NEWFOUNDLAND AND LABRADOR HYDRO
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
September 30, 2020
(Unaudited)

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

As at (millions of Canadian dollars)	Notes	**September 30 2020**	December 31 2019
ASSETS			
Current assets			
Cash		**80**	66
Trade and other receivables	4	**75**	146
Inventories	5	**107**	114
Current portion of other long-term assets	8	**2**	-
Prepayments		**14**	8
Deferred asset	6	**8**	9
Total current assets		**286**	343
Non-current assets			
Property, plant and equipment	7	**2,730**	2,731
Intangible assets		**4**	5
Right-of-use assets		**2**	2
Investment in joint arrangement		**1**	1
Other long-term assets	8	**204**	199
Total assets		**3,227**	3,281
Regulatory deferrals	9	**187**	123
Total assets and regulatory deferrals		**3,414**	3,404
LIABILITIES AND EQUITY			
Current liabilities			
Short-term borrowings	11	**255**	233
Trade and other payables	10	**110**	168
Current portion of long-term debt	11	**7**	7
Deferred credits		**1**	1
Current portion of deferred contributions		**2**	2
Derivative liability	17	**8**	9
Total current liabilities		**383**	420
Non-current liabilities			
Long-term debt	11	**1,766**	1,776
Deferred contributions		**25**	25
Decommissioning liabilities		**15**	15
Lease liabilities		**2**	2
Employee future benefits		**128**	123
Total liabilities		**2,319**	2,361
Shareholder’s equity			
Share capital		**23**	23
Contributed capital		**151**	152
Reserves		**(21)**	(22)
Retained earnings		**925**	877
Total equity		**1,078**	1,030
Total liabilities and equity		**3,397**	3,391
Regulatory deferrals	9	**17**	13
Total liabilities, equity and regulatory deferrals		**3,414**	3,404

Commitments and contingencies (Note 19)

See accompanying notes

NEWFOUNDLAND AND LABRADOR HYDRO
CONSOLIDATED STATEMENT OF (LOSS) PROFIT AND COMPREHENSIVE (LOSS) INCOME
(Unaudited)

For the period ended September 30 (millions of Canadian dollars)	Notes	**Three months ended** **2020**	2019	**Nine months ended** **2020**	2019
Energy sales		**97**	108	**510**	517
Other revenue		**7**	6	**21**	21
Revenue		**104**	114	**531**	538
Fuels		**4**	16	**122**	133
Power purchased		**16**	18	**69**	70
Operating costs	14	**46**	45	**133**	134
Transmission rental		**5**	5	**17**	16
Depreciation and amortization		**24**	22	**75**	75
Net finance expense	15	**22**	23	**66**	67
Other expense	16	**1**	1	**5**	8
Expenses		**118**	130	**487**	503
(Loss) profit for the period before regulatory adjustments		**(14)**	(16)	**44**	35
Regulatory adjustments	9	**(9)**	(1)	**(14)**	(21)
(Loss) profit for the period		**(5)**	(15)	**58**	56
Other comprehensive income					
Share of other comprehensive gain for the period		**1**	-	**1**	-
Other comprehensive income for the period		**1**	-	**1**	-
Total comprehensive (loss) income for the period		**(4)**	(15)	**59**	56

See accompanying notes

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

(millions of Canadian dollars)	Notes	Share Capital	Contributed Capital	Reserves	Retained Earnings	Total
Balance at January 1, 2020		**23**	**152**	**(22)**	**877**	**1,030**
Profit for the period		**-**	**-**	**-**	**58**	**58**
Other comprehensive income		**-**	**-**	**1**	**-**	**1**
Total comprehensive income for the period		**-**	**-**	**1**	**58**	**59**
Regulatory adjustment		**-**	**(1)**	**-**	**-**	**(1)**
Dividends	**13**	**-**	**-**	**-**	**(10)**	**(10)**
Balance at September 30, 2020		**23**	**151**	**(21)**	**925**	**1,078**
Balance at January 1, 2019		23	152	(13)	822	984
Profit for the period		-	-	-	56	56
Total comprehensive income for the period		-	-	-	56	56
Regulatory adjustment		-	(1)	-	-	(1)
Dividends	13	-	-	-	(6)	(6)
Balance at September 30, 2019		23	151	(13)	872	1,033

