equivalents, end of the year		**1,164**	694

See accompanying notes

NALCOR ENERGY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS

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

1.1 Subsidiaries

As of December 31, 2024, Nalcor held interests in the following subsidiaries:

A 100% interest in Newfoundland and Labrador Hydro (Hydro), whose principal activity is the generation, transmission and sale of electricity. Hydro's operations include both regulated and non-regulated activities.

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 Nalcor'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 (LTA), 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 Labrador-Island Link Holding (2021) Corporation (LIL Holdco (2021)), created to control, manage and hold Nalcor's interest in the LIL (2021) Limited Partnership (the 2021 Partnership or LIL (2021) 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 Nalcor'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), formerly ENL Island Link Incorporated, holds 25 Class B units.

NALCOR ENERGY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

1.2 Investment in Joint Arrangement
As of December 31, 2024, Nalcor held a 65.8% beneficial interest (through Hydro) in Churchill Falls (Labrador) Corporation Limited (Churchill Falls), a joint operation that owns and operates a hydroelectric generating plant and related transmission facilities situated in Labrador with a rated capacity of 5,428 MW. This interest continues to be held in the amalgamated Hydro entity. Churchill Falls held a 100% interest in Twin Falls Power Corporation Limited (Twin Falls) which was dissolved December 18, 2023.

1.3 Structured Entities
Nalcor consolidates the results of structured entities in which it holds a financial interest and is the primary beneficiary. Nalcor has determined that it is the primary beneficiary of the LIL Construction Project Trust (the IT) and, as a result, has included the financial statements of the IT in these annual audited consolidated financial statements. Upon commissioning of the LIL on April 14, 2023, the IT assigned all indebtedness, rights, titles and interest under the IT Project Finance Agreement (IT PFA) to the LIL Funding Trust and was later terminated on December 22, 2023. Nalcor has determined that it is not the primary beneficiary of the Muskrat Falls/Labrador Transmission Assets (MF/LTA) Funding Trust or the Labrador-Island Link Funding Trust and therefore the operations of these trusts are not reflected in these annual audited consolidated financial statements.

2. MATERIAL ACCOUNTING POLICIES

2.1 Statement of Compliance and Basis of Measurement
These annual audited consolidated financial statements (financial statements) have been prepared in accordance with IFRS® Accounting Standards, as issued by the International Accounting Standards Board (IASB).

These financial statements have been prepared on a historical cost basis, except for financial instruments at fair value through profit or loss (FVTPL) and fair value through other comprehensive income (FVTOCI) which have been measured at fair value. The financial statements are presented in Canadian Dollars (CAD) and all values rounded to the nearest million, except when otherwise noted. The financial statements were approved by Hydro’s Board of Directors (the Board) on March 7, 2025, since Nalcor’s Board of Directors was dissolved upon amalgamation.

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

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

2.5 Inventories
Inventories are carried at the lower of cost and net realizable value. Cost is determined on a weighted average basis

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and includes expenditures incurred in acquiring inventories and bringing them to their existing condition and location. The cost of crude oil is based on production costs and an estimated capital component based on depletion. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

2.6 Property, Plant and Equipment

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

When significant parts of property, plant and equipment, including petroleum and natural gas properties, are required to be replaced at intervals, Nalcor 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, where depreciation is calculated based on the average group methodology. As per Board Order P.U. 30 (2019), Hydro was approved to recover gains and losses through accumulated amortization and to record removal costs through depreciation. To comply with International Accounting Standard (IAS) 16, the adjustments related to the recovery of gains and losses through accumulated amortization and removal depreciation are presented as a regulatory adjustment in Note 11.

The depreciation lives used are as follows:

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

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

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

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

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

Petroleum and Natural Gas Properties

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

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

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

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

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

Depletion

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

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

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

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

2.7 Intangible Assets

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

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

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

Computer software	7 to 10 years

2.8 Borrowing Costs

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

2.9 Impairment of Non-Financial Assets

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

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

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

2.10 Investments in Joint Arrangements

A joint arrangement is an arrangement of which two or more parties have joint control. Control exists when Nalcor 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.

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

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

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2.11 Employee Future Benefits

Pension Plan

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

Other Benefits

Nalcor 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 Nalcor'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), Nalcor recognizes the amortization of Hydro's employee future benefit actuarial gains and losses in the Consolidated Statement of Profit and Comprehensive Income as a regulatory adjustment.

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

2.12 Provisions

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

2.13 Decommissioning, Restoration and Environmental Liabilities

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

2.14 Revenue Recognition

Revenue from Contracts with Customers

Nalcor recognizes revenue from contracts with customers related to the sale of electricity to regulated Provincial industrial, utility and direct customers in rural Newfoundland and Labrador and to non-regulated industrial, utility and external market customers.

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

Revenue from the sale of energy is recognized when Nalcor satisfies its performance obligation by transferring energy to the customer. Sales within the Province are primarily at rates approved by the Newfoundland and

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

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

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

2.15 Leasing

<u>Lessee Accounting</u>
Nalcor assesses whether a contract is or contains a lease, at inception of a contract. Nalcor 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, Nalcor 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, Nalcor 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 Nalcor changes its assessment of whether purchase, renewal or termination options will be exercised. Nalcor did not make any such adjustments during the periods presented.

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

Whenever Nalcor 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

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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 Nalcor 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. Nalcor has elected to apply this practical expedient.

2.16 Foreign Currencies

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

2.17 Income Taxes

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

2.18 Financial Instruments

Classification and Initial Measurement

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

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

Nalcor's financial assets at amortized cost include cash and cash equivalents, restricted cash, short-term investments, trade and other receivables, sinking fund investments, long-term receivables and long-term investments with the exception of reserve fund investments.

Financial Assets at FVTOCI

Financial assets measured at FVTOCI are those that have contractual cash flows arising on specific dates, consisting solely of principal and interest, and that are held within a business model whose objective is to collect the contractual cash flows and to sell the financial asset. Any change in the carrying amount of these assets other than

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foreign exchange gains and losses, impairment gains and losses, and interest income are recognized in other comprehensive income accumulated in the fair value reserve. When these assets are derecognized, the cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss.

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

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

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

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

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

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

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

Derecognition of Financial Instruments
Nalcor 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.

Nalcor 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
Nalcor 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.

Nalcor always recognizes lifetime ECL for trade and other receivables. The ECL on these financial assets are estimated based on Nalcor'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. Nalcor 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 cash equivalents, restricted cash, short-term investments, long-term investments, sinking funds and the reserve fund.

For all other financial instruments, Nalcor 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

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significantly since initial recognition, Nalcor 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.

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

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

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

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

2.20 Regulatory Deferrals
Nalcor'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 allowed rate of return on average rate base approved in Board Order No. P.U. 30 (2019) is 5.4% in 2024 and 5.4% in 2023. Hydro applies various regulator approved accounting policies that differ from enterprises that do not operate in a rate regulated environment. Generally, these policies result in the deferral and amortization of costs or credits which are expected to be recovered or refunded in future rates. In the absence of rate regulation, these amounts would be included in the determination of profit or loss in the year the amounts are incurred. The effects of rate regulation on the financial statements are disclosed in Note 11.

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3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

3.1 Use of Judgments

(i) Asset Impairment and Reversals
Nalcor applies judgment in evaluating impairment and impairment reversal indicators based on various internal and external factors.

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

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

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

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

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

(v) Determination of CGUs
Nalcor's accounting policy relating to impairment of non-financial assets is described in Note 2.9. In applying this policy, Nalcor groups assets into the smallest identifiable groups for which cash flows are largely

independent of the cash flows from other assets or groups of assets. Judgment is used in determining the level at which cash flows are largely independent of other assets or groups of assets.

(vi) Discount Rates
Certain of Nalcor's financial liabilities are discounted using discount rates that are subject to Management's judgment.

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

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

3.2 Use of Estimates

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

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

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

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

NALCOR ENERGY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. CURRENT AND FUTURE CHANGES IN ACCOUNTING POLICIES

The following is a list of applicable standards/interpretations that have been issued and are effective for accounting periods commencing on or after January 1, 2024, as specified.

- *Amendments to IAS 1 – Presentation of Financial Statements – Classification of Liabilities as Current or Non-Current and Non-Current Liabilities with Covenants*[1]
- *Amendments to IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosure – Contracts Referencing Nature-dependent Electricity*[2]
- *IFRS 18 – Presentation and Disclosures in Financial Statements* [3]

[1] Effective for annual periods beginning on or after January 1, 2024.
[2] Effective for annual periods beginning on or after January 1, 2026, with earlier application permitted.
[3] Effective for annual periods beginning on or after January 1, 2027, with earlier application permitted.

4.1 Amendments to IAS 1 – Presentation of Financial Statements – Classification of Liabilities as Current or Non-Current and Non-Current Liabilities with Covenants

The IASB issued amendments to IAS 1 to promote consistency in applying the requirements by helping companies determine whether, in the Consolidated Statement of Financial Position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The classification is based on rights that are in existence at the end of the reporting period and specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability. Additional information was added to clarify that only covenants with which an entity is required to comply on or before the reporting date affect the classification of a liability as current or non-current. In addition, an entity has to disclose information in the notes that enables users of the financial statements to understand the risk that non-current liabilities with covenants could become repayable within 12 months. The amendments are applied retrospectively upon adoption. The application of these amendments did not have a material impact on Nalcor'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. Management is currently assessing the potential impact on Nalcor'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 Nalcor's financial statements.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. CASH AND CASH EQUIVALENTS

As at December 31, 2024 and 2023, cash and cash equivalents consisted entirely of cash.

6. TRADE AND OTHER RECEIVABLES

As at December 31 (millions of Canadian dollars)		**2024**	2023
Trade receivables		**234**	185
Other receivables	(a)	**55**	28
Loss allowance		**(30)**	(29)
		259	184

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

As at December 31 (millions of Canadian dollars)	**2024**	2023
0-60 days	**256**	181
60+ days	**3**	3
	259	184

As at December 31 (millions of Canadian dollars)	**2024**	2023
Loss allowance, beginning of the year	**(29)**	(25)
Change in balance during the year	**(1)**	(4)
Loss allowance, end of the year	**(30)**	(29)

7. INVENTORIES

As at December 31 (millions of Canadian dollars)	**2024**	2023
Materials and other	**92**	78
Fuel	**59**	59
Crude oil	**4**	2
	155	139

The amount of inventory recognized as an expense during the year was $175.2 million (2023 - $192.9 million) and is included in fuels and operating costs.

NALCOR ENERGY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. PROPERTY, PLANT AND EQUIPMENT

(millions of Canadian dollars)	Generation Plant	Transmission and Distribution	Petroleum and Natural Gas Properties	Other	Assets Under Development	Total
Cost						
Balance as at January 1, 2023	2,191	3,304	1,602	574	12,514	20,185
Additions	-	-	58	(5)	304	357
Disposals	(10)	(2)	-	(10)	-	(22)
Transfers	6,470	6,057	-	91	(12,618)	-
Decommissioning liability revisions	9	-	(10)	-	-	(1)
Other adjustments	(1)	-	-	-	(3)	(4)
Balance as at December 31, 2023	8,659	9,359	1,650	650	197	20,515
Additions	**1**	**-**	**92**	**-**	**276**	**369**
Disposals	**(21)**	**(16)**	**-**	**(10)**	**(1)**	**(48)**
Transfers	**132**	**93**	**-**	**50**	**(275)**	**-**
Decommissioning liability revisions	**1**	**-**	**-**	**-**	**-**	**1**
Other adjustments	**(4)**	**-**	**-**	**-**	**2**	**(2)**
Balance as at December 31, 2024	**8,768**	**9,436**	**1,742**	**690**	**199**	**20,835**
Depreciation, depletion and impairment						
Balance as at January 1, 2023	754	382	883	231	55	2,305
Depreciation and depletion	108	151	84	19	-	362
Disposals	(5)	(1)	-	(7)	-	(13)
Impairment reversal	-	-	(60)	-	-	(60)
Balance as at December 31, 2023	857	532	907	243	55	2,594
Depreciation and depletion	**131**	**179**	**53**	**18**	**-**	**381**
Disposals	**(13)**	**(1)**	**-**	**(9)**	**-**	**(23)**
Impairment	**1**	**-**	**20**	**-**	**-**	**21**
Other adjustments	**-**	**-**	**14**	**-**	**-**	**14**
Balance as at December 31, 2024	**976**	**710**	**994**	**252**	**55**	**2,987**
Carrying value						
Balance as at January 1, 2023	1,437	2,922	719	343	12,459	17,880
Balance as at December 31, 2023	7,802	8,827	743	407	142	17,921
Balance as at December 31, 2024	**7,792**	**8,726**	**748**	**438**	**144**	**17,848**

Capitalized interest for the year ended December 31, 2024 was $2.0 million (2023 - $51.1 million) related to Assets Under Development.

On a quarterly basis, the Company assesses its Cash Generating Units (CGUs) for indicators that events or changes in circumstances may have impacted the recoverable amount of the associated assets. The Company determines the recoverable amount of its CGUs using value in use, which is estimated using discounted future cash flows based on forecasted oil prices, forecasted remaining reserves, forecasted future operating and capital costs and a discount rate derived from post-tax weighted average cost of capital, adjusted to reflect specific risks to the CGUs. For the year ended December 31, 2024, the Company recognized an impairment of $19.6 million (2023 - reversal of $59.6 million). The impairment is related to the White Rose Extension due to decrease in oil and gas price forecasts, increased capital expenditures on the West White Rose Wellhead project and revised cash flow cost estimates and reserves as the field lives mature.

