

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

MUSKRAT FALLS CORPORATION
STATEMENT OF FINANCIAL POSITION
(Unaudited)

<i>As at (thousands of Canadian dollars)</i>	Notes	September 30 2021	December 31 2020
ASSETS			
Current assets			
Restricted cash		486,511	487,123
Advances		839	666
Trade and other receivables	3	15,788	4,698
Prepayments		93	4,247
Total current assets		503,231	496,734
Non-current assets			
Property, plant and equipment	4	6,322,490	6,091,164
Intangible assets		11	210
Total assets		6,825,732	6,588,108
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables		160,258	168,841
Current portion of long-term debt	5	33,638	33,430
Current portion of long-term payables	6	49,438	3,747
Total current liabilities		243,334	206,018
Non-current liabilities			
Long-term debt	5	3,647,269	3,664,155
Long-term payables	6	61,805	-
Total liabilities		3,952,408	3,870,173
Shareholder's equity			
Share capital		1	1
Shareholder contributions		3,043,658	2,783,975
Reserves		(48,902)	(51,189)
Deficit		(121,433)	(14,852)
Total equity		2,873,324	2,717,935
Total liabilities and equity		6,825,732	6,588,108

Commitments and contingencies (Note 11)

See accompanying notes

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

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Notes	Three months ended		Nine months ended	
		2021	2020	2021	2020
Revenue		11,610	-	12,703	-
Operating costs	7	2,718	467	6,100	1,078
Transmission expense	10	30,990	-	107,879	-
Other expense		1,392	(5)	3,115	6
Total expenses		35,100	462	117,094	1,084
Loss for the period		(23,490)	(462)	(104,391)	(1,084)
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		761	767	2,287	2,302
Other comprehensive income for the period		761	767	2,287	2,302
Total comprehensive (loss) income for the period		(22,729)	305	(102,104)	1,218

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		-	-	-	(104,391)	(104,391)
Other comprehensive income		-	-	2,287	-	2,287
Total comprehensive loss for the period		-	-	2,287	(104,391)	(102,104)
Shareholder contributions	10	-	263,665	-	-	263,665
Distribution of contributed capital	10	-	(3,982)	-	-	(3,982)
Related party transaction		-	-	-	(2,190)	(2,190)
Balance at September 30, 2021		1	3,043,658	(48,902)	(121,433)	2,873,324
Balance at January 1, 2020		1	2,767,901	(54,257)	(9,307)	2,704,338
Loss for the period		-	-	-	(1,084)	(1,084)
Other comprehensive income		-	-	2,302	-	2,302
Total comprehensive income for the period		-	-	2,302	(1,084)	1,218
Shareholder contributions	10	-	16,074	-	-	16,074
Balance at September 30, 2020		1	2,783,975	(51,955)	(10,391)	2,721,630

See accompanying note

MUSKRAT FALLS CORPORATION
STATEMENT OF CASH FLOWS
(Unaudited)

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Notes	Three months ended		Nine months ended	
		2021	2020	2021	2020
Operating activities					
Loss for the period		(23,490)	(462)	(104,391)	(1,084)
Adjustments to reconcile loss to cash (used in) provided from operating activities:					
Change in long-term payables		30,607	-	107,496	-
Amortization of prepayments		31	-	31	-
Finance income	8	(454)	(815)	(1,511)	(6,562)
Finance expense	8	454	815	1,511	6,562
		7,148	(462)	3,136	(1,084)
Increase in prepayments		(124)	-	(124)	-
Changes in non-cash working capital balances	12	(9,374)	18	(9,507)	14
Interest received		434	794	1,447	6,797
Interest paid		(2)	(2)	(68,410)	(71,915)
Related party transaction		(1,965)	-	(2,190)	-
Net cash (used in) provided from operating activities		(3,883)	348	(75,648)	(66,188)
Investing activities					
Additions to property, plant and equipment		(27,551)	(64,243)	(129,389)	(161,488)
Additions to intangible assets		-	(86)	-	(372)
Change in advances		(210)	865	(173)	23,645
Changes in non-cash working capital balances	12	(35,708)	(22,095)	(38,474)	(58,812)
Net cash used in investing activities		(63,469)	(85,559)	(168,036)	(197,027)
Financing activities					
Change in long-term debt		-	-	(16,611)	19,092
Change in restricted cash		(195,532)	85,211	612	228,049
Increase in shareholder contributions	10	263,665	-	263,665	16,074
Distribution of contributed capital	10	(781)	-	(3,982)	-
Net cash provided from financing activities		67,352	85,211	243,684	263,215
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 November 12, 2021.

3. TRADE AND OTHER RECEIVABLES

	September 30	December 31
<i>As at (thousands of Canadian dollars)</i>	2021	2020
Due from related parties	10,143	848
HST receivable	5,632	3,587
Insurance receivable	-	245
Interest receivable	13	18
	15,788	4,698

MUSKRAT FALLS CORPORATION

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

4. 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	-	230,827	601	231,428
Balance at September 30, 2021	193,666	6,321,102	1,519	6,516,287
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	-	-	102	102
Balance at September 30, 2021	193,666	-	131	193,797
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 September 30, 2021	-	6,321,102	1,388	6,322,490

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 September 30, 2021, \$95.2 million (December 31, 2020 - \$125.2 million) of borrowing costs were capitalized.