See accompanying notes

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

For the period ended September 30 (millions of Canadian dollars)	Notes	**Three months ended 2020**	Three months ended 2019	**Nine months ended 2020**	Nine months ended 2019
Operating activities					
(Loss) profit for the period		**(5)**	(15)	**58**	56
Adjustments to reconcile (loss) profit to cash provided from operating activities:					
Depreciation and amortization		**24**	22	**75**	75
Regulatory adjustments	9	**(9)**	(1)	**(14)**	(21)
Amortization of rate stabilization plan fuel credit		**9**	-	**9**	-
Net changes in PPA fair value	16	**-**	1	**-**	3
Finance income	15	**(3)**	(3)	**(10)**	(10)
Finance expense	15	**25**	26	**76**	77
Other		**4**	2	**4**	3
		45	32	**198**	183
Changes in non-cash working capital balances	20	**(12)**	7	**20**	53
Interest received		**-**	1	**1**	2
Interest paid		**(27)**	(27)	**(83)**	(83)
Net cash provided from operating activities		**6**	13	**136**	155
Investing activities					
Additions to property, plant and equipment		**(41)**	(61)	**(72)**	(110)
Additions to intangible assets		**-**	-	**(1)**	-
Decrease in short term investments		**-**	34	**-**	34
Contributions to sinking funds	8	**(4)**	(5)	**(7)**	(7)
Changes in non-cash working capital balances	20	**18**	19	**-**	6
Net cash used in investing activities		**(27)**	(13)	**(80)**	(77)
Financing activities					
Dividends paid		**(2)**	(2)	**(6)**	(6)
Increase (decrease) in short term borrowings		**65**	29	**22**	(23)
Rate stabilization plan fuel credit	9	**(55)**	-	**(55)**	-
Changes in non-cash working capital balances	20	**1**	-	**(4)**	-
Other		**-**	(1)	**1**	-
Net cash provided from (used in) financing activities		**9**	26	**(42)**	(29)
Net (decrease) increase in cash		**(12)**	26	**14**	49
Cash, beginning of the period		**92**	53	**66**	30
Cash, end of the period		**80**	79	**80**	79

See accompanying notes

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. SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of Compliance and Basis of Measurement

These condensed consolidated interim financial statements have been prepared in accordance with *International Accounting Standard 34 - Interim Financial Reporting* and have been prepared using accounting policies consistent with those used in the preparation of the annual audited consolidated financial statements for the year ended December 31, 2019.

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

These condensed consolidated interim financial statements have been prepared on a historical cost basis, except for financial instruments at fair value through profit or loss which have been measured at fair value. These condensed consolidated interim financial statements are presented in Canadian dollars (CAD) and all values are rounded to the nearest million, except when otherwise noted. These condensed consolidated interim financial statements were approved by Hydro's Board of Directors (the Board) on November 12, 2020.

2.2 Basis of Consolidation

The condensed consolidated interim financial statements include the financial statements of Hydro, 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. Intercompany transactions and balances have been eliminated upon consolidation.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the condensed consolidated interim financial statements in conformity with IFRS 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. Significant accounting judgments, estimates and assumptions used in the preparation of the condensed consolidated interim financial statements are described in the Company's annual audited consolidated financial statements for the year ended December 31, 2019.

The World Health Organization declared the Coronavirus disease (COVID-19) outbreak a Public Health Emergency of International Concern on January 30, 2020 and a pandemic on March 11, 2020. In order to mitigate the spread of COVID-19 there have been global restrictions on travel, quarantines, self-isolation, social and physical distancing and forced closure of certain types of public places and non-essential businesses. These actions have caused and continue to cause disruption to operations and economic uncertainty.

COVID-19 is an evolving situation that may have widespread implications for the Company's environment, operations and financial results. For the period ended September 30, 2020, COVID-19 did not have a significant impact on the Company's results of operations, but has resulted in delays in capital spending. At this time, Management cannot reasonably estimate the duration and magnitude of the COVID-19 impact on the economy and future effect on the Company.