NALCOR ENERGY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. INTANGIBLE ASSETS

(millions of Canadian dollars)	Computer Software	Assets Under Development	Total
Cost			
Balance as at January 1, 2023	57	50	107
Additions	-	5	5
Transfers	45	(45)	-
Other adjustments	-	2	2
Balance as at December 31, 2023	102	12	114
Additions	**-**	**3**	**3**
Transfers	**4**	**(4)**	**-**
Balance as at December 31, 2024	**106**	**11**	**117**
Amortization			
Balance as at January 1, 2023	31	-	31
Amortization	8	-	8
Balance as at December 31, 2023	39	-	39
Amortization	**9**	**1**	**10**
Impairment	**-**	**3**	**3**
Balance as at December 31, 2024	**48**	**4**	**52**
Carrying value			
Balance as at January 1, 2023	26	50	76
Balance as at December 31, 2023	63	12	75
Balance as at December 31, 2024	**58**	**7**	**65**

10. INVESTMENTS

As at December 31 (millions of Canadian dollars)		**2024**	2023
Investments	(a)	**199**	241
Sinking Funds	(b)	**245**	240
Reserve Fund	(c)	**50**	50
Total investments		**494**	531
Less: amounts maturing within the next year, classified as short-term		**(77)**	(62)
		417	469

(a)

As at December 31 (millions of Canadian dollars)	Year of Maturity	**2024**	2023
Muskrat Falls/Labrador Transco			
Amortizing Fixed Rate Deposit Notes with interest paid at a rate of 3.745% per annum.	2025-2029	**199**	241
Less: redemptions to be received within the next year, classified as short-term		**(43)**	(42)
		156	199

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

NALCOR ENERGY
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(b) As at December 31, 2024, sinking funds include $211.2 million (2023 - $205.9 million) related to repayment of Hydro's long-term debt and $33.5 million (2023 - $34.3 million) related to funding of Nalcor'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 2025 to 2041.

Hydro debentures, which are intended to be held to maturity, are deducted from debt while all other sinking fund investments are shown separately on the Consolidated Statement of Financial Position as assets. Annual contributions to the various sinking funds are in accordance with bond indenture terms, and are structured to ensure the availability of adequate funds at the time of expected bond redemption. Effective yields range from 1.42% to 6.82% (2023 - 1.42% to 6.82%).

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

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

As at December 31 (millions of Canadian dollars)	**2024**	2023
Sinking funds, beginning of the year	**240**	237
Contributions	**7**	6
Earnings	**17**	16
Disposals and maturities	**(2)**	(2)
Change in sinking fund investments in own debentures	**(17)**	(17)
Sinking funds, end of the year	**245**	240
Less: amounts classified as short-term	**(22)**	(9)
	223	231

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

(millions of Canadian dollars)	2025	2026	2027	2028	2029
Sinking fund instalments	70	67	67	67	67

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

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

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

As at December 31 (millions of Canadian dollars)	**2024**	2023
Reserve fund, beginning of the year	**50**	49
Principal withdrawals	**(2)**	-
Mark-to-market adjustment	**2**	1
Reserve fund, end of the year	**50**	50
Less: amounts classified as short-term	**(12)**	(11)
	38	39

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11. REGULATORY DEFERRALS

(millions of Canadian dollars)		January 1 2024	Reclass and Disposition	Regulatory Activity	**December 31 2024**	Remaining Recovery Settlement Period (years)
Regulatory asset deferrals						
Power purchase expense recognition	(a)	440	-	286	**726**	n/a
Supply cost variance deferral account	(b)	271	-	261	**532**	n/a
Muskrat Falls Power Purchase Agreement (PPA) monetization	(c)	13	-	61	**74**	n/a
Retirement asset pool	(d)	40	-	6	**46**	n/a
Foreign exchange losses	(e)	39	-	(2)	**37**	17.0
Rate stabilization plan (RSP)	(f)	47	12	(28)	**31**	n/a
Muskrat Falls PPA sustaining capital	(g)	5	-	11	**16**	n/a
Business system transformation program	(h)	9	-	2	**11**	n/a
Deferred energy conservation costs	(i)	7	-	1	**8**	n/a
Supply deferral	(j)	12	(12)	6	**6**	n/a
Other		6	-	-	**6**	n/a
		889	-	604	**1,493**	
Regulatory liability deferrals						
Removal provision	(k)	(23)	-	(4)	**(27)**	n/a
Holyrood thermal generating station (TGS) accelerated depreciation deferral account	(l)	(10)	-	(4)	**(14)**	n/a
Insurance amortization and proceeds	(m)	(4)	-	-	**(4)**	n/a
Other		(6)	-	(1)	**(7)**	n/a
		(43)	-	(9)	**(52)**	

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

For the year ended December 31 (millions of Canadian dollars)		**2024**	2023
Power purchase expense recognition	(a)	**(286)**	(275)
Supply cost variance deferral account	(b)	**(261)**	(81)
Muskrat Falls PPA monetization	(c)	**(61)**	13
RSP	(f)	**28**	14
Muskrat Falls PPA sustaining capital	(g)	**(11)**	(4)
Supply deferral	(j)	**(6)**	(12)
Retirement asset pool	(d)	**(6)**	(5)
Holyrood TGS accelerated depreciation deferral account	(l)	**4**	10
Removal provision	(k)	**4**	1
Other		**(1)**	(2)
		(596)	(341)

The following section describes Nalcor'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 the year ended December 31, 2024 would have decreased by $595.8 million (2023 - $341.2 million).

NALCOR ENERGY
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(a) Power Purchase Expense Recognition

In Board Order No's. P.U. 9 (2021) and P.U. 33 (2021), the PUB approved Hydro's proposal to deviate from IFRS to allow recognition of expenses related to the purchase of energy in accordance with the commercial terms of the Muskrat Falls PPA and Labrador-Island Link Transmission Funding Agreement (TFA). For the year ended December 31, 2024, IFRS power purchase expenses were $286.2 million (2023 - $274.5 million) higher than commercial payments which resulted in a total regulatory asset of $726.5 million (2023 - $440.3 million).

(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 come from Hydro and Nalcor's own sources, to the extent possible.

The Province has also directed Hydro and Nalcor to retire the ending 2023 Supply Cost Variance Deferral Account (SCVDA) balance of $271.3 million over the 2024-2026 period, and to transfer $90.0 million from Nalcor to Hydro, in 2024, as the first year of the three annual amounts to retire the 2023 balance. (In 2023, a $190.4 million grant was provided by the Province). In 2024, the second drawing on the convertible debenture of $150.3 million, including interest (2023 - $144.7 million), was received by LIL (2021) Limited Partnership and the funds were transferred to Hydro for the purpose of mitigating projected future customer rate increases that would be required to recover net supply costs. The total amount of rate mitigation funding received in 2024 was $240.3 million (2023 - $335.1 million). This rate mitigation funding offset by normal activity of the SCVDA of $500.8 million (2023 - $416.0 million), resulted in a net increase in the account of $260.4 million (2023 - $80.9 million). The total balance owing from customers for year ended December 31, 2024 is $531.7 million (2023 - $271.3 million). In February 2025, Hydro applied $441.0 million of rate mitigation funding against the SCVDA. Use of these funds from Hydro's own sources reduces consolidated net income.

(c) Muskrat Falls PPA Monetization

Under the Muskrat Falls PPA, 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 resulting in a regulatory receivable. In 2024, Hydro eliminated the 2023 balance of the regulatory receivable in the amount of $13.3 million upon actual monetization of the 2023 undelivered Schedule II energy and recorded a regulatory receivable for the estimated monetization of 2024 undelivered Schedule II energy of $73.8 million (2023 - $13.3 million).

(d) 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 2024, Hydro deferred $5.8 million (2023 - $4.8 million) of retirement asset activity resulting in a total balance of $45.9 million (2023 - $40.2 million).

(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 2024, amortization expense of $2.2 million (2023 - $2.2 million) was recorded.

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(f) 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 2024, Hydro recovered $30.2 million (2023 - $16.5 million) from customers. As well, Board Order No. P.U. 10 (2024) approved the recovery of the 2023 Isolated Systems Supply Cost Variance Deferral from the RSP Current Plan resulting in an increase to the RSP of $11.6 million (2023 - $8.7 million). This activity and associated interest accrued of $2.2 million in 2024 (2023 - $3.0 million) resulted in a remaining balance for future recovery from customers of $31.0 million (2023 - $47.4 million).

(g) 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 2024, Hydro has deferred $11.0 million (2023 - $4.4 million) in contribution activity resulting in a total balance of $15.9 million (2023 - $4.9 million).

(h) 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 (2023 - $1.5 million), resulting in a total deferral of $10.7 million (2023 - $9.2 million).

(i) Deferred Energy Conservation Costs

In 2024, Hydro deferred $1.4 million (2023 - $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), Hydro recovered $0.9 million (2023 - $1.6 million) of the balance through a rate rider which resulted in a total deferred balance of $7.8 million (2023 - $7.3 million).

(j) Supply Deferral

The Supply Deferral consists of the Isolated Systems Supply Cost Variance Deferral only as per Board Order No. P.U. 33 (2021). During 2024, Hydro recorded a net decrease in the supply deferral asset of $5.6 million (2023 - $3.4 million increase) resulting in a balance from customers of $6.7 million (2023 - $12.3 million). The decrease is primarily due to the recovery of the 2023 Isolated System Supply Cost Variance Deferral balance as per Board Order No. P.U. 10 (2024) with $11.6 million of the total (2023 - $8.7 million) recovered from the current RSP Plan, partially offset by the normal operation of the deferral of $6.5 million (2023 - $5.6 million).

(k) 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 2024 activity of $4.1 million (2023 - $0.8 million) resulting in a total balance of $26.9 million (2023 - $22.8 million). The increase was driven by removal depreciation of $5.8 million (2023 - $5.5 million) which was partially offset by removal costs of $1.7 million (2023 - $4.7 million).

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(l) 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 2023 and 2024 and the accelerated depreciation expense included in the approved 2019 Test Year. For the year ended December 31, 2024, the Holyrood accelerated depreciation expense was $6.8 million lower (2023 - $12.3 million lower) than the 2019 Test Year depreciation resulting in a regulatory liability of $14.1 million (2023 - $9.8 million). The disposition of the balance of this account is subject to a further Board Order from the PUB.

(m) 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 2024, Hydro recorded a net decrease of $0.1 million (2023 - $0.1 million) to the regulatory liability resulting in a balance of $3.9 million (2023 - $4.0 million). The decrease was driven by insurance amortization of $0.1 million (2023 - $0.1 million).

12. TRADE AND OTHER PAYABLES

As at December 31 (millions of Canadian dollars)	**2024**	2023
Trade payables and accruals	**222**	184
Other payables	**84**	72
Accrued interest payable	**50**	50
	356	306

13. OTHER CURRENT LIABILITIES

As at December 31 (millions of Canadian dollars)	Notes	**2024**	2023
Current portion of long-term payables	19(b)	**18**	24
Current portion of decommissioning liabilities	17	**2**	2
Current portion of deferred contributions	19(a)	**2**	1
Other		**4**	8
		26	35

14. DEBT

14.1 Short-term Borrowings

Nalcor maintains a $240.0 million committed revolving term credit facility with its banker with a maturity date of July 31, 2025. There were no amounts drawn on this facility as at December 31, 2024 (2023 - $nil), however $6.3 million of the borrowing limit has been used to issue seven irrevocable letters of credit (2023 - $6.1 million CAD equivalent to issue eight letters of credit).

Hydro has a $300.0 million provincially guaranteed promissory note program and a $500.0 million committed credit facility to fulfil its short-term funding requirements. As at December 31, 2024, there were four promissory notes outstanding for a total of $300.0 million with a maturity date of January 2, 2025 bearing interest rates ranging from 3.31% to 3.36% (2023 - two promissory notes for a total of $230.0 million maturing January 2, 2024 bearing interest rates ranging from 5.15% to 5.17%). Upon maturity, the promissory notes were reissued.

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Hydro's $500.0 million committed revolving term credit facility has a maturity date of July 31, 2025. As at December 31, 2024, there was an advance on the credit facility in the amount of $290.0 million with a maturity date of January 2, 2025 bearing interest at a rate of 4.09% (2023 - $nil). Upon maturity the advance was reissued. This amount combined with the $300.0 million provincially guaranteed promissory note program resulted in total short-term borrowings of $590.0 million as at December 31, 2024 (2023 - $230.0 million).

Churchill Falls maintains a $10.0 million CAD or USD equivalent unsecured demand operating credit facility with its banker. There were no amounts drawn on this facility as at December 31, 2024 (2023 - $nil).

Churchill Falls has issued three irrevocable letters of credit totaling $2.0 million (2023 - $2.0 million), $1.0 million of which does not impact the borrowing limit of the operating facility (2023- $1.0 million). The letters of credit ensure satisfactory management of its waste management system and compliance with a certificate of approval for the transportation of special and hazardous wastes, granted by the Provincial Department of Environment and Climate Change.

Oil and Gas maintains a $40.0 million CAD or USD equivalent unsecured credit facility with its banker. As at December 31, 2024, there were no amounts drawn on this facility (2023 - $nil). A total of $16.4 million of the borrowing limit has been used to issue two irrevocable letters of credit (2023 - $33.5 million to issue three irrevocable letters of credit) to ensure compliance with service agreements and regulations relating to petroleum and natural gas exploration and production activities.

Energy Marketing maintains a $20.0 million CAD or USD equivalent demand operating credit facility with its banker and as at December 31, 2024, there were no amounts drawn on this facility (2023 - $nil). A total of $3.7 million CAD equivalent of the borrowing limit has been used to issue four irrevocable letters of credit (2023 - $10.7 million CAD equivalent to issue seven irrevocable letters of credit) to various independent system operators, transmission providers, and bilateral counterparties in relation to power purchase and sale contracts. These letters of credit have automatic renewal clauses, unless cancelled with appropriate notice by the issuer or beneficiary.

