

MUSKRAT FALLS CORPORATION
CONDENSED INTERIM FINANCIAL STATEMENTS
June 30, 2021
(Unaudited)

MUSKRAT FALLS CORPORATION
STATEMENT OF FINANCIAL POSITION
(Unaudited)

<i>As at (thousands of Canadian dollars)</i>	Notes	June 30 2021	December 31 2020
ASSETS			
Current assets			
Restricted cash		290,979	487,123
Advances		629	666
Trade and other receivables		4,992	4,698
Prepayments		1,375	4,247
Total current assets		297,975	496,734
Non-current assets			
Property, plant and equipment	3	6,261,031	6,091,164
Intangible assets		44	210
Total assets		6,559,050	6,588,108
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables		162,351	168,841
Current portion of long-term debt	4	33,638	33,430
Current portion of long-term payables	5	41,281	3,747
Total current liabilities		237,270	206,018
Non-current liabilities			
Long-term debt	4	3,647,291	3,664,155
Long-term payables	5	39,355	-
Total liabilities		3,923,916	3,870,173
Shareholder's equity			
Share capital		1	1
Shareholder contributions		2,780,774	2,783,975
Reserves		(49,663)	(51,189)
Deficit		(95,978)	(14,852)
Total equity		2,635,134	2,717,935
Total liabilities and equity		6,559,050	6,588,108

Commitments and contingencies (Note 10)

See accompanying notes

MUSKRAT FALLS CORPORATION
STATEMENT OF LOSS AND COMPREHENSIVE (LOSS) INCOME
(Unaudited)

<i>For the period ended June 30 (thousands of Canadian dollars)</i>	Notes	Three months ended		Six months ended	
		2021	2020	2021	2020
Revenue	9	643	-	1,093	-
Operating costs	6	2,015	230	3,382	611
Transmission expense	9	38,163	-	76,889	-
Other expense		570	8	1,723	11
Total expenses		40,748	238	81,994	622
Loss for the period		(40,105)	(238)	(80,901)	(622)
Other comprehensive income					
Total items that may or have been reclassified to profit or loss:					
Reclassification adjustment related to:					
Cash flow hedges recognized in profit or loss		762	767	1,526	1,535
Other comprehensive income for the period		762	767	1,526	1,535
Total comprehensive (loss) income for the period		(39,343)	529	(79,375)	913

See accompanying notes

MUSKRAT FALLS CORPORATION
STATEMENT OF CHANGES IN EQUITY
(Unaudited)

<i>(thousands of Canadian dollars)</i>	Note	Share Capital	Shareholder Contributions	Reserves	Deficit	Total
Balance at January 1, 2021		1	2,783,975	(51,189)	(14,852)	2,717,935
Loss for the period		-	-	-	(80,901)	(80,901)
Other comprehensive income		-	-	1,526	-	1,526
Total comprehensive loss for the period		-	-	1,526	(80,901)	(79,375)
Distribution of contributed capital	9	-	(3,201)	-	-	(3,201)
Related party transaction	9	-	-	-	(225)	(225)
Balance at June 30, 2021		1	2,780,774	(49,663)	(95,978)	2,635,134
Balance at January 1, 2020		1	2,767,901	(54,257)	(9,307)	2,704,338
Loss for the period		-	-	-	(622)	(622)
Other comprehensive income		-	-	1,535	-	1,535
Total comprehensive income for the period		-	-	1,535	(622)	913
Shareholder contributions	9	-	16,074	-	-	16,074
Balance at June 30, 2020		1	2,783,975	(52,722)	(9,929)	2,721,325

See accompanying note

MUSKRAT FALLS CORPORATION
STATEMENT OF CASH FLOWS
(Unaudited)