4. TRADE AND OTHER RECEIVABLES

As at (millions of Canadian dollars)	**September 30 2020**	December 31 2019
Trade receivables	**79**	118
Due from related parties	**13**	16
Other receivables	**8**	26
Allowance for doubtful accounts	**(25)**	(14)
	75	146

As at (millions of Canadian dollars)	**September 30 2020**	December 31 2019
0-60 days	**63**	135
60+ days	**12**	11
	75	146

As at (millions of Canadian dollars)	**September 30 2020**	December 31 2019
Allowance for doubtful accounts, beginning of the period	**(14)**	(17)
Change in balance during the period	**(11)**	3
Allowance for doubtful accounts, end of the period	**(25)**	(14)

5. INVENTORIES

As at (millions of Canadian dollars)	**September 30 2020**	December 31 2019
Fuel	**56**	65
Materials	**48**	46
Other	**3**	3
	107	114

Fuel inventory includes No. 6 fuel in the amount of $47.2 million (December 31, 2019 - $53.4 million). The cost of inventories recognized as an expense during the period ended September 30, 2020 is $122.3 million (September 30, 2019 - $134.4 million) and is included in operating costs and fuels.

6. DEFERRED ASSET

The deferred asset related to Hydro's power purchase agreement (PPA) with Nalcor Energy Marketing was amortized into income on a straight-line basis over the assumed five month term of the contract, which commenced on January 1, 2020. This balance was fully amortized at May 31, 2020. In June 2020, 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 $7.9 million that was amortized into income on a straight-line basis over the three month term, which commenced on July 1, 2020. This balance was fully amortized at September 30, 2020. In September 2020, 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 $7.5 million to be amortized into income on a straight-line basis over the three month term commencing on October 1, 2020. The components of the change are as follows:

As at (millions of Canadian dollars)	**September 30 2020**	December 31 2019
Deferred asset, beginning of the period	**9**	21
Additions	**15**	9
Amortization	**(16)**	(21)
Deferred asset, end of the period	**8**	9

7. PROPERTY, PLANT AND EQUIPMENT

(millions of Canadian dollars)	Generation Plant	Transmission and Distribution	Other	Construction in Progress	Total
Cost					
Balance at January 1, 2019	1,916	1,288	278	51	3,533
Additions	-	-	-	173	173
Disposals	(6)	(4)	(4)	-	(14)
Transfers	81	69	15	(165)	-
Other adjustments	1	-	-	-	1
Balance at December 31, 2019	1,992	1,353	289	59	3,693
Additions	**-**	**-**	**-**	**73**	**73**
Disposals	**-**	**-**	**(2)**	**-**	**(2)**
Transfers	**1**	**-**	**-**	**(1)**	**-**
Balance at September 30, 2020	**1,993**	**1,353**	**287**	**131**	**3,764**
Depreciation					
Balance at January 1, 2019	555	218	108	-	881
Depreciation	59	30	12	-	101
Disposals	(2)	(1)	(3)	-	(6)
Other adjustments	(6)	(6)	(2)	-	(14)
Balance at December 31, 2019	606	241	115	-	962
Depreciation	**41**	**23**	**10**	**-**	**74**
Disposals	**-**	**-**	**(2)**	**-**	**(2)**
Balance at September 30, 2020	**647**	**264**	**123**	**-**	**1,034**
Carrying value					
Balance at January 1, 2019	1,361	1,070	170	51	2,652
Balance at December 31, 2019	1,386	1,112	174	59	2,731
Balance at September 30, 2020	**1,346**	**1,089**	**164**	**131**	**2,730**

8. OTHER LONG-TERM ASSETS

As at (millions of Canadian dollars)		**September 30 2020**	December 31 2019
Reserve fund		**26**	25
Sinking funds	(a)	**180**	174
		206	199
Less: current portion of reserve fund		**(2)**	-
		204	199

(a) As at September 30, 2020, sinking funds include $180.2 million (December 31, 2019 - $174.0 million) related to the 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 2022 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 1.52% to 6.82% (December 31, 2019 – 2.51% to 6.82%).