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14.2 Long-term Debt

As at December 31 (millions of Canadian dollars)	Face Value	Coupon Rate %	Year of Issue	Year of Maturity	**2024**	2023
Hydro						
Y*	300	8.40	1996	2026	**299**	298
AB*	300	6.65	2001	2031	**303**	304
AD*	125	5.70	2003	2033	**124**	124
AF	500	3.60	2014/2017	2045	**483**	483
1A	600	3.70	2017/2018	2048	**636**	636
2A	300	1.75	2021	2030	**291**	290
LIL LP						
Tranche A*	725	3.76	2013	2033	**725**	725
Tranche B*	600	3.86	2013	2045	**600**	600
Tranche C*	1,075	3.85	2013	2053	**1,075**	1,075
Tranche 10	11	1.75	2017	2025	**11**	32
Tranche 11-20	105	1.84-2.37	2017	2025-2030	**105**	105
Tranche 21-30	105	2.41-2.64	2017	2030-2035	**105**	105
Tranche 31-40	105	2.66-2.80	2017	2035-2040	**105**	105
Tranche 41-50	105	2.81-2.86	2017	2040-2045	**105**	105
Tranche 51-60	105	2.84-2.86	2017	2045-2050	**105**	105
Tranche 61-70	105	2.85	2017	2050-2055	**105**	105
Tranche 71-74	315	2.85	2017	2055-2057	**316**	316
Labrador Transco/Muskrat Falls						
Tranche A	650	3.63	2013	2029	**650**	650
Tranche B*	675	3.83	2013	2037	**675**	675
Tranche C*	1,275	3.86	2013	2048	**1,275**	1,275
Tranche 10	21	1.75	2017	2025	**21**	63
Tranche 11-20	224	1.84-2.37	2017	2025-2030	**224**	224
Tranche 21-30	253	2.41-2.64	2017	2030-2035	**253**	253
Tranche 31-40	288	2.66-2.80	2017	2035-2040	**289**	289
Tranche 41-50	331	2.81-2.86	2017	2040-2045	**331**	331
Tranche 51-60	381	2.84-2.86	2017	2045-2050	**382**	382
Tranche 61-64	168	2.85	2017	2050-2052	**168**	168
Tranche A-T	500	3.35-3.38	2022	2037-2047	**500**	500
Tranche U*	500	3.38	2022	2057	**500**	500
LIL (2021) LP						
Convertible debenture	295	3.03	2023	2071	**302**	146
Total	11,042				**11,063**	10,969
Less: sinking fund investments in own debentures					**(128)**	(111)
					10,935	10,858
Less: repayment of debt due within one year					**(70)**	(70)
					10,865	10,788

*Sinking funds are required to be established for these issues.

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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 with the exception of Series 1A and 2A. 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, 2024 was $8.9 million (2023 - $8.8 million).

In July 2023, LIL (2021) LP and the Government of Canada executed an agreement which allows LIL (2021) LP access to a $1.0 billion unsecured convertible debenture with compounding interest at 3.03%, maturing on December 31, 2071, with payments of principal and accrued interest starting in 2042. Under the terms of the agreement, the debenture is convertible into Class B Limited partnership units of LIL (2021) LP at the option of the holder at the earlier of the date in which the debenture is fully drawn and December 31, 2041. LIL (2021) LP received a drawing on the convertible debenture in 2024 amounting to $150.0 million (2023 - $144.7 million). Cumulative accrued interest on the convertible debenture as at December 31, 2024 is $7.3 million (2023 – $1.5 million).

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

15. CLASS B LIMITED PARTNERSHIP UNITS

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

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

As at December 31 (millions of Canadian dollars)		**Units**	**2024**	Units	2023
Class B limited partnership units, beginning of the year		**25**	**757**	25	739
Contributions	(a)	**-**	**233**	-	-
Distributions		**-**	**(77)**	-	(45)
Accrued interest		**-**	**67**	-	63
Class B limited partnership units, end of the year		**25**	**980**	25	757
Less: Maturities within one year			**(95)**		(88)
			885		669

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

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16. DEFERRED CREDITS

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

As at December 31, 2024 (millions of Canadian dollars)	Deferred Energy Sales	Deferred Lease Revenue	Other	Total
Deferred credits, beginning of the year	1,615	63	19	1,697
Additions	26	17	5	48
Amortization	(110)	(2)	(1)	(113)
Deferred credits, end of the year	1,531	78	23	1,632
Less: current portion	(94)	(3)	(7)	(104)
	1,437	**75**	**16**	**1,528**

Nalcor has recorded deferred energy sales of $1,530.8 million (2023 - $1,614.5 million) which represents Nalcor's obligation to deliver the Nova Scotia Block to Emera in exchange for construction and operation and maintenance of the Maritime Link. Nalcor has determined that it controls the Maritime Link asset for financial reporting purposes, and as such, has recorded the costs of construction within property, plant and equipment.

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

17. DECOMMISSIONING LIABILITIES

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

The reconciliation of the beginning and ending carrying amounts of decommissioning liabilities as at December 31, 2024 and 2023 are as follows:

As at December 31 (millions of Canadian dollars)	Notes	**2024**	2023
Decommissioning liabilities, beginning of the year		**102**	100
Accretion		**5**	5
Liabilities settled		**(1)**	(2)
Revisions		**-**	(1)
Decommissioning liabilities, end of the year		**106**	102
Less: current portion	13	**(2)**	(2)
		104	100

The total estimated undiscounted cash flows required to settle the Holyrood TGS obligations at December 31, 2024 are $34.9 million (2023 - $34.8 million). Payments to settle the liability are expected to occur between 2025 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 3.4% (2023 - 3.8%).

Oil and Gas' decommissioning liabilities result from net ownership interests in petroleum and natural gas properties and related well sites. The total undiscounted estimated cash flows required to settle the obligations, including a

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rate of inflation of 2%, at December 31, 2024 are $162.7 million (2023 - $165.4 million). Payments to settle the liabilities are expected to occur between 2039 and 2040. The fair value of the decommissioning liabilities was determined using the present value of future cash flows discounted at rates ranging from 4.7% to 5.1% (2023 – 5.3% to 5.4%).

A significant number of Nalcor'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 Nalcor'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 Nalcor is required to remove, a decommissioning liability for those assets will be recognized at that time.

18. EMPLOYEE FUTURE BENEFITS

18.1 Pension Plan

Employees participate in the Province's Public Service Pension Plan, a multi-employer defined benefit plan. The employer's contributions for the year ended December 31, 2024 of $14.5 million (2023 - $13.1 million) are expensed as incurred.

18.2 Other Benefits

Nalcor 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 2024, cash payments to beneficiaries for its unfunded other employee future benefits were $3.9 million (2023 - $3.8 million). An actuarial valuation was performed as at December 31, 2024.

As at December 31 (millions of Canadian dollars)		**2024**	2023
Accrued benefit obligation, beginning of the year		**116**	98
Current service cost		**4**	3
Interest cost		**5**	5
Benefits paid		**(4)**	(4)
Actuarial loss	(a)	**4**	14
Accrued benefit obligation, end of the year		**125**	116

(a) Pursuant to Board Order No. P.U. 36 (2015), Hydro recorded $1.0 million (2023 - $2.0 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)	**2024**	2023
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:

	2024	2023
Discount rate - benefit cost	**4.65%**	5.20%
Discount rate - accrued benefit obligation	**4.70%**	4.65%
Rate of compensation increase	**3.50%**	3.50%

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Assumed healthcare trend rates:

	2024	2023
Initial health care expense trend rate	**5.85%**	6.00%
Cost trend decline to	**3.60%**	3.60%

Current rate 5.85%, reducing linearly to 3.6% in 2040 and thereafter.

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

Increase (millions of Canadian dollars)	**2024**	2023
Current service and interest cost	**1.4**	1.2
Accrued benefit obligation	**16.3**	15.0

Decrease (millions of Canadian dollars)	**2024**	2023
Current service and interest cost	**(1.1)**	(0.9)
Accrued benefit obligation	**(12.9)**	(11.9)

19. OTHER LONG-TERM LIABILITIES

As at December 31 (millions of Canadian dollars)		**2024**	2023
Deferred contributions	(a)	**47**	43
Long-term payables	(b)	**37**	36
Non-current lease liabilities		**5**	5
		89	84

(a) Deferred contributions:

As at December 31 (millions of Canadian dollars)	Notes	**2024**	2023
Deferred contributions, beginning of the year		**44**	41
Additions		**6**	4
Amortization		**(1)**	(1)
Deferred contributions, end of the year		**49**	44
Less: current portion	13	**(2)**	(1)
		47	43

Nalcor 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.

(b) Long-term payables:

As at December 31 (millions of Canadian dollars)	Notes	**2024**	2023
Long-term payables, beginning of the year		**60**	89
Additions		**6**	-
Settlements		**(20)**	(30)
Accretion		**2**	2
Revisions		**7**	(1)
Long-term payables, end of the year		**55**	60
Less: current portion	13	**(18)**	(24)
		37	36

As at December 31, 2024, current portion of long-term payables primarily relates to payments owing to the Innu Nation under the IBA Amendment. Long-term payables primarily consists of a payable to the Innu Nation under the UCRA. Under the UCRA, Nalcor is required to pay to the Innu Nation $2.0 million annually, escalating by 2.5%

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annually until 2041. At December 31, 2024, $2.8 million (2023 - $2.8 million) of the amount is current and is recorded in Other current liabilities. Nalcor has sinking funds in the amount of $33.5 million (2023 - $34.3 million) to fund these future obligations. The present value of the remaining payments using a discount rate of 4.5% (2023 - 5.0%) is $36.4 million (2023 - $37.3 million).

HSE First Redetermination resulted in a reduction in Oil and Gas' working interest in the HSE field from 10% to 8.7%. The change in working interest triggered the re-balancing of historic barrels of oil, which was settled by a clawback of a pre-determined percentage of entitled production. The repayment was fully completed in June 2024 and there is no balance remaining at December 31, 2024 (2023 - $14.9 million balance owing).

20. LEASES

Amounts recognized in the Consolidated Statement of Profit and Comprehensive Income

For the year ended December 31 (millions of Canadian dollars)		**2024**	2023
Variable lease payments not included in the measurement of leases	(a)	**28**	30

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

The total cash outflow for leases for the year ended December 31, 2024 amount to $28.7 million (2023 - $30.2 million).

21. SHAREHOLDER'S EQUITY

21.1 Share Capital

As at December 31 (millions of Canadian dollars)	**2024**	2023
Common shares of par value $1 each		
Authorized - unlimited		
Issued and outstanding - 122,500,000	**123**	123

21.2 Dividends

As at December 31 (millions of Canadian dollars)	**2024**	2023
Declared and paid during the year		
Common dividend for current year	**-**	300

22. CAPITAL MANAGEMENT

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

The capital managed by Nalcor is comprised of debt (long-term debentures, promissory notes, bank credit facilities and Class B limited partnership units) and equity (share capital, shareholder contributions, reserves and retained earnings).

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A summary of the consolidated capital structure is outlined below:

As at December 31 (millions of Canadian dollars)	**2024**		2023	
Debt				
Sinking funds (Hydro portion only)	**(211)**		(206)	
Short-term borrowings	**590**		230	
Current portion of long-term debt	**70**		70	
Long-term debt	**10,865**		10,788	
Current portion of Class B limited partnership units	**95**		88	
Class B limited partnership units	**885**		669	
Lease liabilities	**5**		5	
	12,299	**61%**	11,644	61%
Equity				
Share capital	**123**		123	
Shareholder contributions	**4,859**		4,859	
Reserves	**(29)**		(30)	
Retained earnings	**2,985**		2,506	
	7,938	**39%**	7,458	39%
	20,237	**100%**	19,102	100%

Nalcor's committed operating facility has covenants restricting the issuance of debt such that the unconsolidated debt to total capitalization ratio cannot exceed 70.0%. The covenants further stipulate that the debt service coverage ratio should at all times be greater than 1.5 on an unconsolidated basis. As at December 31, 2024 and 2023, Nalcor was in compliance with these covenants.

For the regulated portion of the Company'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 85%. As at December 31, 2024 and 2023 Hydro was in compliance with this covenant.

Legislation stipulates that the total of the short-term loans issued by Nalcor and Hydro and outstanding at any time shall not exceed a limit as fixed by the Lieutenant-Governor in Council. Short-term loans are those loans issued with a term not exceeding two years. At December 31, 2024, short-term debt caps were $300.0 million for Nalcor and $700.0 million (reducing to $500.0 million on January 1, 2026) for Hydro; and, total debt caps were $600.0 million for Nalcor (excluding the LCP entities) and $2.6 billion for Hydro. As a result of amalgamation, described in Note 34, these debt caps were combined such that the new Hydro entity has a short-term debt cap of $1.0 billion (reducing to $800.0 million on January 1, 2026) and a total debt cap (excluding LCP entities) of $3.2 billion.

23. ENERGY SALES

For the year ended December 31 (millions of Canadian dollars)	**2024**	2023
Electricity sales	**1,134**	1,034
Petroleum and natural gas sales	**240**	266
Royalty expense	**(25)**	(15)
Total energy sales	**1,349**	1,285

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24. OTHER REVENUE

For the year ended December 31 (millions of Canadian dollars)	Notes	**2024**	2023
Greenhouse gas performance credit sales		**20**	23
Renewable energy certificates		**20**	5
Lease revenue		**15**	11
Government grant	11(b)	**-**	190
Other		**13**	10
Total other revenue		**68**	239

25. OPERATING COSTS

For the year ended December 31 (millions of Canadian dollars)	**2024**	2023
Salaries and benefits	**168**	157
Maintenance and materials	**85**	86
Professional services	**46**	37
Impacts and Benefits Agreement and Amendment	**35**	-
Insurance	**15**	14
Travel and transportation	**11**	10
Other operating costs	**6**	6
Total operating costs	**366**	310

26. PRODUCTION, MARKETING AND TRANSPORTATION COSTS

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

For the year ended December 31 (millions of Canadian dollars)	**2024**	2023
Project operating costs	**30**	24
Transportation and transshipment	**8**	7
Processing and marketing	**1**	1
Total production, marketing and transportation costs	**39**	32

27. NET FINANCE EXPENSE

For the year ended December 31 (millions of Canadian dollars)	**2024**	2023
Finance income		
Interest on restricted cash	**69**	70
Interest on investments	**25**	27
Other interest income	**43**	38
	137	135
Finance expense		
Interest on long-term debt	**399**	396
Interest on Class B limited partnership units	**67**	63
Debt guarantee fee	**9**	9
Other	**31**	17
	506	485
Interest capitalized during construction	**(2)**	(51)
	504	434
Net finance expense	**367**	299

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28. OTHER EXPENSE (INCOME)

For the year ended December 31 (millions of Canadian dollars)	**2024**	2023
HSE Redetermination adjustment	**(23)**	(46)
Settlement of commodity price swap contracts	**-**	(9)
Loss on disposal of assets	**21**	9
Rental and royalty	**21**	17
Other	**8**	15
Total other expense (income)	**27**	(14)

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

29.1 Fair Value

The estimated fair values of financial instruments as at December 31, 2024 and 2023 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 Nalcor might receive or incur in actual market transactions.

As a significant number of Nalcor'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 Nalcor 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, Nalcor determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. There were no transfers between Level 1, 2 and 3 during the years ended December 31, 2024 and 2023.