<i>For the period ended June 30 (thousands of Canadian dollars)</i>	Notes	Three months ended		Six months ended	
		2021	2020	2021	2020
Operating activities					
Loss for the period		(40,105)	(238)	(80,901)	(622)
Adjustments to reconcile loss to cash used in operating activities:					
Change in long-term payables		38,163	-	76,889	-
Finance income	7	(504)	(1,471)	(1,057)	(5,747)
Finance expense	7	504	1,471	1,057	5,747
		(1,942)	(238)	(4,012)	(622)
Changes in non-cash working capital balances	11	(1,149)	(17)	(133)	(4)
Interest received		478	1,581	1,013	6,003
Interest paid		(68,406)	(69,330)	(68,408)	(71,913)
Related party transaction	9	(225)	-	(225)	-
Net cash used in operating activities		(71,244)	(68,004)	(71,765)	(66,536)
Investing activities					
Additions to property, plant and equipment		(52,241)	(37,540)	(101,838)	(97,245)
Additions to intangible assets		-	(119)	-	(286)
Change in advances		27	1,451	37	22,780
Changes in non-cash working capital balances	11	10,162	(3,156)	(2,766)	(36,717)
Net cash used in investing activities		(42,052)	(39,364)	(104,567)	(111,468)
Financing activities					
Change in long-term debt		(16,611)	4,401	(16,611)	19,092
Change in restricted cash		133,108	88,754	196,144	142,838
Distribution of contributed capital	9	(3,201)	-	(3,201)	-
Increase in shareholder contributions	9	-	14,213	-	16,074
Net cash provided from financing activities		113,296	107,368	176,332	178,004
Net increase (decrease) in cash		-	-	-	-
Cash, beginning of the period		-	-	-	-
Cash, end of the period		-	-	-	-

See accompanying notes

MUSKRAT FALLS CORPORATION

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

1. DESCRIPTION OF BUSINESS

Muskrat Falls Corporation (Muskrat Falls or the Company) was incorporated on November 13, 2013 under the laws of Newfoundland and Labrador. Muskrat Falls is a 100% owned subsidiary of Nalcor Energy (Nalcor). Muskrat Falls' head office is located at 500 Columbus Drive, St. John's, Newfoundland and Labrador, A1B 0M4, Canada.

Muskrat Falls was formed to design, develop, construct, finance and operate the Muskrat Falls hydroelectric generating facility (MF Plant) rated at 824 megawatts.

Muskrat Falls has entered into a power purchase agreement (PPA) with Newfoundland and Labrador Hydro (Hydro) for the sale of energy and capacity from the MF Plant. Muskrat Falls has also entered into the Generator Interconnection Agreement (GIA) with Hydro and Labrador Transmission Corporation (Labrador Transco) which governs the development and operation of the Labrador Transmission Assets connecting the MF Plant with the Labrador Island Link, Churchill Falls hydroelectric facility and Hydro's Labrador transmission assets. Under the terms of the GIA, Muskrat Falls is required to pay for all costs associated with the Labrador Transmission Assets. Under the terms of the PPA, Muskrat Falls will recover all costs associated with the MF Plant as well as the costs incurred by Muskrat Falls under the GIA. Hydro's obligation to pay for the costs under the PPA is absolute, non-conditional and irrevocable.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance and Basis of Measurement

These condensed 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 financial statements for the year ended December 31, 2020.

These condensed interim financial statements do not include all of the disclosures normally found in Muskrat Falls' annual audited financial statements and should be read in conjunction with the annual audited financial statements.

These condensed interim financial statements have been prepared on a historical cost basis and are presented in Canadian dollars with all values rounded to the nearest thousand, except when otherwise noted. The Board of Directors of Muskrat Falls has delegated the authority to approve the condensed interim financial statements to the Audit Committee of the Board of Directors of Nalcor, which approved the condensed interim financial statements on August 12, 2021.

MUSKRAT FALLS CORPORATION

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

3. PROPERTY, PLANT AND EQUIPMENT

<i>(thousands of Canadian dollars)</i>	Project Support Assets	Construction in Progress	Other	Total
Cost				
Balance at January 1, 2020	193,666	5,647,415	-	5,841,081
Additions	-	439,813	918	440,731
Other adjustments	-	3,047	-	3,047
Balance at December 31, 2020	193,666	6,090,275	918	6,284,859
Additions	-	169,530	402	169,932
Balance at June 30, 2021	193,666	6,259,805	1,320	6,454,791
Depreciation				
Balance at January 1, 2020	183,912	-	-	183,912
Depreciation	9,754	-	29	9,783
Balance at December 31, 2020	193,666	-	29	193,695
Depreciation	-	-	65	65
Balance at June 30, 2021	193,666	-	94	193,760
Carrying value				
Balance at January 1, 2020	9,754	5,647,415	-	5,657,169
Balance at December 31, 2020	-	6,090,275	889	6,091,164
Balance at June 30, 2021	-	6,259,805	1,226	6,261,031

Capitalized Borrowing Costs

The construction of the MF Plant is being financed through the issuance of long-term debt and contributed capital. For the period ended June 30, 2021, \$63.5 million (December 31, 2020 - \$125.2 million) of borrowing costs were capitalized.