Sinking funds consist of the following:

As at (millions of Canadian dollars)	**September 30 2020**	December 31 2019
Sinking funds, beginning of the period	**174**	164
Contributions	**7**	7
Change in sinking fund investments in own debentures	**(10)**	(8)
Earnings	**9**	11
Sinking funds, end of the period	**180**	174

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

(millions of Canadian dollars)	2020	2021	2022	2023	2024	2025
Sinking fund instalments	-	7	7	7	7	7

9. REGULATORY DEFERRALS

(millions of Canadian dollars)		January 1 2020	Reclass & Disposition	Regulatory Activity	**September 30 2020**	Remaining Recovery Settlement Period (years)
Regulatory asset deferrals						
Deferred energy conservation costs		9	-	-	**9**	n/a
Supply deferrals		35	(20)	22	**37**	n/a
Foreign exchange losses		48	-	(2)	**46**	21.3
Business system transformation program		3	-	1	**4**	n/a
Rate stabilization plan (RSP)	(a)	16	66	(4)	**78**	n/a
Retirement asset pool		11	-	-	**11**	n/a
Other		1	-	1	**2**	n/a
		123	46	18	**187**	
Regulatory liability deferrals						
Insurance amortization and proceeds		(3)	-	-	**(3)**	n/a
Removal provision		(8)	-	(4)	**(12)**	n/a
Other		(2)	-	-	**(2)**	n/a
		(13)	-	(4)	**(17)**	

9.1 Regulatory Adjustments Recorded in the Consolidated Statement of (Loss) Profit and Comprehensive (Loss) Income

	Three months ended		**Nine months ended**	
For the period ended September 30 (millions of Canadian dollars)	**2020**	2019	**2020**	2019
RSP amortization	**(9)**	2	**(15)**	7
RSP fuel deferral	**-**	57	**18**	36
RSP interest	**(1)**	-	**(1)**	2
Rural rate adjustment	**-**	-	**2**	-
Total RSP activity	**(10)**	59	**4**	45
Supply deferral recovery	**2**	-	**8**	-
Supply deferrals	**(3)**	(6)	**(30)**	(14)
Total supply deferrals	**(1)**	(6)	**(22)**	(14)
2019 revenue deficiency	**-**	(52)	**-**	(52)
Removal provision	**4**	3	**4**	3
Other	**(2)**	(5)	**-**	(3)
	(9)	(1)	**(14)**	(21)

Hydro's regulatory deferrals which will be, or are expected to be, reflected in customer rates in future periods have been established through the rate setting process. In the absence of rate regulation, these amounts would be reflected in operating results in the period and profit for the period ended September 30, 2020 would have decreased by $13.7 million (September 30, 2019 – $20.7 million).

(a) On May 14, 2020, the Province issued an Order in Council, OC2020-081, in which it directs Hydro to apply to the PUB to provide a one-time wholesale bill credit to reflect projected No. 6 fuel savings for the period July 1, 2020 to June 30, 2021. This bill credit applies to residential and general service customers, including businesses and other organizations, whose rates are based on Holyrood fuel costs. The provision of projected fuel savings through a bill credit will replace any changes to rates that would have resulted from the RSP Fuel Price Projection normally scheduled for implementation on July 1, 2020. In order P.U. 16 (2020), the PUB approved a transfer of $50.6 million from the Utility portion of the RSP Current Plan balance and was issued to the Utility customer through a bill credit and a cash payment on July 1, 2020. In order P.U. 18 (2020), the PUB approved a customer bill credit for Hydro's Rural customers who are subject to automatic rate changes based on Newfoundland Power's customer rates in the amount of $3.9 million; and the inclusion of the financial impact of the bill credit in the RSP Rural Rate Adjustment.

10. TRADE AND OTHER PAYABLES

As at (millions of Canadian dollars)	**September 30 2020**	December 31 2019
Trade payables	**67**	102
Accrued interest payable	**22**	25
Due to related parties	**14**	7
Other payables	**7**	34
	110	168

11. DEBT

11.1 Short-term Borrowings

Hydro utilized its $300.0 million government guaranteed promissory note program to fulfill its short-term funding requirements. As at September 30, 2020, there were two promissory notes outstanding, $217.0 million with a maturity date of October 1, 2020 bearing an interest rate of 0.17% and $38.0 million with a maturity date of October 20, 2020 bearing an interest rate of 0.18% (December 31, 2019 - $233.0 million bearing an interest rate of 1.82%). Upon maturity, the promissory notes were reissued.

Hydro maintains a $200.0 million CAD or USD equivalent committed revolving term credit facility maturing on July 27, 2021. As at September 30, 2020, there were no amounts drawn on the facility (December 31, 2019 - $nil). Borrowings in CAD may take the form of Prime Rate Advances, Bankers' Acceptances (BAs), and letters of credit, with interest calculated at the Prime Rate or prevailing Government BA fee. Borrowings in USD may take the form of Base Rate Advances and letters of credit. The facility also provides coverage for overdrafts on Hydro's bank accounts, with interest calculated at the Prime Rate.