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As at (millions of Canadian dollars)	Level	Carrying Value December 31, 2024	Fair Value December 31, 2024	Carrying Value December 31, 2023	Fair Value December 31, 2023
Financial assets					
Sinking funds - investments in Hydro debt issue	**2**	**128**	**129**	111	111
Sinking funds - other investments	**2**	**245**	**253**	240	248
Investments, including short-term	**2**	**199**	**200**	241	236
Reserve fund	**2**	**50**	**50**	50	50
Financial liabilities					
Derivative liabilities	**2**	**-**	**-**	8	8
Long-term debt, including amount due within one year (before sinking funds)	**2**	**11,063**	**10,331**	10,969	10,366
Class B limited partnership units, including amount due within one year	**3**	**980**	**980**	757	757
Long-term payables, including amount due within one year	**2**	**55**	**55**	60	68

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

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

Level 3 financial instruments include Class B limited partnership units.

The Class B limited partnership units are carried at amortized cost, calculated using the effective interest method, which approximates fair value. The effective interest rate as at December 31, 2024 is 8.7% (2023 - 8.5%) which is the rate that discounts the estimated future cash flows to the amortized cost of the financial liabilities. Due to the unobservable nature of the effective interest rate and resulting discounted cash flows associated with the units, the instruments have been classified as Level 3.

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

(millions of Canadian dollars)	1% Increase	1% Decrease
Class B limited partnership units	(67.7)	64.3

29.2 Risk Management

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

Credit Risk

Nalcor'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

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

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

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

	Issuer Credit Rating	Fair Value of Portfolio (%)	Issuer Credit Rating	Fair Value of Portfolio (%)
	2024		2023	
Provincial governments	AA- to AAA	18.75%	AA- to AAA	15.03%
Provincial governments	A- to A+	19.34%	A- to A+	23.88%
Provincially owned utilities	AA- to AAA	25.76%	AA- to AAA	26.58%
Provincially owned utilities	A- to A+	36.15%	A- to A+	34.51%
		100.00%		100.00%

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

	Issuer Credit Rating	Fair Value of Portfolio (%)	Issuer Credit Rating	Fair Value of Portfolio (%)
	2024		2023	
Provincial governments	AA- to AAA	31.17%	AA- to AAA	24.05%
Provincially owned utilities	AA- to AAA	7.49%	AA- to AAA	6.07%
Provincial governments	A- to A+	29.63%	A- to A+	35.60%
Provincially owned utilities	A- to A+	3.30%	A- to A+	1.74%
Schedule 1 Canadian banks	AA- to AAA-	9.50%	AA- to AAA-	9.30%
Schedule 1 Canadian banks	A- to A+	18.91%	A- to A+	23.24%
		100.00%		100.00%

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

	Issuer Credit Rating	Fair Value of Portfolio (%)	Issuer Credit Rating	Fair Value of Portfolio (%)
	2024		2023	
Provincially owned utilities	A- to A+	0.10%	A- to A+	0.08%
Schedule 1 Canadian Banks	A- to A+	99.90%	A- to A+	99.92%
		100.00%		100.00%

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

Nalcor does not have any significant amounts that are past due and uncollectable, for which a provision has not been recognized as at December 31, 2024.

Liquidity Risk

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

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

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

Long-term liquidity risk for Hydro is managed by the issuance of a portfolio of debentures with maturity dates ranging from 2026 to 2048. Sinking funds have been established for these issues, with the exception of the issues maturing in 2030, 2045 and 2048.

Churchill Falls' long-term liquidity risk is managed by maintenance of the reserve fund in accordance with the Shareholders' Agreement and a dividend management policy that meets long-term liquidity requirements associated with Churchill Falls' capital expenditure program. Churchill Falls maintains a $25.0 million minimum cash balance (2023 - $25.0 million).

Long-term liquidity is further supported through funding from Canada in the form of a $1 billion convertible debenture for rate mitigation.

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The following are contractual maturities of Nalcor's financial liabilities as at December 31, 2024:

(millions of Canadian dollars)	<1 Year	1-3 Years	3-5 Years	>5 Years	Total
Trade and other payables	356	-	-	-	356
Short-term borrowings	590	-	-	-	590
Long-term debt (including sinking funds, interest and guarantee fees)	534	1,141	1,688	14,509	17,872
Class B limited partnership units (including interest)	95	186	182	2,761	3,224
Long-term payables	16	5	2	32	55
	1,591	1,332	1,872	17,302	22,097

Market Risk

In the course of carrying out its operating, financing and investing activities, Nalcor 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 Nalcor has significant exposure include those relating to prevailing interest rates, foreign exchange rates, most notably USD/CAD, and current commodity prices, most notably the spot prices for oil, No. 6 fuel, diesel fuel and electricity and any potential new or revised tariffs.

Interest Rates

The impact of interest rates on the expected future cash outflows related to short-term borrowings and long-term debt are managed through Nalcor's debt portfolio. The impact of changes in interest rates on net income and other comprehensive income associated with cash and short-term debt was negligible throughout 2024 due to the short time period to maturity. Nalcor is not exposed to interest rate risk on its long-term debt as all of its long-term debt has fixed interest rates.

Foreign Exchange and Commodity Exposure

Nalcor's primary exposure to both foreign exchange and commodity price risk arises from its purchases of fuel used in electricity generation, USD denominated electricity sales, capital purchases and the sale of crude oil. For the purchases of fuel used in electricity generation, these risks are mitigated through the operation of regulatory mechanisms. For the year ended December 31, 2024, total energy and Renewable energy certificates sales denominated in USD were $99.8 million (2023 - $70.3 million).

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

During 2024, total oil sales denominated in USD were $175.9 million (2023 - $196.7 million). Historically, cash flow variability related to commodity price exposure on USD denominated oil sales was mitigated through the use of fixed price commodity swaps and foreign exchange exposure on sales was partially offset by USD denominated capital expenditures and foreign exchange forward contracts. The Company has not entered into any new commodity price swaps or foreign exchange forward contracts since 2022, and the last contract matured in January 2024.

As the commodity price and foreign exchange contracts were designated as hedging instruments, changes in fair value was recorded in other comprehensive income (loss). During 2024, $0.2 million in realized gains (2023 – $3.8 million in realized gains) have been recorded in Other expense (income) and no unrealized gains or losses (2023 - $0.3 million in unrealized gains) remain in other comprehensive income (loss).

30. RELATED PARTY TRANSACTIONS

Nalcor 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 Nalcor transacts are as follows:

Related Party	Relationship
The Province	100% shareholder of Nalcor
Churchill Falls	Joint arrangement of Hydro
Hydro-Québec	34.2% shareholder of Churchill Falls
Oil and Gas Corporation of Newfoundland and Labrador	Wholly-owned subsidiary of the Province
Bull Arm Fabrication Inc.	Wholly-owned subsidiary of Oil and Gas Corporation of Newfoundland and Labrador
KKR	Limited Partner holding 25 Class B limited partnership units of LIL LP
PUB	Agency of the Province

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

As at December 31 (millions of Canadian dollars)		**2024**	2023
Trade and other receivables:			
Other related parties	(a)	**24**	18
The Province		**2**	1
Trade and other payables:			
The Province	(b,c,d,e)	**61**	44
Other current liabilities			
Other related parties		**4**	-
Long-term debt (including current portion):			
The Province		**927**	926

For the year ended December 31 (millions of Canadian dollars)		**2024**	2023
Energy sales:			
Other related parties		**144**	66
The Province	(e)	**(22)**	(11)
Other revenue:			
The Province		**-**	190
Other related parties		**1**	1
Power purchased:			
The Province	(d)	**28**	30
Operating costs (recoveries):			
Other related parties		**4**	4
The Province	(d)	**(24)**	(25)
Net finance expense:			
The Province		**36**	36
Other expense:			
The Province	(b,c)	**21**	17
Dividends paid :			
The Province		-	300

(a) Included in trade and other receivables as at December 31, 2024 and 2023 is $5.7 million owing from Bull Arm Fabrication and Oil and Gas Corporation of Newfoundland and Labrador. The balance was allowed for in its entirety during 2021.

(b) Churchill Falls is required to pay the Province an annual rental of 8% of the consolidated net profits before income taxes and an annual royalty of $0.50 per horsepower year generated, which is payable on an annual basis before March 31 of the following fiscal year.

(c) Muskrat Falls is required to pay the Province a water rental fee based on megawatt hours of energy generated, which is payable on an annual basis, in the first quarter of the following fiscal year.

(d) Nalcor, 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, 2024, Hydro has purchased $28.4 million (2023- $29.8 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.

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(e) Primarily consists of amounts expensed to the Province for royalties associated with Oil and Gas, which are presented net of Energy sales in the Consolidated Statement of Profit and Comprehensive Income. Royalties payable to the Province at the end of year were $10.2 million (2023 - $1.1 million).

30.1 Key Management Personnel

Compensation for key management personnel, which Nalcor 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)	**2024**	2023
Salaries and employee benefits	**3**	4

31. COMMITMENTS AND CONTINGENCIES

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

(b) Outstanding commitments for capital projects, excluding those related to Oil and Gas, total approximately $169.0 million as at December 31, 2024 (2023 - $91.6 million).

(c) Nalcor and its subsidiaries have issued 16 irrevocable letters of credit with a total value of $28.4 million as per Note 14.1.

(d) Oil and Gas has the following capital and operating commitments as a result of its joint venture partnerships:

(millions of Canadian dollars)	Total Commitments
2025	13.4
2026	9.2
2027	6.5
2028	6.1
2029	5.2
Thereafter	10.1

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

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

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

(millions of Canadian dollars)	**2025**	**2026**	**2027**	**2028**	**2029**
Power purchases	54	48	48	49	42

(f) In 2023, Hydro entered into a new long-term Capacity Assistance Arrangement (CAA) with Corner Brook Pulp and Paper (CBPP). This was approved by the Board Order No. P.U. 32 (2023). Under the terms this CAA, CBPP will provide Hydro with up to 90 MW of relief power in the winter period and 50 MW in the summer period over a 15-year term. Payments under this contract are made monthly at a rate of $80 per kW per year for the maximum capacity contracted, escalating by an annual consumer price index.

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

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

(millions of Canadian dollars)	**2025**	**2026**	**2027**	**2028**	**2029**
Transmission rental payments	21	21	21	21	5

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

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

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

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

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

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(m) As at December 31, 2024, Nalcor, on behalf of Energy Marketing, has issued unconditional guarantees and sales contracts in the amount of $23.0 million CAD equivalent (2023 - $22.5 million CAD), in order to guarantee amounts under power purchase and sale contracts with bilateral counterparties and sale of transmission rights.

(n) In 2015, the Energy Access Agreement (EAA) was signed between Nalcor 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. Nalcor proposed a total delivery of approximately 1,403 GWh of energy between September 1, 2024 to September 1, 2025 to Emera, which was accepted and is at a market price. As at December 31, 2024, 123 GWh of energy was delivered to Emera under the terms of the EAA with the remainder to be delivered in 2025.

(o) On October 24, 2024, Nalcor and the Innu Nation amended the Lower Churchill Innu Impacts and Benefits Agreement (IBA) to reflect an agreement on rate mitigation. Under this agreement, Nalcor 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.

32. SUPPLEMENTARY CASH FLOW INFORMATION

For the year ended December 31 (millions of Canadian dollars)	**2024**	2023
Trade and other receivables	**(77)**	3
Prepayments	**4**	-
Inventories	**(10)**	(12)
Trade and other payables	**54**	5
Changes in non-cash working capital balances	**(29)**	(4)
Related to:		
Operating activities	**(44)**	10
Investing activities	**15**	(14)
	(29)	(4)

33. SEGMENT INFORMATION

The following summary provides a brief overview of the nature of operations included in each of the Company's operating segments as at December 31, 2024.

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

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

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

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

Energy Trading includes energy trading and commercial activities related to maximizing the value of the Province's

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surplus power and transmission interconnections with external electricity markets.

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

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

Corporate includes shared services functions along with community and business development.

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(millions of Canadian dollars)	Hydro Regulated	Muskrat Falls	LC Transmission	Churchill Falls	Energy Trading	Other Electric	Oil and Gas	Corporate	Inter-Segment	Total
	For the year ended December 31, 2024									
Energy sales	740	630	114	108	118	167	215	-	(743)	1,349
Other revenue	285	-	458	15	20	15	-	-	(725)	68
Revenue	1,025	630	572	123	138	182	215	-	(1,468)	1,417
Fuels	169	-	-	-	-	-	-	-	-	169
Power purchased	1,083	-	-	-	41	86	-	-	(1,099)	111
Operating costs	150	61	41	47	5	31	4	27	-	366
Production, marketing and transportation costs	-	-	-	-	-	-	39	-	-	39
Transmission rental	-	114	-	-	50	-	-	-	(132)	32
Depreciation, depletion, amortization and impairment	80	90	110	22	-	33	81	9	(2)	423
Net finance expense (income)	110	105	188	(6)	(2)	-	2	(30)	-	367
Other expense (income)	10	21	11	8	(6)	249	(27)	2	(241)	27
Preferred dividends	-	-	-	(4)	-	-	-	-	4	-
Expenses	1,602	391	350	67	88	399	99	8	(1,470)	1,534
(Loss) profit for the year before regulatory adjustments	(577)	239	222	56	50	(217)	116	(8)	2	(117)
Regulatory adjustments	(597)	-	-	-	-	-	-	-	1	(596)
Profit for the year	20	239	222	56	50	(217)	116	(8)	1	479
Capital expenditures*	163	3	30	58	-	24	92	2	-	372
Total assets	4,342	7,977	7,147	871	133	1,899	840	1,637	(2,019)	22,827
Total debt**	2,390	4,395	5,514	-	-	-	-	-	-	12,299

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

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

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(millions of Canadian dollars)	Hydro Regulated	Muskrat Falls	LC Transmission	Churchill Falls	Energy Trading	Other Electric	Oil and Gas	Corporate	Inter-Segment	Total
				For the year ended December 31, 2023						
Energy sales	740	521	113	100	95	170	251	-	(705)	1,285
Other revenue	388	-	323	3	5	11	-	-	(491)	239
Revenue	1,128	521	436	103	100	181	251	-	(1,196)	1,524
Fuels	187	-	-	-	-	-	-	-	-	187
Power purchased	926	-	-	-	21	54	-	-	(923)	78
Operating costs	148	24	34	47	5	25	5	23	(1)	310
Production, marketing and transportation costs	-	-	-	-	-	-	32	-	-	32
Transmission rental	-	113	-	-	55	-	-	-	(129)	39
Depreciation, depletion, amortization and impairment	73	67	82	26	-	33	30	5	(1)	315
Net finance expense (income)	94	103	132	(6)	(1)	-	2	(25)	-	299
Other expense (income)	9	20	(4)	1	3	146	(48)	1	(142)	(14)
Preferred dividends	-	-	-	(2)	-	-	-	-	2	-
Expenses	1,437	327	244	66	83	258	21	4	(1,194)	1,246
(Loss) profit for the year before regulatory adjustments	(309)	194	192	37	17	(77)	230	(4)	(2)	278
Regulatory adjustments	(342)	-	-	-	-	-	-	-	1	(341)
Profit (loss) for the year	33	194	192	37	17	(77)	230	(4)	(3)	619
Capital expenditures*	150	5	83	49	-	14	58	4	(1)	362
Total assets	3,659	7,766	6,985	812	116	1,922	815	1,385	(1,776)	21,684
Total debt**	2,051	4,430	5,163	-	-	-	-	-	-	11,644

*Capital expenditures (inclusive of property, plant and equipment and intangible assets) include non-cash additions of $1.0 million related to the Maritime Link, $17.4 million related to Class B Limited Partnership Unit accrued interest and $33.7 million of interest capitalized during construction.