4. LONG-TERM DEBT

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

<i>As at (thousands of Canadian dollars)</i>	Face Value	Coupon Rate %	Year of Issue	Year of Maturity	June 30 2021	December 31 2020
Tranche A	542,287	3.63	2013	2029	542,387	542,393
Tranche B	563,144	3.83	2013	2037	563,205	563,207
Tranche C	1,063,717	3.86	2013	2048	1,063,884	1,063,887
Tranche 3-10	137,609	1.30-1.75	2017	2021-2025	137,621	154,236
Tranche 11-20	187,117	1.84-2.37	2017	2025-2030	187,152	187,155
Tranche 21-30	210,737	2.41-2.64	2017	2030-2035	210,823	210,827
Tranche 31-40	240,429	2.66-2.80	2017	2035-2040	240,644	240,650
Tranche 41-50	276,180	2.81-2.86	2017	2040-2045	276,440	276,446
Tranche 51-60	317,934	2.84-2.86	2017	2045-2050	318,325	318,332
Tranche 61-64	140,206	2.85	2017	2050-2052	140,448	140,452
Total	3,679,360				3,680,929	3,697,585
Less: maturities of debt within one year					(33,638)	(33,430)
					3,647,291	3,664,155

MUSKRAT FALLS CORPORATION

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

5. LONG-TERM PAYABLES

	June 30	December 31
<i>As at (thousands of Canadian dollars)</i>	2021	2020
Long-term payables, beginning of the period	3,747	-
Additions	76,889	3,747
Long-term payables, end of the period	80,636	3,747
Less: current portion	41,281	3,747
	39,355	-

The long-term payable represents the difference between the amount of costs recognised from performance obligations performed by Labrador Transco under the GIA and the timing of commercial payments.

6. OPERATING COSTS

	Three months ended		Six months ended	
<i>For the period ended June 30 (thousands of Canadian dollars)</i>	2021	2020	2021	2020
Salaries and benefits	849	71	1,456	323
Maintenance and materials	643	-	880	-
Professional services	224	22	463	39
Other operating costs	130	137	307	246
Training	169	-	276	3
	2,015	230	3,382	611

7. NET FINANCE EXPENSE

	Three months ended		Six months ended	
<i>For the period ended June 30 (thousands of Canadian dollars)</i>	2021	2020	2021	2020
Finance income				
Interest on investments	-	63	-	275
Other interest	504	1,408	1,057	5,472
	504	1,471	1,057	5,747
Finance expense				
Interest and fees on long-term debt	32,246	33,110	64,518	67,865
Bank fees	2	1	4	4
	32,248	33,111	64,522	67,869
Interest capitalized during construction	(31,744)	(31,640)	(63,465)	(62,122)
	504	1,471	1,057	5,747
Net finance expense	-	-	-	-

8. FINANCIAL INSTRUMENTS

Fair Value

The estimated fair values of financial instruments as at June 30, 2021 and December 31, 2020 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 disclosed are not necessarily indicative of the amounts that Muskrat Falls might receive or incur in actual market transactions.

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

MUSKRAT FALLS CORPORATION

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

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, the Company 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 measurements during the period ended June 30, 2021 and the year ended December 31, 2020.

As at June 30, 2021 and December 31, 2020, the Company did not have any Level 3 instruments.

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
			June 30, 2021	December 31, 2020	
<i>(thousands of Canadian dollars)</i>					
Financial liabilities					
Long-term payables including amount due within one year	2	80,636	80,636	3,747	3,747
Long-term debt including amount due within one year	2	3,680,929	4,247,700	3,697,585	4,652,037

The fair values of restricted cash, advances, trade and other receivables and trade and other payables approximate 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 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.