On April 17, 2020, Hydro obtained additional credit through establishment of a committed credit facility with its banker in the amount of $300.0 million with a maturity date of April 17, 2021. As at September 30, 2020, there were no amounts drawn on this facility. Borrowings in CAD may take the form of Banker's Acceptances and, in certain circumstances, Prime Rate advances. The facility also provides coverage for overdrafts on Hydro's bank accounts, with interest calculated at the Prime Rate.

11.2 Long-term Debt

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

As at (millions of Canadian dollars)	Face Value	Coupon Rate %	Year of Issue	Year of Maturity	**September 30 2020**	December 31 2019
Hydro						
Y*	300	8.40	1996	2026	**297**	296
AB*	300	6.65	2001	2031	**305**	305
AD*	125	5.70	2003	2033	**124**	124
AF	500	3.60	2014/2017	2045	**481**	481
1A	600	3.70	2017/2018	2048	**639**	640
Total	1,825				**1,846**	1,846
Less: Sinking fund investments in own debentures					**73**	63
					1,773	1,783
Less: Sinking fund payments due within one year					**7**	7
Total					**1,766**	1,776

*Sinking funds have been established for these issues.

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 February 20, 2020, the Lieutenant-Governor in Council issued Order in Council OC2020-18 to increase the level of short-term borrowings permitted by Hydro from $300 million to $500 million, effective until March 31, 2022, and $255.0 million is outstanding as at September 30, 2020 (December 31, 2019 - $233.0 million). The Hydro Corporation Act, 2007 (the Act) limits Hydro's total borrowings outstanding at any point in time, which includes both short-term borrowings and long-term debt. Bill 33 passed on March 26, 2020 increased Hydro's total borrowing limit under the Act from $2.1 billion to $2.6 billion.

12. LEASE LIABILITIES

AMOUNTS RECOGNIZED IN THE CONSOLIDATED STATEMENT OF (LOSS) PROFIT AND COMPREHENSIVE (LOSS) INCOME

For the period ended September 30 (millions of Canadian dollars)		**2020**	2019
Variable lease payments not included in the measurement of leases	(a)	**22**	22

(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 (Loss) Profit and Comprehensive (Loss) Income.

The total cash outflow for leases for the period ended September 30, 2020 amount to $21.9 million (September 30, 2019 - $21.7 million).

13. SHAREHOLDER'S EQUITY

13.1 Dividends

	Three months ended		Nine months ended	
For the period ended September 30 (millions of Canadian dollars)	**2020**	2019	**2020**	2019
Declared during the period				
Final dividend for prior period: $0.03 per share (2019 - $0.05)	**-**	-	**1**	1
Interim dividend for current period: $0.23 per share (2019 - $0.20)	**1**	2	**9**	5
	1	2	**10**	6

14. OPERATING COSTS

	Three months ended		Nine months ended	
For the period ended September 30 (millions of Canadian dollars)	**2020**	2019	**2020**	2019
Salaries and benefits	**29**	28	**87**	86
Maintenance and materials	**9**	10	**20**	23
Professional services	**2**	2	**6**	6
Travel and transportation	**2**	2	**4**	5
Insurance	**1**	1	**4**	4
Office supplies	**-**	-	**2**	2
Municipal taxes	**-**	1	**2**	2
Other operating costs	**3**	1	**8**	6
	46	45	**133**	134

15. NET FINANCE EXPENSE

	Three months ended		Nine months ended	
For the period ended September 30 (millions of Canadian dollars)	**2020**	2019	**2020**	2019
Finance income				
Interest on sinking fund	**3**	2	**9**	8
Other	**-**	1	**1**	2
	3	3	**10**	10
Finance expense				
Long-term debt	**23**	23	**69**	69
Debt guarantee fee	**2**	2	**6**	6
Other	**-**	1	**2**	3
	25	26	**77**	78
Interest capitalized during construction	**-**	-	**(1)**	(1)
	25	26	**76**	77
Net finance expense	**22**	23	**66**	67