**Total debt includes short-term borrowings, long-term debt including current portion less Hydro's sinking funds of $205.9 million, Class B limited partnership units, and lease liabilities of $5.3 million.

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34. SUBSEQUENT EVENT

Effective January 1, 2025, Hydro and Nalcor were legislatively amalgamated into a new legal corporation that will continue under the name “Newfoundland and Labrador Hydro”. The amalgamated corporation holds the combined assets and liabilities of the former Hydro and Nalcor entities and is bound by any previously existing contracts and agreements from the former entities. As well, the legislation confirms the continuation of any security or guarantees provided by the Provincial Government to Nalcor with Hydro.

Appendix F:
Management Discussion and 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 Nalcor Energy (Nalcor) for the year ended December 31, 2024. Effective January 1, 2025, Newfoundland and Labrador Hydro (NL Hydro) and Nalcor were legislatively amalgamated into a new corporation that will continue 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, 2024, with subsequent events and outlook information updated to March 7, 2025. 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 7, 2025.

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 changes, including the focus on creating a safe and sustainable environment. We deliver more than 92 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.

In 2021, the Government of Newfoundland and Labrador announced that all Nalcor operations would be moving under Newfoundland and Labrador Hydro. This decision resulted in a change in reporting throughout the organization as well as new leadership and focus. The Company has been functionally operating as one utility using the name NL Hydro. On January 1, 2025, NL Hydro and Nalcor were legislatively amalgamated. This report is made jointly by the Newfoundland and Labrador Hydro Group of Companies which includes the parent corporation, formerly known as Nalcor Energy (Nalcor) as of December 31, 2024, and its subsidiaries.

MANAGEMENT DISCUSSION & ANALYSIS

Throughout this MD&A, “Company” and “Hydro” refer to the Newfoundland and Labrador Hydro Group of Companies (formerly Nalcor), references to “Nalcor” refer to the Nalcor legal entity and references to “NL Hydro” refer to the legacy Newfoundland and Labrador Hydro legal entity.

The operating segments are based on a combination of regulatory status and management accountability. The following summary provides a brief overview of the nature of operations included in each of Hydro’s operating segments as at December 31, 2024.

Hydro Regulated activities encompass sales of electricity to customers within the Province that are regulated by the Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB).

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

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

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

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

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

Oil and Gas includes the Company’s share in the development, production, transportation and processing of oil and gas from the Hebron, White Rose and Hibernia South Extension (HSE) fields.

Corporate includes shared services functions along with community and business development.

MANAGEMENT DISCUSSION & ANALYSIS

AT A GLANCE

	Three months ended		Twelve months ended	
For the periods ended December 31 (millions of Canadian dollars)	**2024**	2023	**2024**	2023
Profit	**143**	306	**479**	619
Revenue	**368**	364	**1,417**	1,524
Operating costs	**91**	78	**366**	310
Cash (used in) provided from operations	**(114)**	(63)	**260**	496
Capital expenditures	**126**	92	**372**	362
Electricity sales (GWh)	**9,527**	12,359	**40,090**	43,921
Oil sales volume (thousands of bbls)	**642**	550	**2,261**	2,466
Realized oil price (CAD/bbl)	**101**	109	**106**	109

Profit

The Company's profit for the three months ended December 31, 2024 was $143 million, a decrease of $163 million compared to the same period in 2023. The primary drivers of the decrease in profit for the quarter relates to variations in impairment expenses and reversals related to Hydro's Oil and Gas assets, timing differences related to contractual power purchases under the Muskrat Falls Power Purchase Agreement (MF PPA) and higher operating costs.

The Company's profit for the year ended December 31, 2024 was $479 million, a decrease of $140 million compared to the same period in 2023. The primary drivers of the decrease in profit for the year relates to:

- Usage of internal funds to reduce the 2023 balance in the Supply Cost Variance Deferral Account (Deferral Account);
- Variations in impairment expenses and reversals related to Hydro's Oil and Gas assets. Impairment expenses and reversals in the oil and gas industry are not uncommon, are non-cash, and do lead to fluctuations in profit between financial reporting periods; and
- Increases in operating costs and power purchases.

The decrease is partially offset by:

- Increase in revenue from a short-term energy sales agreement with Hydro-Québec; and
- The net impacts of commissioning of the LCP assets in Q2 2023.

With commissioning of the LCP assets, revenues and expenses began to be recognized as power was sold to Hydro Regulated. The net costs incurred by Hydro Regulated are deferred in the Deferral Account, which is approved by the PUB. The Province's Rate Mitigation Plan requires that any additional funding required to reduce the balance in the Deferral Account and achieve the targeted rates come from Hydro's own sources, to the extent possible. When Hydro's internal funds are used to reduce the balance in the Deferral Account it has a negative impact on Hydro's net income, as noted above.

The Province's Rate Mitigation Plan directs Hydro to pay off the Deferral Account's ending 2023 balance of $271 million over three years (2024-2026). In 2024, Hydro used $90 million of internal funds to reduce the 2023 balance in the Deferral Account. In Q1 2025, Hydro used internal funds to further reduce the balance of the Deferral Account by $441 million which consisted of another $90 million applied against the 2023 balance and the remainder applied against accumulated 2024 activity.

MANAGEMENT DISCUSSION & ANALYSIS

RECENT DEVELOPMENTS

HYDRO REGULATED

Rate Mitigation, the Recovery of LCP Costs

On May 16, 2024, the Government announced the finalization of the Rate Mitigation Plan with Hydro. The plan ensures domestic residential rate increases, for customers subject to Island Interconnected System rates, attributable to Hydro's costs, are targeted at 2.25% annually up to and including 2030. The plan also requires that any additional rate mitigation funding required to mitigate LCP costs come from Hydro's own sources, to the extent possible, and for Hydro to retire the 2023 ending Deferral Account balance of $271 million over the 2024–2026 period. A total of $240 million was applied to the Deferral Account balance in 2024, comprised of $90 million from internally generated funds and $150 million from the second annual drawdown on the federal convertible debenture (2023 - $335 million comprised of $145 million from the first drawdown of the federal convertible debenture and $190 million grant from the provincial government) to reduce funding required from customers. In February 2025, Hydro applied $441 million of rate mitigation funding against the Deferral Account. Use of these funds from Hydro's own sources reduces Hydro's consolidated net income.

Customer Rate Changes

Hydro Regulated is designing rates and regulatory mechanisms to provide a smooth transition to new rates which incorporate the cost recovery of the LCP, which also reflects the Province's Rate Mitigation Plan. In 2022, Hydro Regulated implemented a Project Cost Recovery Rider to commence recovery of Muskrat Falls costs. On July 10, 2024, the PUB approved Hydro Regulated's wholesale rate increase to Newfoundland Power which resulted in a retail rate increase of approximately 2.25% to domestic consumers effective August 1, 2024. As a result, Hydro Regulated's Project Cost Recovery Rider increased from 0.798 to 1.124 cents per kWh.

On July 10, 2024, the PUB ordered Newfoundland Power to file a revised Rate Stabilization Adjustment that would provide a rate increase of 6.80% for domestic customers effective August 1, 2024. Hydro Regulated subsequently revised its Rural Rates application to align with Newfoundland Power's revised customer rates and the application was approved by the PUB on July 24, 2024.

On January 31, 2025, the PUB approved Hydro Regulated's normal annual application for Island Industrial Customer Rates effective January 1, 2025, which offsets the decrease in the Rate Stabilization Plan (RSP) Account with an increase in the Project Cost Recovery Rider and maintains rates at current levels. Hydro Regulated intends to propose further updates to the Project Cost Recovery Rider for Island Industrial Customers, in accordance with the Government of Newfoundland and Labrador's Rate Mitigation Plan, on July 1, 2025 when Hydro Regulated files its application for the July 1, 2025 Island Industrial Customer Conservation and Demand Management Cost Recovery Adjustment. Going forward, Hydro Regulated intends to file one annual rate change for Island Industrial Customers each year, effective July 1.

Effective January 1, 2025, rates to recover the generation costs from Labrador Industrial customers were updated using a formula-based methodology that has been in effect since 2015. The rates to recover generation costs are non-regulated and include a market based component. It is the policy of the Government of Newfoundland and Labrador that rates charged for the supply of power should promote the development of industrial activity in Labrador by ensuring that industrial rates remain competitive with other jurisdictions. The customer rate impact was approximately 1.50% and, even with this increase, rates charged to Labrador Industrial customers remain one of the lowest in the country.

On January 16, 2025, the PUB approved Hydro Regulated's application to update its Wholesale Utility Rate. This application proposed an update to the Utility rate to more accurately reflect the marginal cost of energy, being the opportunity cost of the market value of exports. This update will create a benefit for customers through a reduction in the potential volatility associated with Newfoundland Power's July 1 customer rate change. In Order No. P.U. 1(2025), the PUB directed Hydro Regulated to file a methodology for updating the wholesale rate no later than its next General Rate Application (GRA), or April 15, 2026.

On January 17, 2025, the PUB issued an Order for the Newfoundland Power Inc. 2025-2026 GRA, increasing their return on equity from 8.50% to 8.60%. As Hydro Regulated's return on equity is linked to the approved return on equity of

MANAGEMENT DISCUSSION & ANALYSIS

Newfoundland Power Inc., Hydro filed a flow-through application to increase its regulated return on equity on January 29, 2025, but has proposed that any related customer rate changes be deferred until its upcoming GRA.

2025 Capital Budget and Supplemental Applications

Hydro Regulated's 2025 Capital Budget Application (CBA) with total proposed capital expenditures of $135.7 million was approved by the PUB on December 13, 2024. The 2025 capital budget is higher than recent years due to increased renewal-driven expenditures to ensure system reliability, particularly related to aging assets where larger investments are required for major overhaul work. The underlying projects and programs in Hydro's 2025 CBA reflect its ongoing objective and responsibility as the Province's Crown Utility to minimize costs, while maintaining safe and reliable operations in an environmentally responsible manner.

Hydro Regulated's application for a budget increase related to its Penstock 1 Refurbishment Project was approved on November 25, 2024 for total project budget of $65.9 million. The increase to the budget is the result of detailed engineering, refinement of scope and updated market factors. This multi-year project is incremental to the $135.7 million 2025 capital budget.

On December 6, 2024, Hydro Regulated filed a cost and schedule update to the PUB on its long-term supply plan for the Southern Labrador application, with support from the NunatuKavut Community Council ("NCC"). Hydro Regulated's recommendation for the long-term supply plan for Southern Labrador continues to consist of a regional diesel generating station with immediate interconnection of four currently isolated systems in the region, at a current project cost estimate of $110.9 million, with planned completion in 2029. Hydro will continue to work with the NCC up to and through the environmental assessment process to provide the necessary information for the NCC to determine any impacts of the project. Hydro continues to be confident that its application meets its mandate under the amended Public Utilities Act and the Electrical Power Control Act, 1994.

Resource Adequacy

The Reliability and Resource Adequacy (RRA) Study outlines Hydro's long-term approach to providing cost-conscious, reliable service with considerations for provincial and federal decarbonization efforts. Hydro Regulated submitted its 2024 Resource Adequacy Plan, including its recommended Expansion Plan, on July 9, 2024. The recommended Expansion Plan includes the construction of a new hydroelectric unit (Unit 8) at Bay d'Espoir, the installation of a new combustion turbine resource on the Avalon with renewable fuel capabilities and the integration of additional energy to enable Hydro Regulated to serve the increasing load on the system and to provide reliable backup generation to enable the planned retirement of aging fossil fuel-based assets.

Predicting the exact future needs of the electrical system is challenging and Hydro Regulated is faced with a great deal of uncertainty as it plans to service its customers with reliable, cost-conscious electricity, now and into the future. Therefore, Hydro Regulated has recommended an incremental approach to required generation expansion and is progressing with a plan involving the Minimum Investment Required at this time, while continuing to progress the necessary studies and analysis to meet the expected case. Regulatory process on Hydro's 2024 Resource Adequacy Plan has been ongoing since September 2024, with four technical conferences completed in the Fall 2024 and Requests for Information filed in December 2024. The next step is to proceed directly to settlement negotiations. Hydro Regulated plans to file an application(s) for approval to construct additional generation in line with its Expansion Plan in March 2025.

Utility planning is an iterative process. Consistent with good utility practice, Hydro Regulated will continue to regularly assess load growth, asset performance and the demand for energy and capacity and study current and new generation expansion alternatives in advance of the filing of the next update to its Resource Adequacy Plan in 2026. As part of this process, Hydro Regulated will continue to monitor all factors that could influence its assessment, including federal and provincial policy, and make evidence-based decisions on future additional supply sources that are right for the people of the province.

