

MUSKRAT FALLS CORPORATION
CONDENSED INTERIM FINANCIAL STATEMENTS
March 31, 2023
(Unaudited)

MUSKRAT FALLS CORPORATION
STATEMENT OF FINANCIAL POSITION
(Unaudited)

<i>As at (thousands of Canadian dollars)</i>	Notes	March 31 2023	December 31 2022
ASSETS			
Current assets			
Restricted cash		801,733	783,017
Trade and other receivables		32,570	28,722
Related party loan receivable	12	1,091	3,374
Short-term investments	4	34,372	34,372
Contract asset	5	219,695	165,466
Other current assets		1,526	2,035
Total current assets		1,090,987	1,016,986
Non-current assets			
Property, plant and equipment	3	6,428,408	6,427,204
Investments	4	200,557	200,557
Other long-term asset	12	3,126	3,126
Total assets		7,723,078	7,647,873
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables		85,700	66,566
Current portion of long-term debt	6	34,372	34,372
Current portion of long-term payables	7	48,473	46,639
Related party loan payable	12	25,394	29,665
Total current liabilities		193,939	177,242
Non-current liabilities			
Long-term debt	6	4,430,001	4,430,022
Long-term payables	7	177,311	160,686
Total liabilities		4,801,251	4,767,950
Shareholder's equity			
Share capital		1,801,807	1,801,807
Shareholder contributions		1,175,995	1,169,486
Reserves		(44,367)	(45,120)
Deficit		(11,608)	(46,250)
Total equity		2,921,827	2,879,923
Total liabilities and equity		7,723,078	7,647,873

Commitments and contingencies (Note 13)

Subsequent event (Note 15)

See accompanying notes

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

<i>For the period ended March 31 (thousands of Canadian dollars)</i>	Notes	Three months ended	
		2023	2022
Revenue	12	142,044	121,038
Total revenue		142,044	121,038
Power purchased	12	6,509	3,001
Operating costs	9	4,712	7,381
Transmission expense	12	27,087	33,393
Depreciation		58	56
Net finance expense	10	26,486	29,222
Other expense		4,536	3,703
Total expenses		69,388	76,756
Profit for the period		72,656	44,282
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		753	758
Other comprehensive income for the period		753	758
Total comprehensive income for the period		73,409	45,040

See accompanying notes

MUSKRAT FALLS CORPORATION
STATEMENT OF CHANGES IN EQUITY
(Unaudited)

<i>(thousands of Canadian dollars)</i>	Notes	Share Capital	Shareholder Contributions	Reserves	Deficit	Total
Balance at January 1, 2023		1,801,807	1,169,486	(45,120)	(46,250)	2,879,923
Profit for the period		-	-	-	72,656	72,656
Other comprehensive income		-	-	753	-	753
Total comprehensive income for the period		-	-	753	72,656	73,409
Shareholder contributions	12	-	6,509	-	-	6,509
Dividends	8	-	-	-	(13,328)	(13,328)
Related party transaction	12	-	-	-	(24,686)	(24,686)
Balance at March 31, 2023		1,801,807	1,175,995	(44,367)	(11,608)	2,921,827
Balance at January 1, 2022		1	3,011,317	(48,143)	(126,735)	2,836,440
Profit for the period		-	-	-	44,282	44,282
Other comprehensive income		-	-	758	-	758
Total comprehensive income for the period		-	-	758	44,282	45,040
Shareholder contributions	12	-	3,001	-	-	3,001
Capital restructuring		1,847,724	(1,847,724)	-	-	-
Related party transaction	12	-	-	-	(16,982)	(16,982)
Balance at March 31, 2022		1,847,725	1,166,594	(47,385)	(99,435)	2,867,499

See accompanying notes

MUSKRAT FALLS CORPORATION
STATEMENT OF CASH FLOWS
(Unaudited)

<i>For the period ended March 31 (thousands of Canadian dollars)</i>	Notes	Three months ended	
		2023	2022
Operating activities			
Profit for the period		72,656	44,282
Adjustments to reconcile profit to cash provided from operating activities:			
Depreciation and amortization		811	814
Revenue	12	(24,686)	(16,982)
Power purchased	12	6,509	3,001
Finance income	10	(11,397)	(699)
Finance expense	10	37,883	29,921
		81,776	60,337
Changes in non-cash working capital balances	14	(11,964)	(3,934)
Increase in long-term payables		18,459	16,177
Increase in contract asset		(54,229)	(13,952)
Increase in other long-term asset		-	(2,175)
Interest received		11,297	622
Interest paid		(751)	(656)
Net cash provided from operating activities		44,588	56,419
Investing activities			
Decrease in related party loan receivable		2,273	7,400
Increase in investments		-	(268,800)
Decrease in advances		-	820
Additions to property, plant and equipment		(1,262)	(20,007)
Changes in non-cash working capital balances	14	(9,303)	8,781
Net cash used in investing activities		(8,292)	(271,806)
Financing activities			
Increase in restricted cash		(18,716)	(568,362)
Decrease in related party loan payable		(4,252)	(50,539)
Proceeds from long-term debt		-	834,288
Dividends	8	(13,328)	-
Net cash (used in) provided from financing activities		(36,296)	215,387
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 the Province of Newfoundland and Labrador (the Province). 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' principal activity is to operate the Muskrat Falls hydroelectric generating facility (MF Plant) on the lower Churchill River.