MUSKRAT FALLS CORPORATION

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

9. RELATED PARTY TRANSACTIONS

Muskrat Falls enters into various transactions with its parent and other affiliates. These transactions occur in 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 Muskrat Falls transacts are as follows:

Related Party	Relationship
Nalcor	100% shareholder of Muskrat Falls
Hydro	Wholly-owned subsidiary of Nalcor
Labrador Transco	Wholly-owned subsidiary of Nalcor
Lower Churchill Management Corporation (LCMC)	Wholly-owned subsidiary of Nalcor
Labrador-Island Link Limited Partnership (LIL LP)	Limited partnership between Labrador-Island Link Holding Corporation and Emera Newfoundland and Labrador Island Link Inc.
Nalcor Energy Marketing Corporation (NEM)	Wholly-owned subsidiary of Nalcor

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms.

- (a) As at June 30, 2021, Muskrat Falls has related party payables totaling \$95.5 million (December 31, 2020 - \$19.9 million) with Labrador Transco, LCMC and Nalcor and related party receivables totaling \$1.0 million (December 31, 2020 - \$0.8 million) with LIL LP and Labrador Transco. These payables and receivables consist of various intercompany operating and construction costs.
- (b) For the period ended June 30, 2021, Muskrat Falls has a transmission expense with Labrador Transco totaling \$76.9 million (June 30, 2020 - \$nil) related to interconnection services.
- (c) For the period ended June 30, 2021, Muskrat Falls was charged \$2.9 million (June 30, 2020 - \$1.1 million) by Nalcor related to intercompany salary costs and administrative services.
- (d) For the period ended June 30, 2021, Muskrat Falls has received contributions from Nalcor totaling \$nil (June 30, 2020 - \$16.1 million). For the period ended June 30, 2021, Muskrat Falls distributed contributed capital to Nalcor totalling \$3.2 million (June 30, 2020 - \$nil).
- (e) For the period ended June 30, 2021, Muskrat Falls has earned revenue from NEM totaling \$1.1 million (June 30, 2020 - \$nil) related to energy sales. Included in this amount is \$0.2 million (June 30, 2020 - \$nil) of energy sales measured at the net realizable value that Muskrat Falls has provided as a contribution to NEM.

10. COMMITMENTS AND CONTINGENCIES

- (a) Muskrat Falls has entered into the GIA and PPA with Labrador Transco and Hydro, for an expected term of 57 years, whereby Muskrat Falls has committed to design, construct, operate and maintain the MF Plant, and provide such other services as agreed to ensure safe and reliable transmission of electricity.
- (b) As part of the MF/LTA PFA, Muskrat Falls has pledged its present and future assets as security to the Collateral Agent.
- (c) In July 2012 Nalcor entered into the Energy and Capacity Agreement with Emera Inc. (Emera) providing for the sale and delivery of the Nova Scotia Block, 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.

MUSKRAT FALLS CORPORATION

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

- (d) Muskrat Falls is subject to legal claims with respect to 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. Management has not disclosed the ranges of possible outcomes due to the potentially adverse effect on the Company's position with respect to a claim.
- (e) Outstanding commitments for capital projects total approximately \$62.2 million as at June 30, 2021 (December 31, 2020 - \$102.5 million). Under the terms of the MF/LTA PFA, Muskrat Falls is required to fund \$204.2 million during 2021 (December 31, 2020 - \$204.2 million).

11. SUPPLEMENTARY CASH FLOW INFORMATION

<i>For the period ended June 30 (thousands of Canadian dollars)</i>	Three months ended		Six months ended	
	2021	2020	2021	2020
Trade and other receivables	57	3,983	(295)	663
Trade and other payables	8,956	(7,156)	(2,604)	(37,384)
Changes in non-cash working capital balances	9,013	(3,173)	(2,899)	(36,721)
Related to:				
Operating activities	(1,149)	(17)	(133)	(4)
Investing activities	10,162	(3,156)	(2,766)	(36,717)
	9,013	(3,173)	(2,899)	(36,721)