MANAGEMENT DISCUSSION & ANALYSIS

LOWER CHURCHILL

With the LCP being commissioned in Q2 2023, the Maritime Link is operating up to its full rating of 500 MW. The final software version for the LIL successfully passed testing in March 2024 and was installed in July 2024. Execution of a 900MW pole overload test is forecast to be completed in Q1 2025. The LIL is available for reliable operation up to 700 MW since the 450 MW restriction was lifted on November 8, 2024.

The Muskrat Falls plant ended the year with a 1.70% forced unavailability compared against a Canadian average of 5.70% unavailability; continuing to perform better than the Canadian average.

On April 19, 2024, a fire damaged inventory and capital spares, related to the LCP assets, held in a storage facility in Happy Valley Goose Bay. This has resulted in a loss on disposal of assets of $11 million. Work is ongoing on the replacement of these assets. Insurance proceeds for these assets will be recognized as proceeds are received.

On October 24, 2024, Nalcor and the Innu Nation amended the Lower Churchill Innu Impacts and Benefits Agreement (IBA) to reflect an agreement on rate mitigation. Under this agreement, Nalcor has committed with Muskrat Falls to pay 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.

On November 25, 2024, KKR Island Link Incorporated (KKR) provided a contribution of $233 million to LIL LP in order to adjust its proportionate share of investment in LIL LP as in accordance with the Newfoundland and Labrador Development Agreement.

CHURCHILL FALLS

The Churchill Falls segment experienced a new lucrative short-term energy contract, the evacuation of the town from wildfires and the signing of the Memorandum of Understanding (“MOU”) with Hydro-Québec during 2024.

In March 2024, the Company entered into a new short-term energy sales agreement, which was subsequently amended and extended, to sell banked Muskrat Falls energy and upgrade Churchill Falls energy to Hydro-Québec at a negotiated price.

On June 19, 2024, residents of Churchill Falls were required to evacuate the town due to forest fire conditions. The evacuation, combined with the forest fire conditions, resulted in reduced production levels at the plant as well as delays in operating and capital projects. The evacuation order was lifted on July 3, 2024. As well, the evacuation of Labrador City in mid-July 2024, due to forest fire conditions resulted in reduced demand for Hydro’s Labrador industrial customers. Hydro was asked to re-open the Muskrat Falls camp for temporary accommodations for displaced citizens of Labrador west. The operating and capital costs associated with the evacuations did not have a material impact on the financial results of the company.

The historic signing of the MOU between Hydro-Québec and NL Hydro on December 12, 2024 was met with welcomed debate and analysis by external parties. The extraordinary sitting in the House of Assembly gave MHAs the opportunity to ask pointed questions to NL Hydro executives and our external consultants. The House of Assembly voted to proceed with the next steps in working towards the definitive agreements with Hydro-Québec, anticipated for April 2026. The definitive agreements will finalize details around the projects as outlined in the MOU and establish these terms as legally binding contracts. The MOU and subsequent definitive agreements will provide significant economic and financial value to the Province of Newfoundland and Labrador for many decades to come.

AMALGAMATION

On December 4, 2024, Bill-33 which repeals the Energy Corporation Act and the Hydro Corporation Act, 2007 and replaces them with the Hydro Corporation Act, 2024, received Royal Assent. As a result, effective January 1, 2025, Hydro and Nalcor were legislatively amalgamated into a new legal corporation that continues under the name "Newfoundland and Labrador Hydro". The amalgamated corporation holds the combined assets and liabilities of the former Hydro and Nalcor entities and is bound by any previously existing contracts and agreements from the former entities. As well, the legislation confirms the continuation of any security or guarantees provided by the Provincial Government to Nalcor with Hydro.

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)	**2024**	2023	Variance	**2024**	2023	Variance
Revenue	**368**	364	4	**1,417**	1,524	(107)
Fuels	**62**	54	8	**169**	187	(18)
Power purchased	**31**	20	11	**111**	78	33
Operating costs	**91**	78	13	**366**	310	56
Production, marketing and transportation costs	**11**	6	5	**39**	32	7
Transmission rental	**6**	12	(6)	**32**	39	(7)
Depreciation, depletion, amortization and impairment	**122**	43	79	**423**	315	108
Net finance expense	**95**	85	10	**367**	299	68
Other expense (income)	**14**	9	5	**27**	(14)	41
(Loss) profit for the period before regulatory adjustments	**(64)**	57	(121)	**(117)**	278	(395)
Regulatory adjustments	**(207)**	(249)	42	**(596)**	(341)	(255)
Profit for the period	**143**	306	(163)	**479**	619	(140)

Revenue

	Three months ended			**Twelve months ended**		
For the periods ended December 31 (millions of Canadian dollars)	**2024**	2023	Variance	**2024**	2023	Variance
Electricity sales	**303**	297	6	**1,134**	1,034	100
Petroleum and natural gas sales, net of royalty expense	**51**	59	(8)	**215**	251	(36)
Other revenue	**14**	8	6	**68**	239	(171)
Total revenue	**368**	364	4	**1,417**	1,524	(107)

Electricity sales

Electricity sales for the three months ended December 31, 2024 was comparable to the same period in 2023. Electricity sales for the year ended December 31, 2024 were $1,134 million, an increase of $100 million compared to the same period in 2023. The increase for the year was primarily due to a short-term energy sales agreement and stronger export prices. Certain variances in revenue are offset in the regulatory adjustments line.

MANAGEMENT DISCUSSION & ANALYSIS

Electricity sales volume is summarized in the table below:

	Three months ended		Twelve months ended	
For the periods ended December 31 (GWh)	**2024**	2023	**2024**	2023
Regulated	**1,963**	1,999	**7,286**	7,370
Hydro-Québec	**6,171**	8,753	**27,063**	30,772
Emera - NS Block	**478**	546	**1,486**	1,562
Other export	**412**	577	**2,391**	2,419
Other domestic	**503**	484	**1,864**	1,798
	9,527	12,359	**40,090**	43,921

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

	Three months ended		Twelve months ended	
For the periods ended December 31	**2024**	2023	**2024**	2023
Average Export Electricity Price (USD/MWh)[1]	**49**	32	**36**	29
Realized Export Electricity Price (USD/MWh)[2]	**49**	31	**36**	29
Realized Export Electricity Price (CAD/MWh)[3]	**69**	43	**49**	39

[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, 2024 were higher compared to the same periods in 2023 primarily due to higher pricing in New York and Ontario, as well as increased export deliveries at market based prices to Nova Scotia and New Brunswick. The escalation in prices during 2024 was primarily influenced by rising natural gas costs in the Northeastern United States and reduced Canadian hydro energy supply to U.S. markets.

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, 2024 was $51 million, a decrease of $8 million compared to the same period in 2023. The decrease for the quarter was due to a decrease in average price per barrel. Petroleum and natural gas sales, net of royalty expense for the year ended December 31, 2024 was $215 million, a decrease of $36 million compared to the same period in 2023. The decrease for the year was primarily due to a decrease in oil sales volume and an increase in royalty expense primarily related to Hebron reaching a higher royalty tier during the year.

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

	Three months ended		Twelve months ended	
For the periods ended December 31	**2024**	2023	**2024**	2023
Average Dated Brent Price (USD/bbl)[1]	**73**	83	**78**	80
Realized Price (USD/bbl)[2]	**73**	80	**78**	82
Realized Price (CAD/bbl)[3]	**101**	109	**106**	109
Oil Sales Volume (thousands of bbls)	**642**	550	**2,261**	2,466

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

[2]The Realized Price (USD) includes the impact of oil commodity price hedges.

[3]The Realized Price (CAD) includes the impact of oil commodity price and foreign exchange hedges.

Other revenue

Other revenue for the three months ended December 31, 2024 was comparable to the same period in 2023. Other revenue for the year ended December 31, 2024 was $68 million, a decrease of $171 million compared to the same period

MANAGEMENT DISCUSSION & ANALYSIS

in 2023. The decrease for the year was due to rate mitigation funding of $190 million received from the Province in 2023 that was used to reduce the balance in the Deferral Account, partially offset by increased sales of renewable energy credits.

Fuels

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2024**	2023	Variance	**2024**	2023	Variance
No. 6 fuel and other	**56**	46	10	**140**	149	(9)
Diesel fuel	**6**	7	(1)	**23**	29	(6)
Gas Turbine fuel	**-**	1	(1)	**6**	9	(3)
Total fuels	**62**	54	8	**169**	187	(18)

Fuel costs for the three months ended December 31, 2024 were $62 million, an increase of $8 million compared to the same period in 2023. The increase in fuel for the quarter was primarily due to higher volume of No. 6 fuel used, partially offset by its lower price. Fuel costs for the year ended December 31, 2024 were $169 million, a decrease of $18 million compared to the same period in 2023. The decrease for the year was primarily due to a lower price of No. 6 fuel, as well as, a decrease in the price and volume of diesel. Certain variances in fuels are offset through regulatory mechanisms in the regulatory adjustments line.

Power purchased
Power purchased for the three months ended December 31, 2024 was $31 million, an increase of $11 million compared to the same period in 2023. Power purchased for the year ended December 31, 2024 was $111 million, an increase of $33 million compared to the same period in 2023. The increase for the quarter and year was due to a short-term power purchase agreement with a non-utility generator.

Operating costs

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2024**	2023	Variance	**2024**	2023	Variance
Salaries and benefits	**40**	36	4	**168**	157	11
Maintenance and materials	**20**	26	(6)	**85**	86	(1)
Professional services	**21**	11	10	**46**	37	9
Impacts and Benefits Agreement and Amendment	**3**	-	3	**35**	-	35
Insurance	**3**	4	(1)	**15**	14	1
Travel and transportation	**3**	3	-	**11**	10	1
Other operating (recoveries) costs	**1**	(2)	3	**6**	6	-
Total operating costs	**91**	78	13	**366**	310	56

Operating costs for the three months ended December 31, 2024 were $91 million, an increase of $13 million compared to the same period in 2023. The increase for the quarter was primarily due to an increase in professional fees and an increase in salaries and benefits. Operating costs for the year ended December 31, 2024 were $366 million, an increase of $56 million compared to the same period in 2023. The increase for the year is primarily due to an amendment to the IBA with Innu Nation, increased professional fees and salaries and benefits, as well as the commissioning of LCP in 2023 resulting in certain costs no longer being capitalized.

Production, marketing and transportation costs
Production, marketing and transportation costs for the three months and year ended December 31, 2024 were comparable to the same periods in 2023.

Transmission rental
Transmission rental for the three months and year ended December 31, 2024 was comparable to the same periods in 2023.

MANAGEMENT DISCUSSION & ANALYSIS

Depreciation, depletion, amortization and impairment

Depreciation, depletion, amortization and impairment for the three months ended December 31, 2024 was $122 million, an increase of $79 million compared to the same period in 2023. Depreciation, depletion, amortization and impairment for the year ended December 31, 2024 was $423 million, an increase of $108 million compared to the same period in 2023. The increase for the quarter and year was due to variances in impairment expenses and reversals of Oil and Gas assets, partially offset by the decrease in Oil and Gas depletion. Also contributing to the variance for the year was depreciation of the LCP assets which commenced with LCP commissioning in Q2 2023.

Net finance expense

Net finance expense for the three months ended December 31, 2024 was $95 million, an increase of $10 million compared to the same period in 2023. Net finance expense for the year ended December 31, 2024 was $367 million, an increase of $68 million compared to the same period in 2023. The increase for the quarter and year was primarily due to expensing of borrowing costs associated with the LIL beginning in Q2 2023, as well as, increased short-term borrowings.

Other expense (income)

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2024**	2023	Variance	**2024**	2023	Variance
HSE Redetermination adjustment	**-**	(13)	13	**(23)**	(46)	23
Settlement of commodity price swap contracts	**-**	2	(2)	**-**	(9)	9
Loss on disposal of assets	**7**	10	(3)	**21**	9	12
Rental and royalty	**5**	5	-	**21**	17	4
Other	**2**	5	(3)	**8**	15	(7)
Total other expense (income)	**14**	9	5	**27**	(14)	41

Other expense for the three months ended December 31, 2024 was comparable to the same period in 2023. Other expense for the year ended December 31, 2024 was $27 million, compared to other income of $14 million for the same period in 2023, an increase of $41 million. The increase for the year was primarily due to settlement of the HSE Redetermination in Q2 2024 and damages relating to the LCP Warehouse fire in Happy-Valley Goose Bay.

Regulatory adjustments

Regulatory recoveries for the three months ended December 31, 2024 were $207 million, a decrease of $42 million compared to the same period in 2023. The decrease for the quarter was due to variation in the volume of power purchases related to the MF PPA. Regulatory recoveries for the year ended December 31, 2024 were $596 million, an increase of $255 million compared to the same period in 2023. The increase for the year primarily relates to variation in the volume of power purchases related to the MF PPA, the commencement of deferral of costs related to the Transmission Funding Agreement (TFA) in Q2 2024 and variations in rate mitigation funding applied.

MANAGEMENT DISCUSSION & ANALYSIS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION HIGHLIGHTS

Significant changes in the Consolidated Statement of Financial Position between December 31, 2024 and 2023 include:

ASSETS *(millions of Canadian dollars)*	Increase (Decrease)	**Explanation**
Cash and cash equivalents	470	See Liquidity and Capital Resources for additional details on movement in cash during the year ended December 31, 2024.
Restricted cash	102	Increase is primarily due to increases related to LC Transmission bi-annual sinking fund deposits, and Muskrat Falls short-term energy sales agreement.
Trade and other receivables	75	Increase is primarily due to seasonality of electricity demand and provincial sales tax receivable.
Property, plant and equipment	(73)	Decrease is primarily due to normal depreciation and depletion, and impairment of Oil and Gas assets, partially offset by higher capital additions.
Investments	(52)	Decrease is primarily due to maturity of Muskrat Falls deposit notes.
Regulatory assets, net of regulatory liabilities	595	Increase due to deferral of costs associated with Muskrat Falls and LC Transmission and variations in rate mitigation funding.
LIABILITIES AND EQUITY *(millions of Canadian dollars)*		
Short-term borrowings	360	Increase is due to short-term borrowings by Hydro Regulated during the year. The balance of short term-borrowings will fluctuate depending on the timing of cash inflows and outflows.
Trade and other payables	50	Increase is due to timing of accruals related to capital programs and increased royalty accruals related to Hebron.
Long-term debt	77	Increase is due to convertible debt drawdown in August 2024, partially offset by scheduled repayments of Muskrat Falls and LCP debt.
Class B limited partnership units	216	Increase is due to a contribution from KKR to adjust its proportionate share of the investment in LIL LP in accordance with the NLDA and accrued interest on the units, partially offset by distributions paid.
Deferred credits	(70)	Decrease is primarily due to revenue recognized relating to delivery of the NS Block.
Retained earnings	479	Increase due to profit recorded for the year.