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 provides transmission interconnection services between the MF Plant, the Labrador Island Link (LIL), 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 (LTA). 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, 2022.

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 May 15, 2023.

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, 2022	193,666	6,397,289	1,623	6,592,578
Additions	-	32,287	-	32,287
Other adjustments	-	(3,588)	-	(3,588)
Transfers	-	(1,982)	1,982	-
Balance at December 31, 2022	193,666	6,424,006	3,605	6,621,277
Additions	-	1,262	-	1,262
Transfers	-	(40)	40	-
Balance at March 31, 2023	193,666	6,425,228	3,645	6,622,539
Depreciation				
Balance at January 1, 2022	193,666	-	170	193,836
Depreciation	-	-	237	237
Balance at December 31, 2022	193,666	-	407	194,073
Depreciation	-	-	58	58
Balance at March 31, 2023	193,666	-	465	194,131
Carrying value				
Balance at January 1, 2022	-	6,397,289	1,453	6,398,742
Balance at December 31, 2022	-	6,424,006	3,198	6,427,204
Balance at March 31, 2023	-	6,425,228	3,180	6,428,408

Capitalized Borrowing Costs

Construction of the MF Plant was financed through the issuance of long-term debt and contributed capital. For the period ended March 31, 2023, \$nil (December 31, 2022 - \$(3.6) million) of borrowing costs were capitalized.

4. INVESTMENTS

The following table represents the value of the investments measured at amortized cost:

<i>As at (thousands of Canadian dollars)</i>	Year of Maturity	March 31 2023	December 31 2022
Amortizing Fixed Rate Deposit Notes with interest paid at a rate of 3.745% per annum.	2023- 2029	234,929	234,929
Less: redemptions to be received within one year		(34,372)	(34,372)
		200,557	200,557

MUSKRAT FALLS CORPORATION**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)****5. CONTRACT ASSET**

	March 31	December 31
<i>As at (thousands of Canadian dollars)</i>	2023	2022
Contract asset, beginning of the period	165,466	17,573
Additions	113,931	389,444
Less: Receipts	(59,702)	(241,551)
Contract asset, end of the period	219,695	165,466

The contract asset represents the timing difference between the satisfaction of performance obligations to Hydro under the PPA and the timing of commercial payments.

6. LONG-TERM DEBT

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

	Face	Coupon	Year of	Year of	March 31	December 31
<i>As at (thousands of Canadian dollars)</i>	Value	Rate %	Issue	Maturity	2023	2022
Tranche A	542,287	3.63	2013	2029	542,365	542,368
Tranche B	563,144	3.83	2013	2037	563,199	563,200
Tranche C	1,063,717	3.86	2013	2048	1,063,873	1,063,875
Tranche 6-10	86,919	1.52-1.75	2017	2023-2025	86,923	86,924
Tranche 11-20	187,117	1.84-2.37	2017	2025-2030	187,142	187,144
Tranche 21-30	210,737	2.41-2.64	2017	2030-2035	210,809	210,811
Tranche 31-40	240,429	2.66-2.80	2017	2035-2040	240,622	240,625
Tranche 41-50	276,180	2.81-2.86	2017	2040-2045	276,419	276,422
Tranche 51-60	317,934	2.84-2.86	2017	2045-2050	318,300	318,303
Tranche 61-64	140,205	2.85	2017	2050-2052	140,433	140,434
Tranche A-T	417,144	3.35-3.38	2022	2037-2047	417,144	417,144
Tranche U	417,144	3.38	2022	2057	417,144	417,144
Total	4,462,957				4,464,373	4,464,394
Less: maturities of debt within one year					(34,372)	(34,372)
					4,430,001	4,430,022

7. LONG-TERM PAYABLES

	March 31	December 31
<i>As at (thousands of Canadian dollars)</i>	2023	2022
Long-term payables, beginning of the period	207,325	133,104
Additions	27,933	111,937
Less: Settlements	(9,474)	(37,716)
Long-term payables, end of the period	225,784	207,325
Less: current portion	(48,473)	(46,639)
	177,311	160,686

The long-term payable represents the difference between receipt of services from Labrador Transco under the GIA and the timing of commercial payments.

MUSKRAT FALLS CORPORATION

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

8. SHAREHOLDER'S EQUITY

Dividends

<i>For the period ended March 31 (thousands of Canadian dollars)</i>	Three months ended	
	2023	2022
Declared and paid during the period		
Preferred dividend for current period (3% coupon rate)	13,328	-

9. OPERATING COSTS

<i>For the period ended March 31 (thousands of Canadian dollars)</i>	Three months ended	
	2023	2022
Salaries and benefits	1,294	1,473
Maintenance and materials	1,246	1,146
Professional services	903	3,195
Insurance	683	845
Other operating costs	586	722
	4,712	7,381

10. NET FINANCE EXPENSE

<i>For the period ended March 31 (thousands of Canadian dollars)</i>	Three months ended	
	2023	2022
Finance income		
Interest on restricted cash	9,184	559
Interest on investments	2,169	28
Other interest	44	112
	11,397	699
Finance expense		
Interest and fees on long-term debt	37,183	25,955
Other interest	700	378
	37,883	26,333
Interest capitalized during construction	-	3,588
	37,883	29,921
Net finance expense	26,486	29,222

11. FINANCIAL INSTRUMENTS

Fair Value

The estimated fair values of financial instruments as at March 31, 2023 and December 31, 2022 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 March 31, 2023 and the year ended December 31, 2022.