16. OTHER EXPENSE

		Three months ended		Nine months ended	
For the period ended September 30 (millions of Canadian dollars)		**2020**	2019	**2020**	2019
Loss on disposal of property, plant and equipment		**-**	-	**-**	1
Rent and royalties		**-**	-	**3**	3
Net change in PPA fair value	(a)	**-**	1	**-**	3
Foreign exchange loss		**-**	-	**1**	-
Other		**1**	-	**1**	1
Other expense		**1**	1	**5**	8

(a) Net change in PPA fair value

	Three months ended		Nine months ended	
For the period ended September 30 (millions of Canadian dollars)	**2020**	2019	**2020**	2019
PPA gains				
Settlement of realized profit	**(10)**	(11)	**(17)**	(20)
Mark-to-market of derivative	**3**	6	**1**	7
	(7)	(5)	**(16)**	(13)
PPA losses				
Amortization of deferral	**7**	6	**16**	16
Net change in PPA fair value	**-**	1	**-**	3

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

17.1 Fair Value

The estimated fair values of financial instruments as at September 30, 2020 and December 31, 2019 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 period ended September 30, 2020 and year ended December 31, 2019.

As at (millions of Canadian dollars)	**Level**	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
		September 30, 2020		December 31, 2019	
Financial assets					
Sinking funds - investments in Hydro debt issue	**2**	**73**	**88**	63	75
Sinking funds - other investments	**2**	**180**	**234**	174	211
Reserve fund	**2**	**26**	**26**	25	25
Financial liabilities					
Derivative liability	**3**	**8**	**8**	9	9
Long-term debt (including amount due within one year before sinking funds)	**2**	**1,846**	**2,330**	1,846	2,242

The fair value of cash, trade and other receivables, short-term investments, 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 Nalcor Energy Marketing and represents the future value provided to Nalcor 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 September 30, 2020:

(millions of Canadian dollars)	Carrying Value	Valuation Techniques	Significant Unobservable Input(s)	Range
Derivative liability (PPA)	8	Modelled pricing	Volumes (MWh)	24-33% of available generation

The derivative liability arising under the PPA 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 September 30, 2020, the effect of using reasonably possible alternative assumptions for volume inputs to valuation techniques may have resulted in a -\$0.1 million to +\$0.7 million change in the carrying value of the power purchase derivative liability.

The components of the change impacting the carrying value of the derivative liability for the period ended September 30, 2020 are as follows:

(millions of Canadian dollars)	**Level 3**
Balance at January 1, 2020	**(9)**
Purchases	**(15)**
Changes in profit or loss	
Mark-to-market	**(1)**
Settlements	**17**
Total	**16**
Balance at September 30, 2020	**(8)**

(millions of Canadian dollars)	Level 3
Balance at January 1, 2019	(21)
Changes in profit or loss	
Mark-to-market	(7)
Settlements	20
Total	13
Balance at September 30, 2019	(8)

17.2 Risk Management

Credit Risk

Hydro's expected future cash flows are exposed to credit risk through its operating activities, primarily due to the potential for non-performance by its customers, and through its financing and investing activities, based on the risk of non-performance by counterparties to its financial instruments.

The COVID-19 pandemic has increased the credit risk of the Company, as the potential risk for non-performance of the Company's customers has increased with the current economic slowdown. Hydro had established flexible collection practices during the COVID-19 pandemic for its customers including flexible bill payment arrangements and waiving interest on overdue accounts for residential and general service customers, which is recoverable from the Province. In September 2020, Hydro returned to its normal customer collections practices, but continues to waive interest on overdue accounts recoverable from the Province. Hydro is continuing to monitor the risk of non-performance by its customers and as at September 30, 2020 the impact on the Company's expected credit loss allowance is not considered material. As well, Hydro is continuing to monitor the implications of COVID-19, including the risk of credit losses, pronouncements from governments and regulators and, if required, will make adjustments to the expected credit loss allowance in future periods.

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 diesel fuel, electricity, and No. 6 fuel. These exposures are addressed as part of the Company's Financial Risk Management Policy.

18. RELATED PARTY TRANSACTIONS

Hydro enters into various transactions with its parent and other affiliates. 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. 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
Twin Falls	Joint venture of Churchill Falls
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
Board of Commissioners of Public Utilities (PUB)	Agency of the Province
The Trust	Created by the Province with Churchill Falls as the beneficiary

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. Outstanding balances due to or from related parties are non-interest bearing with settlement within 30 days, unless otherwise stated.