MANAGEMENT DISCUSSION & ANALYSIS

SEGMENTED RESULTS

The following presents an overview of the Company's profit for the three months and year ended December 31, 2024, by operating segment, in comparison to the three months and year ended December 31, 2023. This discussion should be read in conjunction with Note 33 of the financial statements.

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2024**	2023	Variance	**2024**	2023	Variance
Hydro Regulated	**(4)**	7	(11)	**20**	33	(13)
Muskrat Falls	**46**	88	(42)	**239**	194	45
LC Transmission	**57**	62	(5)	**222**	192	30
Churchill Falls	**19**	13	6	**56**	37	19
Energy Trading	**18**	3	15	**50**	17	33
Other Electric	**9**	32	(23)	**(217)**	(77)	(140)
Oil and Gas	**11**	103	(92)	**116**	230	(114)
Corporate	**(13)**	-	(13)	**(8)**	(4)	(4)
Inter-segment	**-**	(2)	2	**1**	(3)	4
Profit for the period	**143**	306	(163)	**479**	619	(140)

HYDRO REGULATED

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

Financial Highlights

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2024**	2023	Variance	**2024**	2023	Variance
Revenue	**196**	227	(31)	**1,025**	1,128	(103)
Expenses	**407**	469	(62)	**1,602**	1,437	165
Loss for the period before regulatory adjustments	**(211)**	(242)	31	**(577)**	(309)	(268)
Regulatory adjustments	**(207)**	(249)	42	**(597)**	(342)	(255)
(Loss) profit for the period	**(4)**	7	(11)	**20**	33	(13)

Revenue

Revenue for the three months ended December 31, 2024 was $196 million, a decrease of $31 million compared to the same period in 2023. The decrease for the quarter was primarily due to lower customer energy sales. Revenue for the year ended December 31, 2024 was $1,025 million, a decrease of $103 million compared to the same period in 2023. The decrease for the year is primarily due to variances in rate mitigation funding received from internally generated funds in 2024, compared to funds received directly from the Province in 2023. The majority of these variances are offset through regulatory mechanisms in the regulatory adjustments line.

MANAGEMENT DISCUSSION & ANALYSIS

Regulated energy sales and supply are summarized

For the periods ended December 31 (GWh)	**Three months ended** **2024**	2023	**Twelve months ended** **2024**	2023
Customer Energy Sales:				
Utility	**1,512**	1,580	**5,702**	5,858
Rural	**327**	323	**1,135**	1,178
Industrial	**124**	96	**449**	334
Energy Sales	**1,963**	1,999	**7,286**	7,370
Generation:				
Hydraulic generation[1]	**984**	1,155	**4,401**	4,391
Holyrood generation	**282**	211	**666**	649
Standby generation[2]	**(3)**	(1)	**(1)**	10
Thermal diesel generation	**14**	17	**50**	59
Purchases:				
Domestic[3]	**492**	471	**1,822**	1,820
Off-Island[4]	**278**	257	**745**	867
Gross generation	**2,047**	2,110	**7,683**	7,796
Losses	**84**	111	**397**	426
Net generation	**1,963**	1,999	**7,286**	7,370

[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.

Expenses

Expenses for the three months ended December 31, 2024 were $407 million, a decrease of $62 million compared to the same period in 2023. The decrease for the quarter was due to lower power purchase volumes from Muskrat Falls. Expenses for the year ended December 31, 2024 were $1,602 million, an increase of $165 million compared to the same period in 2023. The increase for the year was due to higher costs of power purchased from Muskrat Falls and higher LC transmission costs (due to LCP commissioning in Q2 2023). The majority of these variances are offset through regulatory mechanisms in the regulatory adjustments line.

Regulatory adjustments

Regulatory recoveries for the three months ended December 31, 2024 were $207 million, a decrease of $42 million compared to the same period in 2023. The decrease for the quarter was due to variation in the volume of power purchases related to the MF PPA. Regulatory recoveries for the year ended December 31, 2024 were $597 million, an increase of $255 million compared for the same period in 2023. The increase for the year primarily relates to variation in the volume of power purchases related to the MF PPA, the commencement of deferral of costs related to the TFA in Q2 2023 and variations in rate mitigation funding applied.

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 in a given period.

MANAGEMENT DISCUSSION & ANALYSIS

Financial Highlights

For the periods ended December 31 (millions of Canadian dollars)	Three months ended **2024**	2023	Variance	Twelve months ended **2024**	2023	Variance
Revenue	**140**	178	(38)	**630**	521	109
Expenses	**94**	90	4	**391**	327	64
Profit for the period	**46**	88	(42)	**239**	194	45

Revenue
Revenue for the three months ended December 31, 2024 was $140 million, a decrease of $38 million compared to the same period in 2023. The decrease for the quarter was due to timing in energy sales to Hydro Regulated under the MF PPA, partially offset by revenue recognized from a short-term energy sales agreement. Revenue for the year ended December 31, 2024 was $630 million, an increase of $109 million compared to the same period in 2023. The increase for the year was primarily due to revenue from a short-term energy sales agreement and increased energy sales to Hydro Regulated under the MF PPA.

Expenses
Expenses for the three months ended December 31, 2024 were comparable to the same period in 2023. Expenses for the year ended December 31, 2024 were $391 million, an increase of $64 million compared to the same period in 2023. The increase for the year is primarily due to the operating costs relating to the amendment of the IBA with Innu Nation, as well as, higher depreciation of property, plant and equipment as a result of full LCP commissioning in Q2 2023.

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. On April 14, 2023, the LIL was commissioned and the assets were put into service. Profit for LC Transmission is driven by revenue earned from Hydro Regulated associated with the LIL under the TFA and from Muskrat Falls for interconnection services provided by the LTA under the Generator Interconnection Agreement.

Financial Highlights

For the periods ended December 31 (millions of Canadian dollars)	Three months ended **2024**	2023	Variance	Twelve months ended **2024**	2023	Variance
Revenue	**143**	142	1	**572**	436	136
Expenses	**86**	80	6	**350**	244	106
Profit for the period	**57**	62	(5)	**222**	192	30

Revenue
Revenue for the three months ended December 31, 2024 was comparable to the same period in 2023. Revenue for the year ended December 31, 2024 was $572 million, an increase of $136 million compared to the same period in 2023. The increase for the year relates to commencement of revenue earned from Hydro Regulated under the TFA upon commissioning of the LCP in Q2 2023.

Expenses
Expenses for the three months ended December 31, 2024 were comparable to the same period in 2023. Expenses for the year ended December 31, 2024 were $350 million, an increase of $106 million compared to the same period in 2023. The increase for the year was due to the expensing of interest and commencement of depreciation and operating costs upon full commissioning of the LCP in Q2 2023, as well as losses of assets relating to the Happy Valley-Goose Bay storage facility fire in Q2 2024.

MANAGEMENT DISCUSSION & ANALYSIS

CHURCHILL FALLS

Churchill Falls is the majority owner (65.8%) and 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 largely driven by the volume of energy and capacity delivered to Hydro-Québec and NL Hydro. Seasonal weather patterns and equipment outages can affect results of operations.

Financial Highlights

	Three months ended			**Twelve months ended**		
For the periods ended December 31 (millions of Canadian dollars)	**2024**	2023	Variance	**2024**	2023	Variance
Revenue	**37**	32	5	**123**	103	20
Expenses	**18**	19	(1)	**67**	66	1
Profit for the period	**19**	13	6	**56**	37	19

Revenue
Revenue for the three months ended December 31, 2024 was comparable to the same period in 2023. Revenue for the year ended December 31, 2024 was $123 million, an increase of $20 million compared to the same period in 2023. The increase for the year relates to an increase in revenue as a result of a short-term energy sales agreement with Hydro-Québec.

Expenses
Expenses for the three months and year ended December 31, 2024 were comparable to the same periods in 2023.

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 capacity and related firm energy not used by NL Hydro, and excess Muskrat Falls Residual block energy.

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 Energy Trading's profitability is impacted by exchange rate fluctuations.

Financial Highlights

	Three months ended			**Twelve months ended**		
For the periods ended December 31 (millions of Canadian dollars)	**2024**	2023	Variance	**2024**	2023	Variance
Revenue	**33**	26	7	**138**	100	38
Expenses	**15**	23	(8)	**88**	83	5
Profit for the period	**18**	3	15	**50**	17	33

Revenue
Revenue for the three months ended December 31, 2024 was comparable to the same period in 2023. Revenue for the year ended December 31, 2024 was $138 million, an increase of $38 million compared to the same period in 2023. The increase for the year relates to stronger export prices, as well as, increased revenue from the sale of renewable energy credits.

MANAGEMENT DISCUSSION & ANALYSIS

Expenses
Expenses for the three months and year ended December 31, 2024 were comparable to the same periods in 2023.

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 (which is owned and managed by Emera, but consolidated by Nalcor), cash revenues and expenses associated with NL Hydro's unregulated operations including sales of electricity to mining operations in Labrador West and certain power purchases from non-utility generators, rate mitigation transactions and revenues and costs recovered from Hydro-Québec associated with the operation of the Menihek Generating Station.

Financial Highlights

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2024**	2023	Variance	**2024**	2023	Variance
Revenue	**57**	60	(3)	**182**	181	1
Expenses	**48**	28	20	**399**	258	141
Profit (loss) for the period	**9**	32	(23)	**(217)**	(77)	(140)

Revenue
Revenue for the three months and year ended December 31, 2024 was comparable to the same periods in 2023.

Expenses
Expenses for the three months ended December 31, 2024 were $48 million, an increase of $20 million compared to the same period in 2023. The increase for the quarter relates to additional power purchased due to a short-term non-utility generator power purchase agreement and non-regulated costs related to a Southern Labrador relationship agreement. Expenses for the year ended December 31, 2024 were $399 million, an increase of $141 million compared to the same period in 2023. The increase for the year primarily relates to variations in funds applied towards rate mitigation, in accordance with the Province's Rate Mitigation Plan.

OIL AND GAS

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

On March 1, 2021, First Redetermination under the HSE Operating Agreement became effective and Oil and Gas' ownership interest in HSE decreased from 10% to 8.7%. The decrease in working interest resulted in an amount owing related to historical barrels of oil received in excess of the working interest, the repayment of which was settled by a reduction in Oil and Gas' share of production between 2021 and the second quarter of 2024.

Profit of Oil and Gas is primarily driven by global market oil prices and the volume of entitled production. Nearly all revenue generated by Oil and Gas is denominated in USD and therefore profitability is impacted by exchange rate fluctuations. Short-term volatility in cash flow associated with global market oil price and exchange rate fluctuations have been partially mitigated through hedging for the prior period, however, the Company has not entered into new hedge contracts associated with Oil and Gas since 2022.

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

MANAGEMENT DISCUSSION & ANALYSIS

or reversal of such expense is not uncommon and can lead to large fluctuations in profit or loss between financial reporting periods.

Financial Highlights

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2024**	2023	Variance	**2024**	2023	Variance
Revenue	**51**	59	(8)	**215**	251	(36)
Expenses (Recoveries)	**40**	(44)	84	**99**	21	78
Profit for the period	**11**	103	(92)	**116**	230	(114)

Non-GAAP Operating Profit Disclosure

Reconciliation of Oil and Gas profit to operating profit for the three months and year ended December 31, 2024 and 2023 is as follows:

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2024**	2023	Variance	**2024**	2023	Variance
Profit for the period	**11**	103	(92)	**116**	230	(114)
Impairment expense (Reversal of impairment)	**4**	(60)	64	**20**	(60)	80
Operating profit for the period	**15**	43	(28)	**136**	170	(34)

Revenue

Revenue for the three months ended December 31, 2024 was comparable to the same period in 2023. Revenue for the year ended December 31, 2024 was $215 million, a decrease of $36 million compared to the same period in 2023. The decrease for the year was primarily due to lower oil sales volumes and an increase in royalties related to Hebron reaching a new royalty tier during the year.

Expenses (Recoveries)

Expenses for the three months ended December 31, 2024 were $40 million, compared to recoveries of $44 million for the same period in 2023, an increase of $84 million. Expenses for the year ended December 31, 2024 were $99 million, an increase of $78 million compared to the same period in 2023. The increase for the quarter and year was primarily due to an impairment expense recorded in White Rose compared to impairment reversals for White Rose and HSE in Q4 2023. The increase for the year was partially offset by reduced depletion for Hebron due to increased reserves. The impairment expense in 2024 is related to the White Rose Extension due to a decrease in oil and gas price forecasts, increased capital expenditures on the West White Rose Wellhead project and revised cash flow cost estimates and reserves as the field lives mature.

MANAGEMENT DISCUSSION & ANALYSIS

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, 2024 with 2023 comparatives are summarized in the table below:

	2024		2023	
	Light and Medium Oil		Light and Medium Oil	
As at December 31 (thousands of bbls)	**Gross**	**Net**	Gross	Net
Developed[1]	**11,266**	**8,121**	12,542	9,190
Undeveloped[2]	**11,140**	**8,176**	10,771	7,740
Total Proved[3]	**22,406**	**16,297**	23,313	16,930
Probable[4]	**21,558**	**15,607**	21,486	15,417
Total Proved Plus Probable	**43,964**	**31,904**	44,799	32,347

[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.

CORPORATE

Corporate includes costs associated with shared services functions, and community and business development that are not included in the Company's other operating segments. Financial results of Corporate are primarily driven by operating costs associated with these functions, interest and depreciation and amortization of Corporate assets.

Financial Highlights

	Three months ended			**Twelve months ended**		
For the periods ended December 31 (millions of Canadian dollars)	**2024**	2023	Variance	**2024**	2023	Variance
Expenses	**13**	-	13	**8**	4	4
Loss for the period	**(13)**	-	(13)	**(8)**	(4)	(4)

Expenses

Expenses for the three months ended December 31, 2024 were $13 million, an increase of $13 million compared to the same period in 2023. The increase for the quarter was due to an increase in professional fees. Expenses for the year ended December 31, 2024 were comparable to the same period in 2023.