5. 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	September 30 2021	December 31 2020
Tranche A	542,287	3.63	2013	2029	542,384	542,393
Tranche B	563,144	3.83	2013	2037	563,205	563,207
Tranche C	1,063,717	3.86	2013	2048	1,063,882	1,063,887
Tranche 3-10	137,609	1.30-1.75	2017	2021-2025	137,619	154,236
Tranche 11-20	187,117	1.84-2.37	2017	2025-2030	187,151	187,155
Tranche 21-30	210,737	2.41-2.64	2017	2030-2035	210,821	210,827
Tranche 31-40	240,429	2.66-2.80	2017	2035-2040	240,641	240,650
Tranche 41-50	276,180	2.81-2.86	2017	2040-2045	276,437	276,446
Tranche 51-60	317,934	2.84-2.86	2017	2045-2050	318,322	318,332
Tranche 61-64	140,206	2.85	2017	2050-2052	140,445	140,452
Total	3,679,360				3,680,907	3,697,585
Less: maturities of debt within one year					(33,638)	(33,430)
					3,647,269	3,664,155

MUSKRAT FALLS CORPORATION

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

6. LONG-TERM PAYABLES

	September 30	December 31
<i>As at (thousands of Canadian dollars)</i>	2021	2020
Long-term payables, beginning of the period	3,747	-
Additions	107,496	3,747
Long-term payables, end of the period	111,243	3,747
Less: current portion	49,438	3,747
	61,805	-

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.

7. OPERATING COSTS

	Three months ended		Nine months ended	
<i>For the period ended September 30 (thousands of Canadian dollars)</i>	2021	2020	2021	2020
Salaries and benefits	882	244	2,338	567
Maintenance and materials	972	-	1,852	-
Professional services	521	29	984	68
Other operating costs	306	169	613	415
Training	16	25	292	28
Insurance	21	-	21	-
	2,718	467	6,100	1,078

8. NET FINANCE EXPENSE

	Three months ended		Nine months ended	
<i>For the period ended September 30 (thousands of Canadian dollars)</i>	2021	2020	2021	2020
Finance income				
Interest on investments	-	-	-	275
Other interest	454	815	1,511	6,287
	454	815	1,511	6,562
Finance expense				
Interest and fees on long-term debt	32,191	32,341	96,709	100,206
Bank fees	2	2	6	6
	32,193	32,343	96,715	100,212
Interest capitalized during construction	(31,739)	(31,528)	(95,204)	(93,650)
	454	815	1,511	6,562
Net finance expense	-	-	-	-

9. FINANCIAL INSTRUMENTS

Fair Value

The estimated fair values of financial instruments as at September 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 September 30, 2021 and the year ended December 31, 2020.

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

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
		September 30, 2021		December 31, 2020	
<i>(thousands of Canadian dollars)</i>					
Financial liabilities					
Long-term payables including amount due within one year	2	111,243	111,243	3,747	3,747
Long-term debt including amount due within one year	2	3,680,907	4,162,860	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)

10. RELATED PARTY TRANSACTIONS

Musktrat 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 Musktrat Falls transacts are as follows:

Related Party	Relationship
Nalcor	100% shareholder of Musktrat 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 September 30, 2021, Musktrat Falls has related party payables totaling \$119.2 million (December 31, 2020 - \$19.9 million) with Labrador Transco, LCMC, Nalcor and NEM and related party receivables totaling \$10.1 million (December 31, 2020 - \$0.8 million) with Hydro and LIL LP. These payables and receivables consist of various intercompany energy sales, operating, transmission and construction costs.
- (b) For the period ended September 30, 2021, Musktrat Falls has a transmission expense with Labrador Transco totaling \$107.5 million and a transmission expense with NEM totaling \$0.4 million (September 30, 2020 - \$nil) related to interconnection services.
- (c) For the period ended September 30, 2021, Musktrat Falls was charged \$4.0 million (September 30, 2020 – \$1.9 million) by Nalcor related to intercompany salary costs and administrative services.
- (d) For the period ended September 30, 2021, Musktrat Falls has received contributions from Nalcor totaling \$263.7 million (September 30, 2020 – \$16.1 million). For the period ended September 30, 2021, Musktrat Falls distributed contributed capital to Nalcor totalling \$4.0 million (September 30, 2020 -\$nil).
- (e) For the period ended September 30, 2021, Musktrat Falls has earned revenue from NEM totaling \$1.4 million (September 30, 2020 - \$nil) related to energy sales. Included in this amount is \$0.2 million (September 30, 2020 - \$nil) of energy sales measured at the net realizable value that Musktrat Falls has provided as a contribution to NEM.
- (f) For the period ended September 30, 2021, Musktrat Falls has earned revenue from Hydro totaling \$9.3 million (September 30, 2020 - \$nil) related to energy sales.
- (g) For the period ended September 30, 2021, Musktrat Falls has earned revenue and distributed energy to Nalcor totaling \$2.0 million (September 30, 2020 - \$nil) related to delivery of the Nova Scotia Block.

11. COMMITMENTS AND CONTINGENCIES

- (a) Musktrat Falls has entered into the GIA and PPA with Labrador Transco and Hydro, for an expected term of 57 years, whereby Musktrat 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, Musktrat Falls has pledged its present and future assets as security to the Collateral Agent.

MUSKRAT FALLS CORPORATION

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

- (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.
- (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 \$31.7 million as at September 30, 2021 (December 31, 2020 - \$102.5 million). Under the terms of the MF/LTA PFA, Muskrat Falls is required to fund a remaining \$89.1 million during 2021 (December 31, 2020 - \$204.2 million).

12. SUPPLEMENTARY CASH FLOW INFORMATION

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Three months ended		Nine months ended	
	2021	2020	2021	2020
Trade and other receivables	(10,798)	3,261	(11,093)	3,924
Trade and other payables	(34,284)	(25,338)	(36,888)	(62,722)
Changes in non-cash working capital balances	(45,082)	(22,077)	(47,981)	(58,798)
Related to:				
Operating activities	(9,374)	18	(9,507)	14
Investing activities	(35,708)	(22,095)	(38,474)	(58,812)
	(45,082)	(22,077)	(47,981)	(58,798)