19. COMMITMENTS AND CONTINGENCIES

(a) Hydro has received claims instituted by various companies and individuals with respect to power delivery claims and other miscellaneous matters. Although the outcome of such matters cannot be predicted with certainty, Management believes that Hydro's exposure to such claims and litigation, to the extent not covered by insurance policies or otherwise provided for, is not expected to materially affect its financial position.

(b) Outstanding commitments for capital projects total approximately $55.2 million as at September 30, 2020 (December 31, 2019 - $36.3 million).

(c) On October 5, 2020 the Innu Nation Inc. representing the Innu of Labrador ("Innu") filed a claim against CF(L)Co and Hydro-Quebec in the Supreme Court of Newfoundland and Labrador. The Innu allege that the construction and operations of the Churchill Falls generating station located on the upper Churchill River in Labrador, and associated dykes, reservoirs, dams, transmission lines, and equipment ("Project") have deprived the Innu of their way of life while allowing CF(L)Co and HQ to receive extensive financial benefits. In particular, the Innu are claiming infringement of the Innu's Aboriginal title and rights, trespass, nuisance, breach of the Innu's right to profit-a-prendre (or ability to take resources from the land), and unjust enrichment. The Innu are seeking a repayment of the profits that CF(L)Co and HQ derived from the Project. In the alternative, the Innu seek restitution on the basis of unjust enrichment or compensatory damages for the alleged wrongful conduct in the amount of $4 billion from HQ and $150 million from CF(L)Co, the latter being the net amount after applying the indemnity provisions from a previous settlement with Nalcor Energy, related parties and Newfoundland and Labrador. CF(L)Co is currently in the process of filing its defence to the claim.

20. SUPPLEMENTARY CASH FLOW INFORMATION

	Three months ended		Nine months ended	
For the period ended September 30 (millions of Canadian dollars)	**2020**	2019	**2020**	2019
Trade and other receivables	**(10)**	4	**72**	75
Prepayments	**(6)**	(4)	**(4)**	(3)
Inventories	**2**	14	**7**	4
Trade and other payables	**21**	12	**(59)**	(17)
Changes in non-cash working capital balances	**7**	26	**16**	59
Related to:				
Operating activities	**(12)**	7	**20**	53
Investing activities	**18**	19	**-**	6
Financing activities	**1**	-	**(4)**	-
	7	26	**16**	59

21. 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. Hydro Non-Regulated activities include the sale of energy, purchased from Churchill Falls, to mining operations in Labrador West as well as costs of Hydro that are excluded from the determination of customer rates. Churchill Falls operates a hydroelectric generating facility which sells electricity to Hydro-Québec and Hydro Regulated. Energy Marketing includes the sale of electricity and transmission to Nalcor Energy Marketing.

	Hydro Regulated	Churchill Falls	Energy Marketing	Non-Regulated Activities	Inter-Segment	Total
(millions of Canadian dollars)	For the nine months ended September 30, 2020					
Energy sales	**427**	**67**	**3**	**37**	**(24)**	**510**
Other revenue	**3**	**-**	**15**	**-**	**3**	**21**
Revenue	**430**	**67**	**18**	**37**	**(21)**	**531**
Fuels	**122**	**-**	**-**	**-**	**-**	**122**
Power purchased	**58**	**-**	**3**	**32**	**(24)**	**69**
Operating costs	**105**	**28**	**-**	**-**	**-**	**133**
Transmission rental	**1**	**-**	**15**	**1**	**-**	**17**
Depreciation and amortization	**59**	**16**	**-**	**-**	**-**	**75**
Net finance expense (income)	**67**	**(1)**	**-**	**-**	**-**	**66**
Other expense	**2**	**3**	**-**	**-**	**-**	**5**
Expenses	**414**	**46**	**18**	**33**	**(24)**	**487**
Preferred dividends	**-**	**(2)**	**-**	**-**	**2**	**-**
Profit before regulatory adjustments	**16**	**23**	**-**	**4**	**1**	**44**
Regulatory adjustments	**(14)**	**-**	**-**	**-**	**-**	**(14)**
Profit for the period	**30**	**23**	**-**	**4**	**1**	**58**
Capital expenditures*	**52**	**21**	**-**	**-**	**1**	**74**
Total assets	**2,730**	**663**	**12**	**9**	**-**	**3,414**