LIQUIDITY AND CAPITAL RESOURCES

CASH FLOW HIGHLIGHTS

	Twelve months ended		
For the period ended December 31 (millions of Canadian dollars)	**2024**	2023	Variance
Cash and cash equivalents, beginning of the year	**694**	566	128
Net cash provided from operating activities	**260**	496	(236)
Net cash used in investing activities	**(329)**	(303)	(26)
Net cash provided from (used in) financing activities	**539**	(65)	604
Cash and cash equivalents, end of the year	**1,164**	694	470

MANAGEMENT DISCUSSION & ANALYSIS

Operating Activities

Net cash provided from operating activities during the year ended December 31, 2024 was $260 million, a decrease of $236 million compared to the same period in 2023. The decrease in cash was primarily due to increased costs associated with LCP supply costs related to Q2 2023 commissioning and the use of internal funds toward rate mitigation funding in 2024 as opposed to the rate mitigation funding received from the Province in 2023.

Investing Activities

Net cash used in investing activities during the year ended December 31, 2024 was $329 million, an increase of $26 million compared to the same period in 2023. The increase was driven by higher net capital expenditures.

Financing Activities

Net cash provided from financing activities during the year ended December 31, 2024 was $539 million compared to cash used in financing activities of $65 million for the same period in 2023, an increase of $604 million. The increase was primarily related to the increase in Hydro Regulated's short-term borrowings, due to timing of rate mitigation funding, receipt of funds from KKR and dividends paid to the Province in 2023. These increases were partially offset by an increase in restricted cash and distributions paid to Class B partnership unit holders.

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. Short-term and long-term borrowings are restricted by legislation that currently limits the Newfoundland and Labrador Hydro legal entity short-term borrowings to $700 million and total borrowings to $2.6 billion. Effective January 1, 2025, these short-term borrowing limits have been revised to $1.0 billion, reducing to $800 million commencing January 1, 2026 and total borrowings have been revised to $3.2 billion as a result of amalgamation.

In August 2024, the Company received the second drawdown of the convertible debenture in the amount of $150 million, (2023 - $145 million). The funding was applied against the balance in the Deferral Account reducing the balance owing from customers to $532 million at December 31, 2024 (2023 - $271 million).

Outstanding commitments for capital projects, excluding those related to Oil and Gas, total approximately $169 million as at December 31, 2024 (2023 - $92 million). The Company has the available capital resources to sufficiently fund these requirements.

MANAGEMENT DISCUSSION & ANALYSIS

As at December 31, 2024, the Company's short-term credit facilities are as follows:

(millions of Canadian dollars)	Limit	Drawn	Letters of Credit	Available Limit
Revolving Term Facilities:				
Nalcor Energy[1]	**240**	**-**	**6**	**234**
Hydro Regulated[1]	**500**	**290**	**-**	**210**
Demand Operating Facilities:				
Churchill Falls	**10**	**-**	**2**	**8**
Energy Trading	**20**	**-**	**4**	**16**
Oil and Gas	**40**	**-**	**16**	**24**
Promissory Notes:				
Hydro Regulated	**300**	**300**	**-**	**-**
Total credit facilities	**1,110**	**590**	**28**	**492**

[1]On June 21, 2024 the maturity of these credit facilities was extended from July 31, 2024 to July 31, 2025.

CAPITAL STRUCTURE

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

As at December 31 (millions of Canadian dollars)	**2024**	2023
Short-term borrowings	**590**	230
Long-term debt (net of sinking funds)[1]	**10,724**	10,652
Class B limited partnership units[1]	**980**	757
Lease liabilities[1]	**5**	5
Total debt	**12,299**	11,644
Total shareholder's equity	**7,938**	7,458
Debt to capital	**61%**	61%

[1]Includes current portion.

CAPITAL EXPENDITURES

	Three months ended			Twelve months ended		
For the periods ended December 31 (millions of Canadian dollars)	**2024**	2023	Variance	**2024**	2023	Variance
Hydro Regulated	**56**	52	4	**163**	150	13
Muskrat Falls	**1**	1	-	**3**	5	(2)
LC Transmission	**12**	10	2	**30**	83	(53)
Churchill Falls	**19**	12	7	**58**	49	9
Other Electric	**11**	5	6	**24**	14	10
Oil and Gas	**27**	11	16	**92**	58	34
Corporate	**-**	1	(1)	**2**	4	(2)
Inter-segment	**-**	-	-	**-**	(1)	1
Total capital expenditures	**126**	92	34	**372**	362	10

Capital expenditures for the three months ended December 31, 2024 were $126 million, an increase of $34 million compared to the same period in 2023. Capital expenditures for the year ended December 31, 2024 were $372 million, an increase of $10 million compared to the same period in 2023. The increase for the quarter and year was primarily due to Oil and Gas capital asset additions for White Rose. The increase for the year is partially offset by substantial completion of construction of the LCP assets in 2023.

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.

Strategic Risks

Ability to Supply Future Load Growth
As a result of climate and energy policy (Net Zero 2050), Hydro is experiencing unprecedented demand for its renewable electricity. This is evident through increasing demand for electric vehicles, electrification in homes and in local businesses. There is also growth from existing industrial customers and new customers in the wind/hydrogen and mining industry.

A strategic priority for Hydro is to advance the 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. Through the year, Hydro advanced studies and analysis of all viable supply options that can be used to serve this increased customer demand through the PUB. In July 2024, Hydro filed a Resource Expansion Plan with the PUB that outlined a minimum investment required from 2025-2034. Technical conferences were completed with the PUB and other intervenors relating to load forecast/reliability planning criteria, existing generation and transmission resource and supply options, scenarios and sensitivities modelling approach, and expansion plan results. In 2025, Hydro intends to file a Capital Build Application with the PUB outlining proposed new sources of generation to supply electricity.

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. Although Hydro is working to mitigate any risks associated with the changing energy landscape in the Province, certain long-term risk factors may result in a material impacts on the results of operations and financial position or cash flows of the Company.

Human Resource Management
The future success of Hydro is linked to delivering on our corporate priorities through employees who are engaged and invested in our organization. The ability to attract and retain sufficient qualified employees to replace those seeking other opportunities or retiring is a key risk. Hydro must also manage the pace and extent of voluntary turnover to ensure that it is able to provide safe, cost-conscious, reliable electricity while harnessing sustainable energy opportunities to benefit the people of Newfoundland and Labrador. This is dependent on attracting and retaining qualified union and non-union employees in a highly competitive labour market.

The MOU signed between NL Hydro and Hydro-Québec on December 12, 2024, and the definitive agreements and significant construction to come has raised the need for additional skilled employees within NL Hydro and the Province. Economic growth is anticipated with the expansion of Churchill Falls and development of Gull Island, once the definitive agreements are signed in 2026.

Hydro is managing its overall workforce cognizant of the balance of labour costs with prudent utility oversight and management. The inability to attract and retain qualified trade and technical staff could have an adverse effect on the results of operations and financial position or cash flows of the Company.

MANAGEMENT DISCUSSION & ANALYSIS

Adaptation to Climate Change

The uncertainty surrounding the future effects of climate change globally and locally creates risk for the organization. The province is experiencing increased occurrence of dry and hot weather resulting in wildfires, changing precipitation patterns that impact hydrology, and changes in ice loading impacting transmission lines. Inadequate preparation for long-term effects of climate change, such as sea-level rise or changing hydrological cycle, or shorter-term effects such as more frequent and severe weather events, could potentially expose the organization to safety, environmental and reliability risks through major impacts to our assets and infrastructure.

Hydro, in working with provincial government, will seek to update a Climate Change Mitigation & Adaption Plan that will outline an approach to mitigate its risk to climate change. In the interim, Hydro continues to monitor environmental research available on vulnerabilities and proactively set mitigating measures in place to address climate change.

The increasing frequency and severity of weather events associated with climate change may result in a material impact on Hydro's assets and infrastructure, thus impacting the results of operations and financial position or cash flows of the Company.

Sustainability of Electricity Rates

In May 2024, the Province announced the finalization of the Rate Mitigation Plan with Hydro, meaning that ratepayers will not have to pay the full cost of Muskrat Falls. The plan came into effect on July 1, 2024, and will ensure domestic residential rate increases are targeted at 2.25% annually, until 2030, for cost recovery including the Muskrat Falls project.

As noted in Hydro's Resource Expansion Plan filed with the PUB during the year, there is a requirement for additional investments in generation to meet increased demand for electricity, maintain reliability of the provincial electricity system, including the further extension of Holyrood as a generating facility until retirement and other assets are in service. This will continue to put pressure on electricity rates. Hydro will include these considerations when it files GRA with the PUB.

As regulatory progress continues and financing requirements are understood for investments in generation, this risk may cause volatility and/or have an adverse effect on the results of operations and financial position or cash flows of the Company.

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 incidents that could cause 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. Unsafe work conditions can lead to workplace incidents and disruption of the business, which could have an adverse effect on the results of operations and financial position or cash flows of the Company.

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.

MANAGEMENT DISCUSSION & ANALYSIS

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 do its due diligence to advance our cyber security programs and continues to invest 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.

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. The threat of US –Canada tariffs 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.

Geo-political and macroeconomic events may continue to impact supply chains and could have an adverse effect on the results of operations and financial position or cash flows of the Company.

Asset Condition & Maintenance
Hydro's operations are subject to normal 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.

The occurrence of significant unforeseen equipment failures could have a material adverse effect on customer reliability, contractual commitments, results of operations and financial position or cash flows of the Company.

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.

MANAGEMENT DISCUSSION & ANALYSIS

The uncertainties inherent to the regulatory process governing the operation of Hydro Regulated, including the timing of decisions regarding customer rates and future rate mitigation, may result in volatility and material impacts on the Company's net income and financial position or cash flows.

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.

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 Regulated'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.

Threats surrounding the imposition of tariffs on goods and services sold between Canada and the U.S. is also a significant risk. There is potential for further risk as geopolitical challenges evolve between Canada and the U.S. which may result in negative impacts to the Canadian economy. Hydro is working both with the Province and internally to understand these risks and develop potential risk treatments, and will continue to do so as the political landscape evolves.

Fluctuations in commodity prices and foreign exchange rates, including the imposition of tariffs, could have an adverse effect on the results of operations and financial position or cash flows of the Company.

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 Regulated's behalf and lends the proceeds to Hydro Regulated 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/interpretations that have been issued and are effective for accounting periods commencing on or after January 1, 2024, as specified.

- *Amendments to IAS 1 – Presentation of Financial Statements – Classification of Liabilities as Current or Non-Current and Non-Current Liabilities with Covenants*[1]
- *Amendments to IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosure – Contracts Referencing Nature-dependent Electricity*[2]
- *IFRS 18 – Presentation and Disclosures in Financial Statements* [3]

[1] Effective for annual periods beginning on or after January 1, 2024.
[2] Effective for annual periods beginning on or after January 1, 2026, with earlier application permitted.
[3] 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 30 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, we are committed to serving our customers and supporting a sustainable future for generations to come. As 2025 marks the last year of our three year strategic plan, Hydro will be focused on progressing the goals and objectives set out in our existing plan, and developing a new strategic plan for the future. As Hydro moves forward in achieving its vision, it will consider global, national and provincial economic challenges, such as potential political change, supply chain disruption and a highly competitive labour market. Hydro will do so while continuing to fulfill its mandate as the province's Crown utility, providing safe, cost-conscious, reliable electricity that our province and neighbours depend on.

Hydro has immense opportunities on the horizon to be an enabler of economic growth within the province while also delivering returns to the Provincial treasury. On December 12, 2024, Premiers Dr. Andrew Furey and Francois Legault joined with leadership representatives from Innu Nation, Hydro, and Hydro-Québec to sign an historic MOU to terminate and replace the 1969 Upper Churchill Contract, develop Gull Island, and expand capacity of the Churchill Falls facility. The resulting definitive agreements, once negotiated, will be effective January 1, 2025 - 17 years early - and result in an immediate increase in the price for Upper Churchill Power. New developments will increase capacity in Labrador by 3,900 MW. With access to more power from the existing Churchill Falls facility and increased capacity from new developments, Hydro will access an additional 1,990 MW, which is almost four times the capacity it has today. This will be available for industrial development in Labrador, increasing economic development and even more jobs for this province.

In January 2025, representatives from Hydro and its consultants, Power Advisory LLC and J.P. Morgan, appeared in the House of Assembly for an extraordinary four-day sitting to debate the MOU. All Government of Newfoundland and Labrador Members of the House of Assembly, Members of the Third Party and Independent Members voted in favour of the resolution to move forward with negotiations between Hydro and Hydro-Québec, with a goal of definitive agreements by April 2026. The Official Opposition left the Chamber before the vote. The continuation of negotiations will also include a new independent expert panel led by the Consumer Advocate who will report quarterly to the House of Assembly and the public. Hydro is committed to open transparency with regards to these agreements while also maintaining a balance between sharing information publicly and preserving commercial sensitivity.

Hydro will continue to play a key role in achieving federal and provincial net-zero targets. In order to work towards achieving a future net-zero society, Hydro has been examining ways to support the decarbonization of our province. Further, to support increased electrification within the province and meet the current energy demands of industries such as mining and the wind/hydrogen industry, Hydro has determined it will need to build more generation. Hydro will continue to work transparently through the regulatory process, with the PUB to analyze sources of new generation. This will ensure appropriate, transparent scrutiny of decisions, while honouring lessons learned from the past and considering factors such as cost, reliability and environmental responsibility. Any new generation requirements proposed will be reviewed to ensure decisions are in the long-term best interest of the people of Newfoundland and Labrador.

With the finalization of the Province's Rate Mitigation Plan in May 2024, Hydro will be contributing to rate mitigation through use of its own funding up to and including 2030, targeting an annual rate increase not exceeding 2.25%. The use of Hydro's own funds towards rate mitigation will contribute to keeping electricity rates low, but will also reduce Hydro's consolidated net income. The finalization of the Rate Mitigation Plan demonstrates how the Province and Hydro are working together to make electricity rates more affordable into the future. As new sources of generation are analyzed, customer rates and affordability will continue to be a priority.