As at March 31, 2023 and December 31, 2022, the Company did not have any Level 3 instruments.

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
			March 31, 2023	December 31, 2022	
<i>(thousands of Canadian dollars)</i>					
Financial assets					
Investments, including short-term	2	234,929	224,174	234,929	220,225
Financial liabilities					
Long-term debt including amount due within one year	2	4,464,373	4,138,918	4,464,394	4,011,750

The fair values of restricted cash, trade and other receivables, related party loan receivable, trade and other payables and related party loan payable approximate their carrying values due to their short-term maturity. The fair value of the long-term payables approximates its carrying value due to the underlying nature of the balance with its intercompany counterparty.

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.

12. RELATED PARTY TRANSACTIONS

Muskrat Falls 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 within 30 days, unless otherwise stated.

MUSKRAT FALLS CORPORATION

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

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	Wholly-owned subsidiary of Nalcor
Labrador-Island Link Limited Partnership	Limited partnership between Labrador-Island Link Holding Corporation and Emera Newfoundland and Labrador Island Link Inc.
Nalcor Energy Marketing Corporation	Wholly-owned subsidiary of Nalcor
Churchill Falls (Labrador) Corporation	Joint arrangement of Hydro
The Province	100% shareholder of Nalcor

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

<i>As at (thousands of Canadian dollars)</i>		March 31 2023	December 31 2022
Trade and other receivables:			
Other related parties		26,894	23,431
Related party loan receivable:			
Other related parties	(a)	1,091	3,374
Contract asset:			
Other related parties	Note 5	219,695	165,466
Other long-term asset:			
Other related parties	Note 13(d)	3,126	3,126
Trade and other payables:			
Parent		8,314	7,769
The Province	(e)	3,241	12,968
Other related parties		8,217	7,475
Related party loan payable:			
Other related parties	(b)	25,394	29,665
Long-term payables (including current portion):			
Other related parties	Note 7	225,784	207,325
		Three months ended 2023	2022
<i>For the period ended March 31 (thousands of Canadian dollars)</i>			
Revenue:			
Parent	(c)	24,686	16,982
Other related parties		117,358	104,056
Power purchased:			
Other related parties	(d)	6,509	3,001
Operating costs:			
Parent		1,106	1,274
Transmission expense:			
Other related parties		27,087	33,393
Other expense:			
The Province	(e)	3,677	1,520
Other related parties		500	-

(a) Muskrat Falls has a related party loan receivable with Labrador Transco which includes interest charged at 5.43% and is payable from Labrador Transco as cash becomes available while still meeting its debt servicing costs.

MUSKRAT FALLS CORPORATION

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

- (b) Muskrat Falls has a related party loan payable with Hydro which includes interest charged at 5.43% and is payable from Muskrat Falls as cash becomes available while still meeting its debt servicing costs.
- (c) Muskrat Falls has contributed energy to Nalcor related to delivery of the Nova Scotia Block.
- (d) Muskrat Falls has a contribution of power purchases from Nalcor related to delivery of the Nova Scotia Block.
- (e) Muskrat Falls is required to pay the Province an annual 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.

13. 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 provide interconnection transmission services, energy and capacity. Revenue allocated to the remaining performance obligation (unsatisfied or partially unsatisfied) related to energy and capacity sales under the PPA as at March 31, 2023 total \$733.0 million within one year and \$36,830.1 million in more than one year.
- (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, 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.
- (d) 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 March 31, 2023 Muskrat Falls has the equivalent of approximately 1.7 Twh (December 31, 2022 – 1.5 Twh) of energy stored in the Churchill Falls reservoir.
- (e) 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.
- (f) Outstanding commitments for capital projects total approximately \$1.3 million as at March 31, 2023 (December 31, 2022 - \$7.4 million).

MUSKRAT FALLS CORPORATION

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

14. SUPPLEMENTARY CASH FLOW INFORMATION

	Three months ended	
<i>For the period ended March 31 (thousands of Canadian dollars)</i>	2023	2022
Trade and other receivables	(3,728)	(4,072)
Prepayments	695	869
Inventories	(186)	(201)
Trade and other payables	(18,048)	8,251
Changes in non-cash working capital balances	(21,267)	4,847
Related to:		
Operating activities	(11,964)	(3,934)
Investing activities	(9,303)	8,781
	(21,267)	4,847

15. SUBSEQUENT EVENT

On April 14, 2023, commissioning of the LIL was approved by all required stakeholders. All components of the Lower Churchill Project, the MF Plant, LTA and LIL are now commissioned.