***Capital expenditures include non-cash additions of $0.2 million contributed by Lower Churchill Management Corporation and $1.4 million of interest capitalized during construction.**

(millions of Canadian dollars)	Hydro Regulated	Churchill Falls	Energy Marketing	Non-Regulated Activities	Inter-Segment	Total
	For the nine months ended September 30, 2019					
Energy sales	439	66	3	32	(23)	517
Other revenue	3	-	16	-	2	21
Revenue	442	66	19	32	(21)	538
Fuels	133	-	-	-	-	133
Power purchased	59	-	3	31	(23)	70
Operating costs	103	28	-	3	-	134
Transmission rental	-	-	16	-	-	16
Depreciation and amortization	60	15	-	-	-	75
Net finance expense (income)	68	(1)	-	-	-	67
Other expense	2	3	3	-	-	8
Expenses	425	45	22	34	(23)	503
Preferred dividends	-	(2)	-	-	2	-
Profit (loss) before regulatory adjustments	17	23	(3)	(2)	-	35
Regulatory adjustments	(21)	-	-	-	-	(21)
Profit (loss) for the period	38	23	(3)	(2)	-	56
Capital expenditures*	82	29	-	-	-	111
Total assets	2,628	640	8	10	-	3,286

*Capital expenditures include non-cash additions of $0.3 million contributed by Lower Churchill Management Corporation and $1.3 million of interest capitalized during construction.

(millions of Canadian dollars)	**Hydro Regulated**	**Churchill Falls**	**Energy Marketing**	**Non-Regulated Activities**	**Inter-Segment**	**Total**
	For the three months ended September 30, 2020					
Energy sales	**76**	**17**	**2**	**10**	**(8)**	**97**
Other revenue	**1**	**-**	**5**	**-**	**1**	**7**
Revenue	**77**	**17**	**7**	**10**	**(7)**	**104**
Fuels	**4**	**-**	**-**	**-**	**-**	**4**
Power purchased	**13**	**-**	**2**	**9**	**(8)**	**16**
Operating costs	**35**	**11**	**-**	**-**	**-**	**46**
Transmission rental	**-**	**-**	**5**	**-**	**-**	**5**
Depreciation and amortization	**19**	**5**	**-**	**-**	**-**	**24**
Net finance expense	**22**	**-**	**-**	**-**	**-**	**22**
Other expense	**-**	**1**	**-**	**1**	**(1)**	**1**
Expenses	**93**	**17**	**7**	**10**	**(9)**	**118**
Preferred dividends	**-**	**(1)**	**-**	**-**	**1**	**-**
(Loss) profit before regulatory adjustments	**(16)**	**1**	**-**	**-**	**1**	**(14)**
Regulatory adjustments	**(9)**	**-**	**-**	**-**	**-**	**(9)**
(Loss) profit for the period	**(7)**	**1**	**-**	**-**	**1**	**(5)**
Capital expenditures	**29**	**13**	**-**	**-**	**(1)**	**41**
Total assets	**2,730**	**663**	**12**	**9**	**-**	**3,414**

	Hydro Regulated	Churchill Falls	Energy Marketing	Non-Regulated Activities	Inter-Segment	Total
(millions of Canadian dollars)	For the three months ended September 30, 2019					
Energy sales	86	17	1	11	(7)	108
Other revenue	1	-	5	-	-	6
Revenue	87	17	6	11	(7)	114
Fuels	16	-	-	-	-	16
Power purchased	14	-	1	11	(8)	18
Operating costs	36	10	-	(1)	-	45
Transmission rental	-	-	5	-	-	5
Depreciation and amortization	17	5	-	-	-	22
Net finance expense	22	-	-	1	-	23
Other expense	-	-	1	-	-	1
Expenses	105	15	7	11	(8)	130
Preferred dividends	-	(1)	-	-	1	-
(Loss) profit before regulatory adjustments	(18)	3	(1)	-	-	(16)
Regulatory adjustments	(1)	-	-	-	-	(1)
(Loss) profit for the period	(17)	3	(1)	-	-	(15)
Capital expenditures	43	17	-	-	-	60
Total assets	2,628	640	8	10	-	3,286